

Background to Social Impact measurement

Jim Clifford, for Baker Tilly; April 2011

Overview of the political landscape

Various bodies are developing an interest in starting to measure their Social Impact using SROI or alternative methodologies. This interest has arisen from a growing awareness within the Not for Profit/Charitable sector of the potential benefits that an SROI assessment can have on providing further support for future financial commitments and an explanation of the “intangible” benefits that that support provides to a range of stakeholders. These organisations, like the third and public sector as a whole, are likely to experience pressure from National and Local Government to reduce their budget, particularly in the wake of the recent Comprehensive Spending Review. They now need to meet the challenge of moving away from a ‘core’ or grant funding approach towards the project-based approach that is being adopted by central Government.

Central Government funding decisions are increasingly shifting towards a project-based approach, which considers the value generated by a project compared to the cost of funding it. We are already seeing interest in this approach from Local Government and other government agencies who wish to make effective decisions on funding of services. This is likely to be a key issue for local funders, given that outcomes measurement would become compulsory under the proposed Public Services (social enterprise and social value) bill, which appears to be strongly backed by all major political parties.

In its recent report ‘Outcome-Based Government’¹, the Centre for Social Justice (“CSJ”) considers the need to link funding of interventions with the expected outcomes (and their associated value). It suggests that funding should be focused on those interventions that are likely to achieve the highest value outcome: *“Improving life outcomes should be the ultimate goal of a government’s social policy: if policy makers can better identify failing initiatives, and shift spending toward programmes that effectively deliver sustainable, long-term outcomes, the social and financial returns to society and the public sector will be very great indeed.”* CSJ strongly advocates a shift towards evidence-based government, in which funding decisions are based on clear, high quality evidence of impact value, with SROI cited as a *“more rigorous approach to performance management while attempting to capture the social and environmental impacts of public spending.”*

The recent Green Paper on ‘Giving’ gives a view of the Coalition Government’s view of how charities should adjust to this new climate of transparency: *“Public service reform will provide new funding streams for the sector, but in return they will be required to clearly demonstrate their social impact.”*²

This view has been developed further in the May 2011 White Paper which found *“universal agreement on the need for social impact reporting”*³, tempered by the need to reflect variations in scale and activity and avoid distracting charities from their core work. The White Paper suggests that the Government will work to *“help make impact reporting simpler, easier and cheaper for organisations and more accessible for [users].”*

The implication of CSJ’s work and the Cabinet Office’s view is clear: outcomes measurement is here to stay.

The result of this approach is that only those activities/projects whose benefit is demonstrably greater than their cost are likely to be funded. Potentially, those organisations that fail to demonstrate their benefit in this

¹ Brien, S., 2011, Outcome-Based Government, London, Centre for Social Justice

² Giving Green Paper (2010) Cabinet Office, London

³ Giving White Paper (2011) Cabinet Office, London

way may be at risk of future challenges, or may be in a weaker position when applying for additional/sustained funding.

We have already seen evidence of the beginnings of this approach to funding by funding bodies such as the UK Commission for Employment and Skills, which, in its shift to a contestable funding strategy (as opposed to annual grants), has stated its intention to “run with the fastest”⁴ (i.e. it will provide publicly funded support only to those projects that offer the greatest return). We expect to see this approach permeating into other areas of government, with outcomes measurement tools such as SROI becoming increasingly accepted and, indeed, expected.

Others, such as Centre for Public Scrutiny (www.cfps.org.uk), are developing the use of SROI in the commissioning arena.

Our experience of working with other organisations indicates that the value of an organisation’s activities can be measured using three broad conceptual approaches:

- ▶ the economic benefit arising to both the public and private purse due to their activities/projects;
- ▶ the value of wastage avoided through interventions by them; and
- ▶ the cost of sourcing work currently done by them from alternative providers.

