ECONOMIC EVALUATION: WHAT IS IT GOOD FOR?

A guide for deciding whether to conduct an economic evaluation

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PREFACE

Economic evaluation is an important tool in the ongoing fight to make sure we use resources as effectively as possible—a struggle that the charity sector must not be immune from.

Of course values and democratic decision-making matter greatly, but they work even better when allied with decent analysis. Shifting resources from less effective to more effective uses is a key way for charities and their funders to help make the world a better place. And the best—arguably the only—way to determine whether shifting resources is the right thing to do is to conduct some form of economic evaluation that allows you to compare the cost of a programme with its impact.

But conducting an economic evaluation is not always the right thing to do. Even if it is, it can be done poorly and give misleading results, causing resources to be shifted from more effective to less effective uses—the opposite of the desired effect, and worse than doing no economic evaluation at all.

At NPC we work with charities and funders, big and small, and we see both good and bad practices. But this is not, of course, just an issue for the charity sector. As an economist working in government over many years and in many departments, including as Chair of the Council of Economic Advisors at the Treasury, I saw many very poor economic evaluations conducted in the public sector. In the private sector, the very idea of economic as opposed to financial evaluation is still somewhat alien.

There is no doubt that the charity sector finds this area difficult; very few of us chose to work in this sector fuelled by a desire to measure. At NPC, charities often ask us about undertaking economic analysis when it is not appropriate. We get frustrated at seeing poor-quality economic evaluations generated and published, usually full of optimism bias, producing little of value—except perhaps for the fundraising department—but taking up a charity's valuable resources.

Various methodological and technological developments are making it easier to conduct economic evaluations: putting monetary values on different components of well-being, for example, or developing databases like the Global Value Exchange to help calculate economic values. But there is a danger that the very simplicity of these positive developments also makes it easier to use them naively, and so make mistakes.

We have produced this report to guide charities through decisions about whether to undertake an economic evaluation of their work, what type of economic analysis to pursue, and how to conduct an economic evaluation well. It is designed to be accessible to non-experts, while also being methodologically sound. We hope it will help charities navigate the pros and cons of conducting an economic evaluation so they can produce information on their impact that is useful to them, their stakeholders, and society at large.

In short, we hope it helps charities continue in their struggle to create a better world. For that is why NPC exists.

We hope that you find it useful.

Dan Corry, Chief Executive, NPC

Acknowledgements

This report draws on NPC’s work for a number of our clients, numerous conversations with charities, funders, collaborators, competitors, and other stakeholders, and the work of other organisations and individuals. We have acknowledged these where we can in the body of the report. But here we also offer a blanket acknowledgement of the contribution of those we do not mention.

We would also like to thank the following people who reviewed the document and provided helpful comments: Jeremy Nicholls, John Gargani, and Professor Fergus Lyon. Naturally, any errors or omissions are NPC’s and the views expressed are our own.

EXECUTIVE SUMMARY

Economic evaluations help organisations and their funders compare the value of the impact created by a charity with the cost of creating that impact. There are several different types of economic evaluation. The types most relevant for the charity sector are: cost-minimisation analysis; cost-effectiveness analysis; break-even analysis; cost-benefit analysis; and social return on investment (SROI).

Each type of evaluation can help a charity assess the value of what it does, identify where it can increase its value, and convey its impact to funders and other stakeholders.

But like any tool, economic evaluation can be destructive as well as constructive. Its misuse can have a number of negative consequences: it can misrepresent value and potentially lead to less-than-optimal allocation of resources within and across organisations; it can take up scarce resources and produce something of little value; and it can generate scepticism among stakeholders about the value of economic evaluations in general.

Therefore, it is important that the right approach is used, if appropriate, and that it is used well.

Many of the benefits of and issues with economic evaluation can be applied to evaluation in general. But there are some issues that are particularly pertinent to economic evaluation.

This report covers three main topics:

1. What is economic evaluation and what is it useful and not useful for?
2. What is the experience of organisations that have conducted economic evaluations and the funders that review them?
3. How should organisations decide whether an economic evaluation is for them, and if so, which type is best?

What is economic evaluation good for?

Economic evaluation helps funders and managers decide how best to allocate resources—for example, funding and people. It goes beyond the question *'does it work?'* that other impact evaluations address, and helps answer the question *'is it worth it?'*

Some types of economic evaluation sum up the different effects of a programme or service on different types of outcomes in a single monetary figure that many find easy to understand.

But economic evaluations risk wasting resources, or worse, if:

- you do not have a good estimate of the difference your make (in non-monetary terms) on which to base an economic evaluation;
- the monetary value of the difference you seek to make is not relevant;
- the difference you seek to make is not meaningful in a monetary form;
- you do not have sufficient time and resources to do a good job; or
- the results are not going to be credible for the intended audience.

What are charities' and funders' experiences of economic evaluation?

Charities report a number of benefits of conducting economic evaluations. Economic evaluations allow them to:

- get feedback about what they do;
- aggregate the impact of different activities into a single figure;
- produce a result that is widely understood;
- use the results to make decisions;
- improve understanding of how the charity creates value;
- provide credibility to impact results; and
- help to secure funding.

But there are also limitations. Conducting an economic evaluation can risk distorting an organisation's priorities, as activities that are easy to monetise may be favoured over those that make the biggest difference. It can also be very costly. While in theory economic evaluation allows the comparison of impacts of different programmes, in practice the conditions for this rarely occur. Results of different economic evaluations are seldom comparable. It is often difficult for non-experts to assess the rigour and credibility of an economic evaluation. The focus on economic value can lead to important findings getting hidden.

The benefits of economic evaluations to funders are similar to those reported by charities. Funders may take an economic evaluation as a signal by a grantee that it takes measuring its impact seriously. They can also use the results to inform funding decisions. However, the point about the lack of comparability applies here too.

It is also important for funders and charities to recognise that there is a difference between economic benefits expressed in monetary form, and cashable benefits that free up money to be invested elsewhere: the two should not be confused.

Finally, there is some risk that the focus on monetary benefits can lead to a natural inflation of cost-benefit or SROI ratios where only high ratios are reported, and that the economists that undertake them use their discretion and take the most favourable of what is a reasonable range of values.

