loop
The Social Value People

Introduction to Social Value

Introduction to Social Value & Key Metrics

- The Public Services (Social Value) Act 2012 requires those who commission public services, such as public sector revenue contracts or capital projects, to consider how wider social, environmental and economic benefits (social value) can be secured.
- Although many definitions of social value exist, fundamentally, social value is about individuals and organisations developing an understanding of the social, environmental and economic outcomes that are created through their activities and/or projects.
- There are a range of approaches that can be adopted to measure social value, Social Return on Investment (SROI) has, however, become one of the most widely discussed and most dispersed methods on the practical landscape.
- SROI measures social, environmental and economic outcomes and uses monetary values to represent them. This enables a ratio of benefits to costs to be calculated.
- LOOP social value calculator tool enables a user to calculate the whole life social value of a project or activity by combining three metrics: SROI, Local Multiplier 3 (LM3) and Gross Value Added (GVA). SROI captures the social, environmental and economic impact of a project, whilst LM3 and GVA measures the wider local economic benefits of local spend and employment.

The Public Services (Social Value) Act 2012 & Social Value Model

The Public Services (Social Value) Act was introduced by UK Government in 2012 and came into force in early 2013. The Act aims to transform how public money is spent in England and Wales, requiring those who commission public services, such as public sector revenue contracts or capital projects, to consider how wider social, environmental and economic benefits (social value) can be secured.

Public sector bodies in the UK, including Central Government departments, local authorities, and councils spend over £200 billion a year on local public goods and services. As such, widening the scope of 'value for money' has the potential to lead to better designed services and a wider range of benefits for their areas or stakeholders.

The Act places a legal requirement on commissioners to award public sector contracts on the basis of cost, prior experience, and how they can deliver additional social value to the communities they serve. For every pound spent purchasing public services or delivering projects, a range of additional benefits, tailored to local needs should be created. For example, through a process of consultation and stakeholder engagement, the identified needs of one community could be: reducing anti-social behaviour, increasing local employment and reducing local congestion.

This was followed in September 2020 by the government publication of Procurement Policy Note (PPN) 06/20. This PPN launched a new model to deliver social value through government's commercial activities. In January 2021 the Social Value Model went live, setting a mandatory minimum weighting of 10% for social value at the tender evaluation stage of all central government contracts.

It sets out the government's social value priorities in procurement and includes a menu of social value objectives for central government departments (and executive agencies and non-departmental public bodies) to select from and include in their procurement. These objectives centre around five themes – COVID-19 Recovery, Tackling Economic Inequality, Fighting Climate Change, Equal Opportunity, and Wellbeing.

https://www.legislation.gov.uk/ukpga/2012/3/enacted

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/940826/Social-Value-Model-Edn-1.1-3-Dec-20.pdf

Defining Social Value

Currently, no universally accepted definition of social value exists, although multiple attempts have been made to define what the concept means, and how it should be delivered and measured. Although many definitions of social value exist, fundamentally, social value is about individuals and organisations developing an understanding of the social, environmental and economic outcomes that are created through their activities and/or projects.

The Social Value Act of 2012 defines social value as,

"...the additional benefit to the community from a commissioning/procurement process over and above the direct purchasing of goods, services and outcomes" (Social Value Act, 2012, p.2).

Social Value UK define social value as:

"The quantification of the relative importance that people place on the changes they experience in their lives. Some, but not all of this value is captured in market prices."

In addition, the UK Green Business Council's 'Framework for Defining Social Value' states:

"What outcomes improve quality of life, and how to deliver them, will look very different depending on the context. The most important contextual factor is who will be affected and what their needs are. Often, deciding who those people are is done by drawing a line around a particular "relevant area" or location. Social value is therefore holistic in scope but focused on people, highly dependent on context and inherently local to a particular area."

Before defining what, social value means for a particular project area, the client and contractor are required to understand the needs of the local area. These requirements could be established from the priorities listed in a local authority's Local Area Plan or Sustainable Community Strategy. The client and contractor could also consult with the local community including residents, elected officials, social enterprises and local businesses to enhance their understanding of social value.