Development of measurement tools

Social Return on Investment (“SROI”)

SROI was developed during the 1990s as a result of demand from the philanthropy community in the USA for greater transparency on the effectiveness of their giving. Following the work by new economics foundation over the past decade, and latterly the Scottish Enterprise-sponsored work, the Social Return on Investment methodology was published in a Cabinet Office paper in 2009. Leading commentators and researchers, including nef, New Philanthropy Capital, SROI Network, and Baker Tilly together with Cass Business School recognise that, although there are some wrinkles to be ironed out, this is a practical and workable solution to demonstrating social impact. With such a need to focus on this during times of cuts in public funding, and increased social pressures, this is needed now more than ever. It is rightly described by NPC in their recent position statement as “an incredibly useful tool.”

SROI follows a process as follows:

- ▶ Establish the scope of the evaluation (which areas of work will it cover and who will be involved: this may include identifying key stakeholders to involve in the process);
- ▶ Map outcomes: understand based on your knowledge and, where appropriate, stakeholder feedback a map of how your activities affect the lives of stakeholders (i.e. from the beneficiary’s perspective, how is their life different because of your intervention);
- ▶ Evidence outcomes: to the extent it is possible to do so, find data that shows whether outcomes have been achieved, and identify financial measures for these outcomes;

⁴ UKCES, 2011, The Employer Investment Fund: Prospectus – Phase 1 2011/12, London, UKCES

- ▶ Establish impact: eliminate the value that would have been achieved anyway, the value attributable to the work of others and the impact of any additional costs incurred in delivering the intervention;
- ▶ Calculate the SROI: the result of the evaluation is then compared to the value of the investment. Whilst the published methodology concludes with a ratio of outcomes to inputs, we would caution against this, as it may lead to spurious comparison between very different organisations; and
- ▶ Report, use and embed: share findings with stakeholders, embed the process of measurement and continue to re-evaluate and monitor regularly.

In the course of our work with other organisations using SROI, we have developed an approach to impact measurement that addresses several key issues that we and other commentators have identified with the methodology as published by the Cabinet Office. In particular we have:

- ▶ Developed an approach to SROI measurement that uses action research, and so cuts significantly the costs to the organisation, whilst embedding the methods and outputs effectively within it;
- ▶ Developed an approach to financial proxies based on life course analysis, following an emerging trend in qualitative social care reporting;
- ▶ Developed the arena of measurement for infrastructure functions and organisations through our work with the Sector Skills Councils and others;

Practical experience, and team leader Jim Clifford's research at Cass, indicates that the challenge of SROI is not, as suggested by commentators who have little practical experience of it, in finding the financial proxies. It is in enabling organisations to see beyond their focus on getting the job done in such an organised and effective way to the difference they make to beneficiaries.

A number of organisations that have sought to use SROI as a tool to support negotiations with funders, have gone on to integrate it into their management systems to:

- ▶ Re-evaluate their strategic focus such that they maximise the Social Impact of the organisation by focusing on those areas that achieve the greatest benefit for their stakeholders; and
- ▶ Provide a tool to aid decision-making in relation to proposed new activities where funding is limited.

Social Accounting and Auditing ("SAA")

SAA was developed in the late 1990s, reaching 'mainstream' consciousness through the launch of organisations such as AccountAbility and the Social Audit Network. It provides a framework for monitoring and evaluating an organisation's performance based on organised and regular stakeholder feedback, following a three step process:

- ▶ SAA begins with an understanding and mapping of who the organisation's stakeholders are, and what the organisation does that affects them. This then leads to a determination of the Key Performance Indicators ("KPIs") needed to assess the effectiveness of an intervention;

- ▶ Stakeholder feedback is then sought (by techniques such as interviews, questionnaires and focus groups) to measure the organisation's performance against these KPIs, and this is verified by an independent body (the social auditor);
- ▶ A set of social accounts is prepared and published to disclose the results of the feedback; and
- ▶ The process must be consistently and regularly repeated to monitor changes in the performance of the organisation against these measures.

Stakeholder feedback is gathered against key performance indicators that are relevant to them and to the services that affect them. This feedback can then be used to monitor performance against certain targets. Many third sector organisations go some way towards this approach, but stop short of the detailed stakeholder involvement that SAA involves or do not go on to audit or publish the results as fully as SAA requires.