Charities and funders need to be aware of all these potential benefits and limitations when considering whether to conduct an economic evaluation.

Deciding whether an economic evaluation is right for you

Assuming that at least some stakeholders and decision-makers want or need the information generated by an economic evaluation, and you have or can find the resources to conduct one if it turns out to be the right option, your choice of economic evaluation will be influenced by the answers to three questions:

1. Do you have, or can you create, credible estimates of the impact of your programme or service?
2. Can the outcomes you are trying to achieve be expressed in, or converted to, monetary values in a meaningful way?
3. Are you comparing different programmes that have the same outcomes?

Your answers to these questions will help guide you to the most appropriate of the five approaches described above.

INTRODUCTION

Confusion about economic evaluation is fairly common in the charity sector:[1] many of the organisations that NPC works with are unsure what it involves and whether it is worthwhile. In 2010, we wrote two papers on one method of economic evaluation, the Social Return on Investment (SROI), when it was gaining momentum in the UK. We explained what SROI was and how and when it could be useful.[2] One of those papers is the seventh most-downloaded NPC report, out of more than 200.

Four years on, we are still asked the same questions by charities and funders. Interest in economic evaluation has not dwindled. We maintain that this approach is useful—however, economic evaluation may not be for everyone and conducting one brings challenges alongside the benefits. We are concerned that some charities see an economic evaluation as a silver bullet for marketing and fundraising.

What *has* changed since 2010 is that more organisations have attempted an SROI or other type of economic analysis—and we have done a few ourselves. Across the charity sector there is more experience to be shared, and with it a better understanding of what it takes to do an economic evaluation well.

But still too often we see organisations dive into economic evaluation without properly considering the benefits and limitations. This guide aims to help charities and funders gain a better understanding of economic evaluation, and ultimately decide whether it is a suitable approach to take. It is rarely a definite 'yes' even when your work leads to economic benefits; we discuss what economic evaluation is useful for and when it may be appropriate. This guide will not tell you how to carry out an economic evaluation—many books already cover this.[3] But we hope it will help you to clarify the pros and cons of different types of economic evaluation and make a calculated decision about its suitability for your organisation.

This guide is broken down into three chapters:

1. An introduction to economic evaluation: what it is, what it is useful for and what are the different types;
2. The experience of organisations and funders conducting and using economic evaluations; and
3. How to decide what type of economic evaluation (if any) is right for your organisation.

This guide is written in a question and answer format. The questions come from a combination of discussions with organisations that have considered conducting an economic evaluation, published research, and feedback from practitioners. You can read the guide from beginning to end or pick the most relevant chapter or question to you.

We use examples throughout this report to illustrate the practical experience of economic evaluation—both its benefits and limitations.

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1 Economic evaluation is sometimes referred to as economic analysis. The latter is a broad term that covers the use of economic concepts and methods in general. Economic evaluation is a form of economic analysis that involves comparing the costs and the consequences of one or more courses of action.

2 Heady, L. (2010) *SROI position paper*. London: New Philanthropy Capital; Heady, L. and Keen, S. (2010) *SROI for funders*. London: New Philanthropy Capital.

3 These range in depth. The Big Lottery Fund recently published a simple guide, available at http://www.biglotteryfund.org.uk/research/health-and-well-being/well-being . The more advanced may be interested in Layard, R. and Glaister, S. (ed.) (1994) *Cost-Benefit Analysis*. Cambridge: Cambridge University Press.

1. AN INTRODUCTION TO ECONOMIC EVALUATION

What is economic evaluation?

Economic evaluation is the use of economic concepts and methods to help organisations and policymakers decide how to allocate their resources to get maximum benefit. Generally there are two categories:

1. the assessment of the impact of public policies and programmes on the national or regional economy in terms of key measures such as Gross Domestic Product, employment, inflation, and so on; and
2. the assessment of whether individual programmes and services provide a good use of resources.

This report is concerned with the latter of these two. Economic evaluations go beyond questions that other types of evaluation answer about whether a programme or service works and how it can be improved; they address the questions *'is it worth it?',* or *'is there a better and more cost-effective way to use our resources?'* Economic evaluations consider the value (ie, cost) of the resources used to achieve a goal alongside the achievement and value of the goal itself.

In practice, economic evaluation in the charity sector is often thought of as a means of producing a ratio: *'for every £1 spent, charity x creates £y of value'*.[4] This approach puts a monetary value on social impact by combining evaluation (estimating social impact) with valuation (estimating the financial worth of that impact) and comparing the total value of the impact with the cost of achieving it. It compares the costs and benefits of what a charity does by valuing both in terms of money. This can enable charities to aggregate data on different types of social impacts and communicate their impact in a way that is widely understood.

But this type of economic evaluation is only one of several that charities can use. Other types do not convert all impact into monetary terms. Moreover, the potential benefits of conducting an economic evaluation go well beyond producing a neat ratio. There is much to learn from the evaluation process itself that can help charities improve what they do and how they decide what to do.

This report discusses the different types of economic evaluation, the potential benefits of each, what types of projects or organisations they are most suited to, and where they may not be appropriate.

It is worth noting that in this report we talk mainly about economic evaluations of programmes and services that have already happened (*ex post*). *Ex ante* economic evaluations predict the economic impact of programmes and services in the future, based on the best estimates and assumptions available. These can be very valuable to help charities and funders make judgements about the likely future benefits of current spending. Generally the same principles apply both to *ex ante* and *ex post* economic evaluations.

4 The alternative to a cost-benefit ratio is net present value (NPV). This is the value today of a stream of future monetary net benefits (ie, benefits minus costs) that have been discounted to reflect the general assumption that benefits received in the present are worth more than the same benefits in the future. NPV is technically a better estimate of value than a cost-benefit ratio, but is less popular.

Box 1: Is SROI a different word for economic evaluation?

