**Economic Impact Glossary**

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| ***This glossary gives short definitions of some of the terms that are commonly encountered when undertaking impact assessments. Most of the terms are defined more fully in the accompanying information sheets.*** |

**Activities:** in terms of the logic model activities are the things that inputs are used to provide or create, for example research, courses or learning journeys.

**Additionality:** this is the combination of adjustments that are applied to gross impacts in order to arrive at a net value. It therefore includes such things as deadweight, displacement, leakage and the multipliers.

**Apportioning impacts**: the process whereby the net impacts of an intervention are allocated to the various public sector funding partners in proportion to their share of intervention funding.

**Appraisal:** the process of estimating the likely impact of an intervention in advance of its implementation.

**Benchmarking**: the process of comparing the impacts of an intervention to a similar one in order to arrive at a judgement as to its effectiveness and efficiency.

**Constant prices:** Prices that are corrected for the effects of inflation over time. This enables the costs and benefits of an intervention to be compared on a consistent basis.

**Construction impacts:** SE is not a construction company. However, it does provide funds for construction and infrastructure projects as a way of stimulating economic development. This construction activity has an impact on the economy. However, this should not be incorporated into wider project impacts but should be reported separately.

**Cost Benefit Analysis**: the process of quantifying as many of the costs and benefits of an intervention as is possible. This includes such things as the social and environmental issues that the market finds it difficult to price.

**Cost centres**: a part of a company that does not produce separate profit and loss accounts so that the calculation of the GVA impact of its operations is not possible.

**Crowding out:** the negative impact that a public sector intervention has on the private sector, for example by providing a service that the market is perfectly capable of offering without any public sector intervention.

**Current prices:** current prices are the prices of goods and services in the year in which the transaction occurred. Given inflation they are not comparable over time. To allow comparability they need to be adjusted and expressed as constant prices.

**Deadweight**: the extent to which the outcome that an intervention is intended to create would have occurred in the absence of the intervention.

**Discounting:** the process of expressing future costs and benefits in present values through the application of a discount rate of 3.5%. This is based on the assumption that beneficiaries would prefer to receive impacts sooner than later.

**Displacement:** the extent to which an intervention results in economic growth for a beneficiary being offset by reductions in the activities of non-beneficiaries.

**Economic Impact Assessment:** this is the type of assessment of the impact of an intervention undertaken by SE. It is not a Cost Benefit Analysis but a more limited assessment concentrating on measurable impacts, in particular jobs and GVA.

**Effectiveness:** the extent to which an interventiion achieves its stated objectives.

**Efficiency:** the extent to which an intervention is assessed as being efficient (in comparison with similar interventions) in terms of such things as the cost per job created/safeguarded and the impact ratio.

**Employment densities**: employment densities are benchmarking data that give, for particular types of usage, the numbers of employees who can be accomodated per unit area of floorspace. This information can be used to give broad estimates of impact for construction projects.

**Evaluation:** an assessment of the extent to which a project or programme has attained its objectives. This is normally a backward looking process, assessing impacts to date. However, when the intervention being assessed may still be underway its evaluation may include a forward looking element with beneficiaries being asked to estimate future impacts as well as impacts to date.

**Externalities**: the impacts (both positive and negative) of an intervention that are not borne by the companies that generate them, often as they are not priced by the market.

**Full Time Equivalent (FTE) job;** this is the preferred measure of employment. It adjusts the head count employment in a company by equating two part time employees to one full time. Thus two part times equal one FTE.

**Gross Value Added (GVA):** GVA is one of the most widely used measures for assessing the impact on the economy of an intervention. Essentially it is measuring the extent to which economic activity creates value. There are a number of ways that it can be calculated. One of the most widely used for individual companies is the sum of: operating profit, employee costs, depreciation and amortisation.

**Head count:** this is the number of individual people employed in a company regardless of the number of hours they work.

**Impacts**: the key impacts of an intervention that appraisals and evaluations try to capture are: net GVA, net jobs created or safeguarded and the measures that can be derived from these especially the cost per job and the impact ratio.

**Impact decay**: the impacts of interventions last (persist) for a certain time. Over this period there will be decay, that is the impact (for example GVA) decline. This decline (decay) is expressed as an annual percentage.