Once local needs have been identified, the client and contractor can better tailor their social value strategy and impact they want to achieve. As such, location and the needs of the area must be considered as well as the nature, value, and duration of the project.

Measuring Social Value

There are a range of approaches that can be adopted to measure social impact, for example, organisational capacity assessment (e.g. Balance Scorecard), stakeholder analysis (e.g. Outcome Mapping), sustainability ratings (e.g. SAM Rating) sustainability ratings and Social Return on Investment (SROI). Social Return on Investment (SROI) has, however, become one of the most widely discussed and most dispersed methods on the practical landscape.

SROI was first developed within the US charitable sector and was developed further in the 2000s by think tank nef (the new economic foundation). By 2009, the Cabinet Office had commissioned nef to develop a practical guide to performing an SROI analysis. The guidance was updated in 2012.

SROI is a framework for measuring and accounting for the much broader concept of value described above. It measures social, environmental and economic outcomes and uses monetary values to represent them. This enables a ratio of benefits to costs to be calculated. For example, a ratio of 2:1 indicates that an investment of £1 delivers £2 of social value.
It is worth noting, however, that SROI is about value, not money. Money is simply a common unit and is a useful and widely accepted way of conveying value.

SROI assessment can be conducted retrospectively and based on actual outcomes that have already taken place (evaluative) or can be used as a forecast tool to predict how much social value will be created if the activities meet their intended outcomes (forecast).

The Cabinet Office (2012) 'Guide to Social Return on Investment' six key stages to carrying out an SROI analysis. This includes:

1. **Establishing scope and identifying key stakeholders** – It is important to have clear boundaries about what your SROI analysis will cover, who will be involved in the process and how.

2. **Mapping outcomes** – Through engaging with your stakeholders you will develop an impact map, or theory of change, which shows the relationship between inputs, outputs and outcomes

3. **Evidencing outcomes and giving them a value** – This stage involves finding data to show whether outcomes have happened and then valuing them.

4. **Establishing impact** – Having collected evidence on outcomes and monetised them, those aspects of change that would have happened anyway or are a result of other factors are eliminated from consideration.

5. **Calculating the SROI** – This stage involves adding up all the benefits, subtracting any negatives and comparing the result to the investment. This is also where the sensitivity of the results can be tested.

6. **Reporting, using and embedding** – Easily forgotten, this vital last step involves sharing findings with stakeholders and responding to them, embedding good outcomes processes and verification of the report.

Calculating Whole Life Social Value

As described previously, SROI is one of the most widely adopted approaches to measuring social impact. Taking the broad view that social value includes social, environmental and economic impacts, two additional metrics contribute to a whole life appraisal of social value (social value across the project lifetime). These include LM3 and GVA. These metrics capture the wider local economic benefit arising from the proportion of the project budget spent locally (supply chains and local employment). Although it varies case by case, local is usually defined as spending within 30 miles of the project delivery site.

Loop combines these three metrics: SROI, LM3 and GVA to provide a whole life value of a project – the social, environmental and economic impact, and local economic impact over a lifetime of a project.

Loop is a cloud-based impact analysis tool. The tool enables organisations to calculate the social, environmental and economic impact of their activities and/or projects using government backed frameworks and databases. The key purpose of the tool is to enable organisations to demonstrate the real value they create by attributing a monetary value to their impact.

Users enter basic data which interacts with databases containing a suite of KPIs relevant to specific frameworks. This enables a detailed analysis of value created from activities or projects, whilst aggregating data to show local, regional and national value creation.