SROI is one method in the economic evaluation 'family'. When you think of SROI you might think of a neat ratio. This is also the final output of some other types of economic analyses discussed later in this chapter. In the UK SROI is associated with putting monetary values on social outcomes; however it was developed by REDF (formerly the Roberts Enterprise Development Fund), a San Francisco-based philanthropic fund, as a way to help assess the impact of charities and social enterprises, and did not necessarily involve ascribing them a monetary value. SROI therefore sits between social and economic evaluation.

SROI is a well-known approach to economic evaluation in the charity sector because it is has been marketed to the sector. Its proponents claim that it enables organisations to capture the less tangible social outcomes that they really care about.

Like any methodology, SROI has its limitations. These are discussed in more detail in chapter two.

What is the difference between economic and social impact?

Social impact is typically distinguished from economic impact, although the distinction is not clear cut. 'Social' activities and 'economic' activities and their impacts often overlap. Going shopping or being at work both involve economic transactions, but can also be social activities. Similarly, government spending is counted as an economic activity but often aims to achieve social impact through improving people's well-being.

Social impact can be thought of as the *'effect of an activity on the social fabric of the community and well-being of the individuals and families'*.[5] Financial transactions—the buying and selling of goods and services—may have a social impact. For example, selling alcohol late at night in a city centre may affect the local community and local public services. These are typically indirect and unintended social impacts—charities, on the other hand, try to generate positive social impact directly and deliberately.

Social impacts generally do not have a monetary value readily available, and are not directly captured in measures of economic activity such as Gross Domestic Product (GDP). Yet by definition they affect our well-being. Social impacts like improvements in community cohesion in a local area or a better local environment resulting from a decrease in pollution are notoriously hard to quantify, let alone monetise. Volunteering offers a good illustration of the difficulties of monetising social impact: it takes up scarce resources (people's time) and hence has an opportunity cost, as something else could be done with that time. It produces outputs and outcomes that are valued by society, but are not naturally associated with a monetary value. So, they are not transacted in the market and do not show up in GDP.[6]

Economic impact can be seen as the effect of an activity on type and level of economic activity, usually measured in terms of economic transactions—changes in employment, income, and spending. It is often synonymous with impact on GDP, but also includes the distribution of economic activity among individuals, businesses and governments. Compared to social impact, which can be very diverse, economic impact tends to be relatively easy to measure because it usually involves a common unit—money (and sometimes jobs)—and is tracked by businesses and governments in accounts. It is easier to attach a monetary value to how much tourists spend on visits, how many jobs rely on tourism, and how much tax is generated by tourism, than to how tourists affect the social fabric of a community and well-being of its individuals and families. However, estimating both economic and social impacts requires an estimate of the counterfactual (see *Box 3*); not an easy task in either case.

5 This is the best definition we have found, and comes from www.businessdictionary.com. For 'social fabric' we mean the degree and quality of relationships between individuals and groups in the community.

6 For a useful discussion of estimating the social value of volunteering see the speech by Andy Haldane, Chief Economist of the Bank of England, to the Society of Business Economists, London, September 2014.

Over the past few decades, economists have been finding ways to put monetary values on social interactions and impacts, further blurring the line between social and economic impact. This has also promoted the idea of applying economic evaluation techniques to measuring social impact.

What are the different types of economic evaluation?

The five different types of economic evaluation most often used in the voluntary sector are:

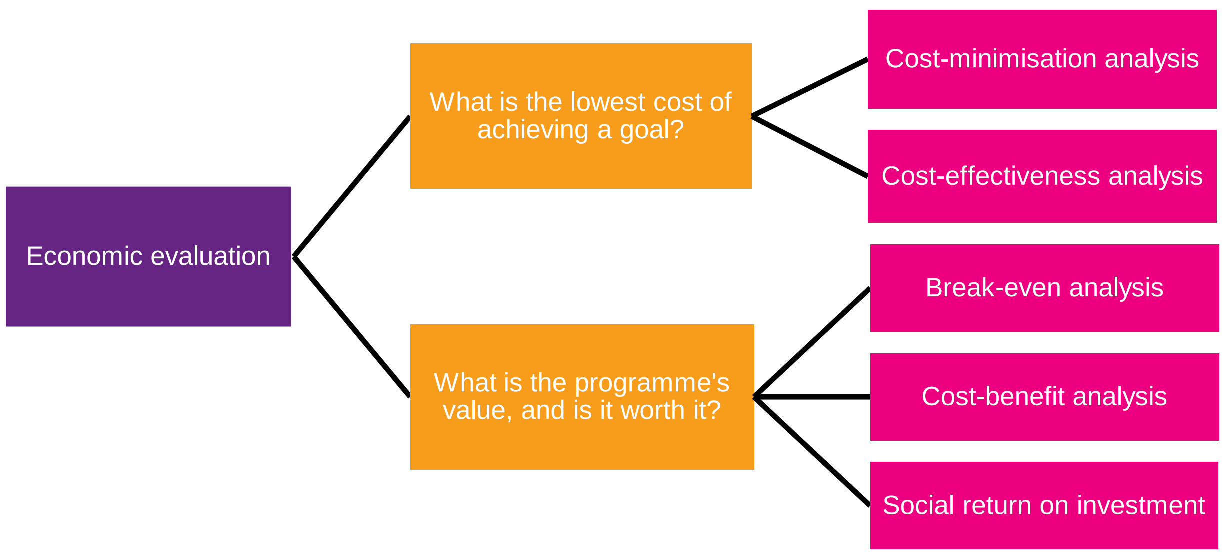
1. cost-minimisation analysis;
2. cost-effectiveness analysis;
3. break-even analysis;
4. cost-benefit analysis; and
5. social return on investment (SROI).[7]

They can be grouped into two broad categories, depending on the underlying question to be answered:

- Which programme has the lowest cost of achieving a given goal?
- What is a programme's value, and is it worth it?

Considering the first question enables comparison between similar projects, while the second aims to estimate whether a project provides value for money. *Figure 1* shows how the five types of economic evaluation relate to these two questions.[8]

Figure 1: Types of economic evaluation



7 Two other forms, cost-utility analysis and cost-consequence analysis, are rarely used in the voluntary sector.

8 This is adapted from a presentation by Sue Holloway of Pro Bono Economics at an NPC conference in 2013. The original version has 'social cost-benefit analysis' as the fifth type of economic evaluation, rather than SROI. This is because SROI is not the only method of conducting a social cost-benefit analysis. We use SROI because it is widely known in the charity sector.