**Impact model:** SE’s impact model profiles the net impacts of its interventions over a ten year period. It draws on appraisal and evaluation evidence and is updated regularly as new evidence becomes available.

**Impact period:** the period over which SE profiles the impacts of its interventions: ten years. This does not mean that it is assumed that the impacts of all interventiions persist for this length of time: some last for shorter periods others for far longer.

**Impact persistence:** the impact of public sector interventions does not last forever as economic and social factors change so that they become less relevant. The persistence of an intervention is an estimate of the time over which impacts can still be attributed to it.

**Impact ratio:** the impact ratio is the net GVA impact of an intervention per £1 of SE spend.

**Imperfect competition:** this situation arises when market power is in the hands of a limited number of companies, rather than there being perfect competition. In such a situation there may be incentives to intervene in the market in a way that restricts competition. This results ina sub-optimal use of resources. This is one of the rationales for public sector intervention.

**Imperfect information:** this is one of the justifications for public sector intervention. It arises when an individual does not have perfect information about the available options and the costs and benefits of these. This can result in sub-optimal decisions being made resulting in economic inefficiencies.

**Information asymmetry**: the situation where information is not equally shared so that some parties have an advantage when making decisions.

**Input**: in terms of the logic model, inputs are the public sector resources that are put into an intervention, usually some combination of funding, accommodation and staff

**Leakage:** the proportion of the gross impacts of an intervention that benefit areas or individuals outside of the intervention’s target are or group, in this case Scotland.

**Logic model:** a logic, or theory of change, model is a way of illustrating, or conceptualising, the development trajectory of an intervention. This is structured into 5 key parts: inputs, activities, outputs, outcomes and impacts.

**Market failure**: an imperfection in the operations of the market so that an efficient allocation of resources does not result. This then provides the rationale for public sector intervention. Market failures include such things as imperfect and asymmetric information and imperfect competition.

**Multipliers:** these are the knock-on effects in the economy as a result of an intervention. There are two types: the Type I multiplier that measures the indirect impacts on the supply chain as the beneficiary purchases additional goods and services; and the Type II that, in addition, measures the economic impacts arising from wages expenditure.

**Net Present Value (NPV):** the difference between the discounted value of the future costs and benefits of an intervention.

**Optimism bias:** the assumed tendency for those estimating the future impacts of an intervention to be over-optimistic.

**Outcome:** The outcomes of an intervention are the changes that occur to beneficiaries and the wider economy. These might be such things as increased sales or a growth in exports.

**Output:** this is the measurable direct result of an intervention, for example the development of a new product or service or qualifications gained.

**Present Value (PV):** the discounted future benefits of an intervention.

**Project income:** some interventions aim to deliver services for which a contribution will be paid by beneficiaries, for example course fees or rental income. As these income streams can be difficult to predict the practice is to report them but not to use them in impact calculations when undertaking appraisals.

**Rationale for intervention:** the justification for public sector intervention in the economy, rather than leaving this to the private sector. Rationales are usually based on Market Failures or Equity.

**Research income:** this is the income won by further and higher education and public sector research establishments. Where this income comes from outside of Scotland (and would not otherwise be spent in Scotland) its economic impact should be assessed.

**Standard question set:** this is SE’s preferred survey question set to be used when assessing the impacts of interventions for appraisals and evaluations. This then ensures that the reported impacts are comparable between different interventions.

**Substitution**: the behaviour of a beneficiary when one activity is substituted for another solely to take advantage of public sector support. This is often a problem in labour market interventions when companies change recruitment activities to take advantage of financial support. In mainstream economic development interventions it is less of an issue. SE does not make adjustments for it for that reason.

**Sunk costs:** sunk costs are the investments that have already been made in a project. As these costs have already been incurred it is generally suggested that they are reported rather than incorporated into any impact calculations, especially when undertaking appraisals. However, there may be instances where their inclusion is legitimate as the intervention being appraised may be capitalising upon this earlier investment. Its exclusion would therefore give misleading impact figures.

**Time preference rate**: the preference of individuals for benefits sooner rather than later. As such the future benefits are decreased by an annual percentage (currently 3.5%).

**Need more help?**

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