Other methodologies and tools

Whilst SROI confers considerable, and perhaps unique benefits in its use of financially quantified and measurable outcomes, there are other tools that may afford some benefits and which should not be ignored.

These include:

- ▶ **Social Impact Measurement for Local Economies ("SIMPLE")**: which is focused on management's ability to develop its work strategically to maximise impact
- ▶ **Volunteering Impact Assessment Toolkit**: questionnaire-based and not really financial in measurement, it helps to assess the effectiveness of volunteers, which may add to the wider view taken
- ▶ **Prove It !** a toolkit for assessing the effect of organisations on local communities: perhaps less relevant here
- ▶ **Local Multiplier 3**: looks at the effect on a local economy, but generally does not spread its net as widely of as comprehensively as SROI
- ▶ **Global Reporting Initiative**: really a reporting framework rather than an assessment and management tool, it is nevertheless capable of practical use in conjunction with SROI, SAA and others. **AA1000** really fits into a similar position as a reporting rather than an assessment tool.

Whilst these may not be appropriate to use for the current task, they may add elements that could enhance the delivery solution.

Choice of methodologies...?

The output and objectives of SAA are similar to SROI, in that it delivers feedback from stakeholders on the effectiveness of the organisation's work from the perspective of those that have been affected by it. The key distinction between the two is the form that the output of the work takes:

- ▶ SAA provides a view of what outcomes were achieved; whereas
- ▶ SROI seek to place a financial value on those outcomes.

In its publication 'Really Telling Accounts'⁵, the Social Audit Network highlighted the outcome of its discussion with SROI Network, which found that *"there is a strong wish that SAA and SROI be not seen as competitive social reporting methods but rather as complementary"*. The findings of that study were that SROI and SAA should be seen as complementary, rather than competing processes based on areas of common ground.

Effects of the use of SROI

Learning from others' experience

Experience of applying and developing SROI in a range of situations shows that it can be used for a wider range of needs than the original one of impressing and informing funders:

Influence on Funders	<p>In the work for the Alliance of Sector Skills Councils, SROI was strongly influential in securing a continuation of core funding for the SSCs after calls for funding reductions in 2009.</p> <p>For Alana House and twenty-seven other MoJ funded Women's Community Projects, we understand that the SROI assessment was one of the pieces of evidence that supported the reinstatement of partial ongoing funding for 2011/12.</p>
Influence on Government Departments trying to restructure the landscape	<p>For the Sector Skills Councils the SROI assessments (mentioned in Ministers Questions) were instrumental, we understand, in encouraging the Labour Government to change its draft White Paper on the future of the SSCs. More recently SROI work has formed the foundation of feedback to UKCES and DfH for work on restricting the Health landscape.</p>
Influence on project managers realigning their projects for greater impact	<p>In all of the projects we have undertaken, as indeed is reported by those undertaken with the support of some others, project managers' processes and strategies have changed. Examples include the mix of programmes on pre-school obesity run by the Witney Childrens' Centres, and the PACT Adoption and Fostering services which were expanded by the merger with Childlink, encouraged by a refocusing on how they brought value to beneficiaries by their work, as well as several which have embedded the assessments into their project approval processes.</p>
Influence on project partners	<p>In various of the projects undertaken, following an SROI report, renewed discussion has grown between current project partners. Examples include various of the SSCs, and North Lanarkshire Leisure in its local health and social exclusion work.</p>
Influence on Local Authority Funders	<p>An increasing interest is being shown by LA funders, exemplified by their engagement in the Witney assessment, in discussions within the scrutiny arena by CfPS, and in the wider engagement with stakeholders following the PACT Domestic Adoption assessment</p>
Use as engines for	<p>The recent establishing of an influencing network in the adoption field around the</p>

⁵ Pearce, P., Kay, A. (2008), Really Telling Accounts', Exeter, Social Audit Network

change in policy
influence networks

PACT Domestic Adoption report and the BBC2 documentary "A Home for Maisie" is an example of this (see <http://www.baaf.org.uk/node/3356> or <http://www.adoptionuk.org/information/100172/249620/homeformaisie/> for example).