Which programme has the lowest cost of achieving a goal?

Often a charity or funder wants to know the cheapest way to achieve a given goal. This puts a lot of focus on cost. But experience tells us that the lowest-cost service does not necessarily provide the best value for money, because it may not satisfy that goal. The focus on cost may be misleading. Therefore, the two types of analysis that focus on the lowest cost are only applicable under certain conditions.

Cost-minimisation analysis

Cost-minimisation simply compares the costs of different ways of achieving a given outcome. This is used when the outcomes of two or more projects are absolutely identical. For instance, suppose there are two providers of employment training programmes for young people. For cost-minimisation analysis to be appropriate, the young people trained by the two programmes must be the same, or very similar, in terms of gender, age, ability, and so on. If the two programmes achieve exactly the same outcome, the difference in costs between these programmes is a suitable indicator to choose between them. In practice, situations like this are rare.

If the outcomes of the training are the same for both programmes but the demographics of the young people are different, the programmes are not comparable.

Box 2: What should you include in cost calculations?

To calculate the full cost of a programme or service, you should include the costs of all inputs such as:

- direct funding;
- staff time and resources that are not covered through the programme’s funding; and
- in-kind support eg, free workshop space, volunteers’ time and any other unpaid activities.

Including all these costs is very important if you want to compare projects. One project may rely on more free support than another, but that does not mean it is a good use of resources. For instance, offering a free workshop space deprives somebody of revenue. In other words, there are opportunity costs attached to most in-kind support. This can be monetised and included as a cost.

Cost-effectiveness analysis

This is similar to cost-minimisation analysis, but is used to compare programmes that achieve different amounts of the same outcome. For example, it can apply to programmes that operate in similar settings but on different scales—nationally and locally, perhaps. If the outcomes achieved by both programmes are exactly the same, you can compare unit costs per participant to work out which is more cost-effective. However, the outcome per participant needs to be the same across the two programmes—an increase in chances of employment by X%, for example. Similar to cost-minimisation, cost-effectiveness analysis is only relevant to a limited number of projects.

Cost-effectiveness and cost-minimisation analyses cannot be used to compare interventions where the outcomes differ—for example a programme that creates jobs compared with one that improves health. Nor can they tell you whether the benefits of a particular intervention are greater than the costs of delivering it. In both these cases, you need to consider the types of analysis discussed in the next section.

Many charities in the UK are concerned that public-sector commissioners can confuse the lowest costs—cost-minimisation—with cost-effectiveness, ignoring differences in impact. Thus commissioning becomes a race to the lowest cost, possibly at the expense of making the most difference.

Is the intervention worth it?

Economic evaluations can be used to answer this question by putting a monetary value on the costs and benefits of a particular intervention and comparing the benefits to the costs. In *Figure 2*, the economic value of a programme or service is equal to the ratio of the monetary value of the benefits generated compared to the programme or service costs. To monetise benefits, you need to apply a financial proxy to the impact: an estimate of its financial value. For example, the financial value of avoiding reoffending for an offender's lifetime could be estimated as the wages lost during time spent in prison or carrying out community service. Such financial proxies may not always reflect the true value of an outcome and may reflect differences in perspective. In this example, people value personal freedom (ie, not spending time in prison or carrying out community service) in its own right, not just so they can earn money. Just counting wages would likely underestimate the value of an offender avoiding reoffending for his or her lifetime.

Figure 2: Formula to convert social impact into economic value

$$\text{Economic value} = \frac{\text{(social impact x financial proxy)}}{\text{cost}}$$

Three approaches to comparing the monetary value of benefits to costs are described below. For each approach, it is important to be clear whose perspective one is taking. For example, a government-funded programme might create benefits that exceed its costs. But if the benefits only accrue to a small group of people, the programme is essentially a subsidy of that group (the beneficiaries) by the taxpayer. From society's perspective there is a net gain, but the taxpayer loses out. Differences in perspective have an important effect on whether a programme is judged to be worth its cost.

Break-even analysis

Break-even analysis tells you what impact is needed (for example, how many beneficiaries you need to help by how much) for the programme to pay for itself. When we talk about a programme paying for itself, we mean creating an economic value of one, which by definition is when the benefits of that programme equal the costs. Break-even analysis does this by manipulating the formula shown in *Figure 2*. If you know the programme or service costs, and you have an appropriate financial proxy for its impact, you can estimate what the impact needs to be for the economic value of the programme or service to equal one.

This is considered a simple but weak way to conduct an economic evaluation. You do not need data about your impact as a break-even analysis does not tell you whether you have achieved a positive economic value. Instead it tells you what difference you *need* to make to have a positive economic value.

Despite this weakness, the approach can be useful. It indicates how feasible your service or programme is from an economic perspective. You can use it to inform your strategy without having to invest in data collection and analysis. For example, suppose you work with 100 young people at high risk of committing crime per year and the break-even analysis estimates that you need to help prevent at least 20 young people annually from committing a crime for the programme to pay for itself. If you also know that reducing criminal behaviour by 20% is rare (when programmes are subjected to very robust analysis), you can work out that your programme is unlikely to create much economic value. You might compare these results to your other programmes to see if you can increase your impact by moving resources from one project to another.

Cost-benefit analysis

Cost-benefit analysis compares the benefits achieved from an activity with the costs of carrying it out. The total value of costs and total value of benefits is typically expressed as a ratio, as shown in *Figure 2*. For example, every £1 invested (costs) might produce £2.5 in return (benefits, estimated as the impact multiplied by a financial proxy for that impact), giving an economic value of 2.5/1 or a cost-benefit analysis ratio of 1:2.5. For charities, the benefits are usually social benefits or outcomes; for a business the benefits are financial returns. Therefore a cost-benefit analysis for a charity is sometimes called a 'social cost-benefit analysis'.