The remainder of this section outlines each of the various measurement tools incorporated within our Loop Calculator:

- **Social Return on Investment**
- **Local Multiplier 3**
- **Gross Value Added**

Social Return on Investment

Loop's SROI framework uses financial proxies to quantify and communicate the relative value of outcomes associated with the activities and/or projects of organisations. Financial proxy values are taken from the following sources:

- **Cost Benefit Analysis (CBA) –** Loop uses Greater Manchester Combined Authority (GMCA) Unity Cost Database, which stores cost estimates in one place, to identify fiscal savings to UK Government and taxpayers associated with reduced costs for welfare benefits, Public Services, education and environmental services etc. It is also used to identify economic benefits to HMRC associated with Tax, National Insurance and increasing earnings due to reduced worklessness and sickness days through employment, skills, and improved education etc. These cost estimates are continually reviewed as new research and analysis emerge and they are based on national costs taken from a range of government reports and studies.

- **Social Value Analysis (SVA) -** Loop uses the Loop uses government, arm's length bodies and/or academic peer reviewed sources to identify the impact of improved social wellbeing created through jobs, apprenticeships, work placements, qualifications, education support, school and community engagement etc.

- **Environmental Impact Analysis (EIA) –** Loop also uses the Greater Manchester Combined Authority (GMCA) Unity Cost Database and and government sources such as DEFRA and DfT to measure to measure reduced environmental impact and improved environmental wellbeing created through energy efficiency, reducing, recycling and diverting waste, reducing carbon emissions as well as providing species and ecological protection etc.

Impact Metrics (Additionality)

Impact measures are applied to ensure that the financial proxy values attached to specific outcomes (associated with delivering KPIs) are not overclaimed. There are four key impact measures Loop applies to values when calculating SROI against different types of activity.

- **Deadweight** - what would have happened anyway regardless of the activity or project?

- **Attribution** - how much have you contributed to the delivery of the KPI as part of the project? Attribution is calculated based on other organisation's contribution to delivering fiscal and economic outcomes, and a combination of 'distance travelled' against social (wellbeing) outcomes and the other organisations who contributed to delivering outcomes.

- **Displacement** - were there any other negative outcomes as a result of your activity?

- **Drop off and Duration** - how much of that value still belong to the organisation's activity? Does it drop off with time? Duration works differently for fiscal and economic values, and social. Fiscal and economic values last only as long as the activity or may be calculated on a per event basis. However, social values usually relate to less tangible wellbeing outcomes that last longer than the activity. Where outcomes last more than one year a drop off rate of 10% and the HM Treasury Discount Rate of 3.5% is used to calculate the Net Present Value (NPV). How much of that value still belong to the organisation's activity? Does it drop off with time?

Impact measures give a realistic picture of the value created from activities and/or projects that are delivered.

Local Economic Impact

LM3 and GVA analysis using ONS (Office of National Statistics) databases are used to identify local economic impacts. Spending proxies for labour force and supply chains are applied to quantify local economic return (LM3). GVA is used to account for labour productivity per job filled in an area of investment.

Local Multiplier 3

The New Economics Foundation developed LM3 in 2002 as a simple way of measuring local economic impact. It was built on the idea of the 'leaky bucket'. If the local economy is represented by a bucket full of water, every time money is spent outside the local area, water 'leaks' out of the bucket, and the economic benefit of that expenditure to the local economy is lost. If money is contained within local economy, it will have a multiplier effect as more money circulates within a local economy, generating income for local people. The lower the 'leakage', the greater the income generated locally leading to greater local economic prosperity. LM3 is designed to encourage support and development of local supply chains.

LM3 measures how income entering a local economy circulates within it, across three rounds of spending. The initial income of the organisation is round 1. Round 2 relates to how much the organisation spends locally. And, round 3 identifies how much of that local spending is then re-spent by the organisations' employees and suppliers in the community. These three rounds of spending are added together to produce an overall LM3 calculation and ratio which informs organisations of their economic contribution towards specific outcomes they create from their activities and/or projects.

Gross Value Added Labour Productivity

GVA provides a measure of how employment contributes to the wider economic prosperity of an area. Using Office for National Statistics (ONS) data, location specific GVA metrics are used to measure the local economic uplift resulting from local employment. GVA is a tangible account of employment per project and how that contributes to economic impact of an area of investment.

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