Conducting a cost-benefit analysis requires you to estimate the monetary value of the costs and benefits of a programme or service. Established ways of estimating the monetary value of social outcomes are discussed in *Box 9*. Putting a monetary value on social outcomes reinforces the idea that these outcomes *are* valuable and should not be ignored in favour of easier, financial bottom lines. However, estimating monetary values of social outcomes can be complicated and expensive, and it is not always clear if the public or funders see the results as credible. These issues are discussed below.

Social return on investment (SROI)

Social return on investment (SROI) is like cost-benefit analysis in that it also aims to produce a monetary ratio that tells you how much value you would get for every £1 invested in a project.

The main difference between cost-benefit analysis and SROI is that the SROI methodology involves stakeholders, particularly users of a service, having a say on the monetary value of the social benefits. For example, in assessing the value of a programme designed to help parents improve their parenting skills, an economist may conduct a cost-benefit analysis using estimates of the economic value of such improved skills from academic literature. SROI methodology requires the participants in the parenting programme to estimate the value of the parenting classes to themselves. This captures the direct relationship between the programme and its benefits, but has the obvious risk that the resulting values are subjective and may be self-serving and biased.

The other difference is that SROI has been developed mainly as a management tool to help people responsible for making decisions about creating or increasing the social impact of a programme, rather than as a method to make an independent assessment of a project's value. This difference in purpose has some implications, mostly about the level of rigour required. In practice, however, we find that SROI is used equally as a way to make claims about a programme's impact and as a management tool.

Table 1: Different types of economic evaluation and examples of their outputs

Type of economic evaluation	An example of a result	How to interpret the results
Cost-minimisation	Total costs of employment programmes A and B are £200,000 and £150,000 respectively.	Programme A cost more than programme B. If they achieve the same outcome in terms of number of jobs, B provides greater value for money than A.
Cost-effectiveness	Total costs of employment programmes A and B are £200,000 and £150,000 respectively. A leads to 40 jobs, and B leads to 20 jobs.	Programme A costs more than Programme B in total but less than Programme B in cost-per-job created (£5,000 compared to £7,500). Programme A is more cost-effective than B.
Break-even	Programme A costs £200,000. The value to society of each job created is £10,000.	The programme needs to create 20 jobs to be economically worthwhile.
Cost-benefit analysis Social return on investment (SROI)	Programme A costs £200,000 and leads to 30 jobs. The value to society of each job created is £10,000.	For every £1 spent, Programme A creates £1.50 in value. The ratio is £200,000: (30 x £10,000). The main difference between the cost-benefit analysis and SROI is how the value of £10,000 is estimated.

When are economic evaluations useful?

Like any impact evaluation, if done well an economic evaluation provides information about what is working and what can be improved. This can be useful for stakeholders, funders, and senior managers of a charity. But in theory, economic evaluations have two main advantages over other types of impact evaluation.

First, an economic evaluation helps funders and managers decide how best to allocate resources, including funding and people. It goes beyond asking *'does it work?'* and helps answer the question *'is it worth it?'* Just because a programme works does not mean it is worth funding. It might be very costly and the funds might be better spent elsewhere, on a less effective but cheaper programme (or a more expensive but much more effective programme). **Economic evaluations can be useful to funders and charities keen to maximise the difference they make, provided they have choices about how to use their resources**. In practice there are limitations and caveats that mean economic evaluations by themselves may not be sufficient to judge how resources should be allocated, which we discuss below.

Second, some types of economic evaluation sum up the different effects of a programme or service on different types of outcomes in a single monetary figure. For example, a well-run youth club may benefit the young people that attend it, but also the community in which they live and the staff or volunteers that work there. An impact evaluation might consider one or more of these benefits but will report the results for each separately. An economic evaluation can express all these benefits in one figure. Money is a familiar measure and it is easier for people to understand one number than several. **Estimating the economic value of a programme can communicate its impact in a way that is easy to understand, particularly to those unfamiliar with the subject matter**. This can be useful but can also obscure impacts, as discussed below.

Economic evaluations are not the only means to decide how to allocate resources among programmes or summarise their impact. For example, Multi-Criteria Decision Analysis (MCDA) is another way to prioritise people's preferences and choose between different alternative programmes. MCDA is useful when it is difficult to describe the advantages or benefits of alternative programmes using only monetary values. Similarly, summing up the effects of a programme in a single monetary figure may not be any better than simply describing the different benefits in their 'natural' terms. How a charity can compare these advantages of economic evaluation to the disadvantages is covered in sections two and three below.

When are economic evaluations not so useful?

There are conditions under which economic evaluations are not so useful, or are hard to do well enough to realise the two benefits described above. Economic evaluations are less useful if:

- **You do not have a good estimate of the difference your make (in non-monetary terms).** Economic evaluation puts a monetary value on the impact of a programme or service. If you are unsure about what this is, its monetary value will be equally uncertain. An economic evaluation is only as robust, and credible, as the data and approach used to estimate impact in non-monetary terms. This is why in a report on evaluation to the National Audit Office, academics from the London School of Economics and the University of Surrey recommended that *'value for money calculations should not be presented unless the impact evaluation meets minimum standards'*,[9] though it does not specify what these standards should be. Without good impact data and a sound methodology to collect it, you should not attempt an economic evaluation.
- **The monetary value of the difference you seek to make is not relevant.** Human rights organisations do not generally argue that human rights should be protected because they have an economic value; they seek change on the basis of equity and equality. Economic evaluations consider how economic or financial

9 Gibbons, S., McNally, S. and Overman, H. (2013) *Review of Government Evaluations: A report for the NAO*. London: National Audit Office.

benefits are distributed among people, but do not take into account fundamental values. In 2007 NPC estimated that the financial value to society of providing short breaks to parents of disabled children was less than the cost of such breaks. From a purely economic standpoint short breaks are a not a good use of resources. But they might be worth funding if we think relieving the pressure facing parents of disabled children in this way is morally right.[10]

- **The difference you seek to make is not meaningful in monetary form.** Economic evaluations work best when it is relatively easy to put a monetary value on impacts—higher educational attainment, employment skills, or improved physical health. Even then it can be difficult to properly account for the benefits of feeling healthy or being in a job, besides the impact on health expenditure and increased income.[11] Finding meaningful economic values for improved relationships, artistic expression, increased tolerance, and so on is even trickier. SROI involves beneficiaries estimating these economic values, but that does not automatically make them meaningful. Charities that have these types of goals and undertake economic evaluations risk focussing, and causing others to focus, on things that can be monetised rather than things that are important.
- **You do not have sufficient time and resources to do a good job.** Economic evaluations are rarely cheap because they typically require you to conduct an impact evaluation and then put an economic value on the impacts. Whether this is done internally or contracted out, it often takes significant resources. You can reduce the cost if you have robust data already. Trying to economise on conducting an economic evaluation—or any evaluation—may mean it does not produce credible results.
- **The results are not going to be credible for the intended user.** There is no point spending time and resources on an economic evaluation if some or all of the intended users will not find the results credible. Economic evaluations often have more than one intended user (an organisation's management, current funders, and potential funders, for example) and different users have different perspectives on what is credible evidence; therefore there is no single answer to the question of how credible the results need to be. However, it is important to be clear about the purpose of an evaluation, and what its intended audience will find credible or useful.

Box 3: Estimating the difference you make

One of the biggest challenges—possibly the biggest—of any evaluation is estimating what would have happened without your programme or service. This estimate is known as the counterfactual. The impact you make is the difference between what actually happened and the counterfactual. It is hard to estimate the counterfactual because you cannot measure something that does not happen. Evaluators have developed various ways to estimate it, such as running randomised control trials. Each way has its pros and cons, but some are better than others. See *Box 7* for more discussion of this.

In section three we provide some guidance to help you decide when to undertake an economic impact and when it may not be worth it.

10 Copps, J. and Heady, L. (2007) *What price an ordinary life?* London: New Philanthropy Capital.

11 In recent years there has been a lot of work by economists to estimate the value of intangibles such as feeling healthy, having a job, and so on. For example, see the work by Daniel Fujiawara and the Housing Association Charitable Trust on estimating social value.

2. EXPERIENCE OF USING ECONOMIC EVALUATION

What are the benefits of economic evaluation for charities and social enterprises?

There is some research into charities' and funders' experiences of different ways of measuring their social impact—that conducted by the Third Sector Research Centre, for example.[12] [13] [14] But there is barely any research into the benefits to charities and social enterprises specifically of conducting economic evaluations. Some self-reports can be found in informational and marketing materials, on the websites of organisations such as Pro Bono Economics and the SROI Network. These reports tend to be very positive, in part reflecting a natural selection bias.

Based on these sources and NPC's own experience, in this section we describe the main benefits of conducting economic evaluations. These benefits apply to all the types of economic evaluations discussed in section one, although some of the differences between types mean that the applicability of each benefit varies.

Getting feedback

Many organisations talk about the general benefits to staff, managers, and other stakeholders of getting feedback on the impact they are having. This can boost morale when results are positive, inform managerial decisions, and provide assurance to funders. These benefits are not exclusive to economic evaluations: any sound approach to assessing impact can provide them. But the particular features of economic evaluations, as described below, can seem to make these benefits clearer.

Aggregating impact into a single figure

In theory economic evaluations allow data to be aggregated across multiple outcomes into one single measure—so the combined impact of all an organisation's activities can be easily expressed. For instance, under the right conditions the value of improved mental health and reduced crime can both be estimated in monetary terms and added together to create a single estimate of value. This can appeal to organisations that are involved in many different activities with different impacts that are difficult to summarise. A 2010 survey of 32 organisations found that *'while proponents and trainers of this [SROI] method stress that it is more than this single figure, organisations were open in their desire to have a single figure that they could quote on their promotional material.'*[15] However, the right conditions for aggregating impact rarely come about; therefore adding together monetary impacts is usually inappropriate. *Box 4* explores the conditions necessary to allow you to add together monetary impacts.

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12 Arvidson, M., Lyon, F., McKay, S. and Moro, D. (2010) *The ambitions and challenges of SROI*. Briefing paper 49. Birmingham: Third Sector Research Centre.

13 Lyon, F. (2011) *Social impact measurement as an entrepreneurial process*. Briefing paper 66. Birmingham: Third Sector Research Centre.

14 Arvidson, M. and Lyon, F. (2013) *Social impact measurement and non-profit organisations: compliance, resistance, and promotion*. VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations, 24 (2). ISSN 0957-8765

15 Lyon, F. and Arvidson, M. 'Measuring the social and economic impact of local services' in Stevenson, N., Taylor, M., Lyon, F. and Rigby, M. (2010) *Joining the dots: Social Impact measurement, commissioning from the Third Sector and supporting Social Enterprise Development*. East of England Development Agency.

Box 4: When is it right to add the monetary values of social impact together?

Cost-benefit analyses and SROIs can summarise multiple benefits into a single monetary benefit, a key feature that can be very useful. For example, a programme to prevent violence against women may save government money in a number of ways: it could reduce spending on emergency healthcare, policing and criminal justice. If the estimates of savings in each area are made using the same approach and are rigorously done, combining them is useful to public sector decision-makers to illustrate the cost-saving benefits of the programme.

Should we add to those savings the estimated financial benefits that a woman receives from not being a victim of domestic violence—earnings that might otherwise be forgone, avoiding the cost of moving away or hiding the abuse, and so on? Could we also add the avoidance of the terrible psychological cost of being a victim of domestic abuse? Could we add the benefits of preventing negative effects on children involved that could last for years or decades?

Does it make sense to combine all these cost savings into a single estimate of the financial benefits to 'society' as a whole?

There is no absolute right or wrong answer. The Treasury Green Book states that *'the valuation of non-market impacts is a challenging but essential element of this, and should be attempted wherever feasible. The full value of goods such as health, educational success, family and community stability, and environmental assets cannot simply be inferred from market prices, but we should not neglect such important social impacts in policy making'.*[16] Theoretically, these are all benefits, and should all be considered in a comprehensive cost-benefit analysis. They could be added together to provide a sense of the approximate size of the benefits in aggregate. But in practice the methods of estimating each type of benefit and the corresponding rigour of the estimates will vary considerably, and the resulting single estimate may obscure rather than illuminate what those benefits are and which are most important.

It makes sense to aggregate monetary values of different social impacts when:

- they are measured in a consistent way with a similar degree of rigour;
- the benefits are of a similar type (eg, reduced public sector costs, increased productivity, improved sense of well-being);
- the benefits fall to the same group or groups (eg, taxpayers, individuals); and
- the benefits are calculated over the same period of time.

If one or more of these conditions does not hold, an aggregated monetary estimate of impact may not be useful. At a minimum, an aggregated figure should be broken down to show clearly its component parts. In the example above, we think that combining all the benefits into one figure is not very meaningful to anyone—they are only useful when disaggregated.

Producing a result that is widely understood

We are all familiar with money. Expressing social impact in terms of the monetary value it creates—*'for every £1 invested, £5 is created in social value'*—makes it accessible to everyone. It does not require specialist knowledge about what counts as a positive impact in the field in which the charity works. Economic evaluation offers a way to communicate impact in accessible language. However, while *'£5 in social value'* may seem understandable, when you start to dig deeper it may not be obvious or clear what it means; it might be a complicated construction. In NPC's experience, whilst some people like the simplicity of the monetary value of impact, others find it unhelpful.

16 HM Treasury (2011) *The Green Book: Appraisal and Evaluation in Central Government*. London: HM Treasury.

Using results to support decision-making

Economic evaluations can help charities and social enterprises decide which course of action to take by summarising and comparing the net value of potential projects, or by indicating whether a project is worth the money and effort in the first place. Unlike other approaches to assessing impact, this takes the cost of the programme or service into consideration. Some charities and social enterprises say they use or have used some form of economic evaluation to inform decisions about what programmes and services to deliver, and how.

Ex ante economic evaluations can be used by decision-makers to decide how best to use today's resources to create an impact in the future, based on the best evidence and assumptions available about what a programme or service may achieve.

Improving understanding of how value is created

Many organisations report that one of the biggest benefits of economic evaluation is the lessons learned in the process of carrying it out. The benefits can go beyond generating the results. Conducting an economic evaluation can help organisations think through how what they do creates value, and to whom. SROI requires stakeholders to be consulted about the value of services provided. For example, David Speyer, GM Corporate Service, Vision Australia, said the Social Ventures Australia team that they used to conduct an SROI *'asked hard questions about real outcomes for each stakeholder group'*.[17] Of course, you do not need to conduct an economic evaluation to think though how your organisation creates value: creating a robust theory of change can do this.[18]

Box 5: The importance of transparency in supporting decision-making and understanding how charities create value

The 2012 economic evaluation of the Making Every Adult Matter (MEAM) pilots by FTI Consulting and Compass Lexecon is an example of how a good economic evaluation can shed light on how charities create value.

The study looked at a programme designed to co-ordinate access to public services for individuals with chaotic lifestyles. One hypothesis was that the service would lead, in the medium to long term, to a reduction in the use of expensive emergency services (such as the police and A&E) and an increase in cheaper, planned interventions. The study followed 39 participants—a number too small to generalise from—for the 12 months of the pilot, although some participants did not stay in touch for all of that period.

The evaluators estimated that taking part in the programme led to *higher* rather than lower rates of use of public services than would have occurred had participants not been involved in the programme. But taking part in the programme also increased participants' well-being. Part of the explanation is captured by one staff member at the MEAM programme: *'one client was living in a tent…eating out of skips, no benefits. He didn't cost anything. Then we come in…and he will be more expensive.'*

The study helped clarify the value of the programme, not in monetary terms, but in terms of well-being.

Providing credibility to impact results

Several organisations say that economic evaluations provide objective and rigorous evidence of the impact of their work. But this benefit is not a distinctive feature of economic evaluation—it is true of many other methods of assessing impact. Possibly this idea is based on the notion that economic analysis is more objective and rigorous

17 http://www.thesroinetwork.org/

18 For more on how to create a theory of change, see: Harries, E., Noble, J. and Hodgson, L. (2014) *Creating your theory of change: NPC's practical guide*. London: New Philanthropy Capital.

than other approaches, or on the real or perceived objectivity of economists, who are often commissioned externally to undertake analysis. NPC's own experience is that the quality and objectivity of economic evaluations is not inherently greater than that of any other methodology, and in fact is just as likely to be poor.

A slight variation of this benefit is that some organisations report that conducting an economic evaluation sends the message that they are an organisation that rigorously assesses its impact.

Securing funding

Some organisations talk of how their economic evaluation helped them to secure funding for their programme. As with other benefits, this is not restricted to specific types of evaluations and is unlikely to be true for all economic evaluations. There is clearly a selection bias. Only organisations that have found that such evaluations helped secure funding will talk about this benefit. But it may be that economic evaluations carry more weight with some funders than other types of evaluation.

What are the limitations or disadvantages of economic evaluation for charities and social enterprises?

As with any approach, there are limitations and disadvantages to using economic evaluation to assess impact. Below are the main concerns reported by others or heard from organisations that NPC works with.

Economic evaluation can distort an organisation's priorities

Conducting an economic evaluation carries a risk of unintentionally or intentionally giving, or appearing to give, more weight to impacts that can be quantified and monetised easily over those that cannot. Lyon and Arvidson (2010) noted that *'organisations carrying out SROIs were also found to be relying on key indicators that could be quantified such as the value of volunteering, while other indicators that relied on qualitative data were included as additional evidence to support the quantitative data.'*[19]

Economic evaluations are most suitable for services or programmes that relate to outcomes that are linked—typically through other research—to long-term changes that have strong economic value and are easily quantified. For example, completing GCSEs increases the value of higher lifetime earnings compared to having no qualifications. Even after discounting the future value of higher earnings, increasing a child's educational attainment in the short term is likely to create value to them of tens of thousands of pounds in increased lifetime earnings. By comparison, creating temporary improvements in mental health is not known to affect lifetime earnings—there is little research on whether such a link exists. So a mental health service may appear weaker than a programme designed to increase educational attainment if subject to an economic evaluation. It is tempting to focus on impacts that are easier to quantify and monetise over others, which may distort what the organisation is trying to achieve.

SROI methodology tries to avoid this by involving stakeholders directly in estimating the value of services, rather than relying on values derived from other research. On the downside, this adds the additional cost of consulting stakeholders, and, as noted above, there are methodological concerns about the rigour of such estimates.

Economic evaluation can be costly

Carrying out an economic evaluation—as with any impact evaluation—requires a considerable investment of time and management attention. This is especially true if the evaluation involves collecting new data. You need to agree what data to collect, develop the right tools, collect and clean the data and then analyse it; this needs

19 Lyon, F. and Arvidson, M. 'Measuring the social and economic impact of local services' in Stevenson, N., Taylor, M., Lyon, F. and Rigby, M. (2010) *Joining the dots: Social Impact measurement, commissioning from the Third Sector and supporting Social Enterprise Development*. East of England Development Agency.

significant resources. Many organisations find this to be a useful process to undergo—such a process is required for any sound approach to assessing impact, not just economic evaluation. This cost is not a disadvantage of economic evaluation in particular. Indeed, as noted above, for some the value of conducting an economic evaluation lies in clarifying exactly how the organisation creates value.

Results of different economic evaluations are rarely comparable

In practice there are too many differences in how economic evaluations are conducted to allow direct comparison of one with another. Thus one of the main potential benefits of undertaking an economic evaluation is rarely realised.

This is because different approaches often lead to different results, and economic evaluations require judgements and estimates by the evaluator.[20] Such judgments are unavoidably shaped by pre-existing preferences and assumptions, as well as the information available, and the prior experiences and knowledge of the analyst. Two people conducting the same analysis are likely to produce different results, even if both can give good reasons for making the judgments that they do.

The neat and uniform final ratios of some forms of economic evaluation—£X in benefits for every £1 spent—tend to invite comparison between programmes in a way that most other evaluations do not. Reviewers of economic evaluations may draw unwarranted conclusions by making these comparisons.

Box 6: The results of economic evaluations can hide the operation of Peter Rossi's Stainless Steel Law of Evaluation

Peter Rossi's law states that: *'the better designed the impact assessment of a social program, the more likely is the resulting estimate of net impact to be zero.'* In other words, the weaker the methodology, the higher the estimate of impact. One cannot tell by looking at the results of an economic evaluation how rigorous any estimate of impact is because that estimate may be 'hidden' by the results. For example, one journalist noted that the estimated economic impact of the National Citizen Service[21] (conducted by NPC) was much less than the estimated economic impact of a similar volunteering programme, ignoring the fact that the method used to estimate the social impact of the National Citizen Service was far more rigorous than that used to estimate the social impact of the alternative model.

A recent National Audit Office report on the use of evaluation in government found some support for Rossi's law: *'There are indications that some of the least robust evaluations were more positive in their assessment of effectiveness'.*[22]

It is difficult to assess rigour and credibility

It can be difficult for non-experts to judge the rigour of any form of impact evaluation. It is typically harder to judge the rigour of an economic evaluation because:

- it often requires assessing both the rigour of the impact evaluation upon which the economic evaluation is based and the rigour of the method used to place monetary values on that impact;

20 SROI Network notes that *'the range of judgement that is permissible within an SROI analysis means that comparisons of SROI ratios alone are not recommended.'* This was the main finding from the Arvidson and Lyon paper in 2013.

21 NatCen Social Research (2012) *Evaluation of National Citizen Service Pilots – Interim Report*. London: NatCen.

22 National Audit Office (2013) *Evaluation in government*. London: National Audit Office.

- economic evaluations may be conducted in subject areas where there is not a lot of robust research that can be used to assess the rigour of the evaluators' estimates; and
- different evaluators make different judgements about what constitute 'reasonable' estimates and assumptions.

Because of the uncertainty around the rigour of economic evaluations, good practices include: presenting estimates of impact as a range rather than a single point estimate; conducting a sensitivity analysis (showing how results change if underlying assumptions or estimates change); and including appropriate caveats and narratives. However, these practices do not necessarily solve the problems facing non-experts. Having your research conducted or accredited by an independent consultant should give it greater rigour and credibility, but this should not always be assumed, as the three points above still apply. Some consultants, while paying respect to the data, understandably try hard to please their clients and often err on the optimistic side in their interpretation of impact.

Important findings can get hidden

Economic evaluations tend to report results in some form of a cost-benefit ratio or a calculation of net present value. These might be easy to understand superficially, but can take attention away from the important estimates of impact that underlie the calculation. For example, one SROI evaluation of a charity's programme that helps couples and single people foster and adopt children found that the gain to the economy, net of the cost to the state for securing the adoption or placement, was approximately £1m per adoption. If correct, this represents significant value for money from the state's perspective. But what was arguably more striking was information provided in an appendix. The important assumption underlying the analysis was that of all the couples or singles supported, the charity estimated only 15% would have been accommodated for approval as adopters by the local authority without the charity's help. In other words, if not for the charity's action, local authorities would only approve three couples or singles out of every 20 that were suitable for adoption or fostering. This estimate only appears in the appendix, but may be as important a result as the estimate of the economic value created by the service.

What are the benefits to funders of economic evaluations of charities and social enterprises?

There is little research into what funders of charities and social enterprises think about economic evaluations and what they find more and less useful about them. The following is based largely on what funders and charities tell us, and therefore may not be representative of all funders.

Funders hold a diverse set of views about the value of different approaches to assessing impact. Views on economic evaluation are no exception. At one end of the spectrum, some like the clarity and simplicity of the results. Others are more sceptical.

In general the benefits of economic evaluations to funders are the same as the benefits to charities and social enterprises; therefore the following duplicates some of the section above.

Getting grantees to assess their impact

Some charities tell us that it is their funders that suggest they undertake evaluations, including economic ones, of what they do. We know that pressure from funders has been an important driver of the increase in impact measurement in recent years.[23] In general, funders like their grantees to evaluate their work partly as a sign that

23 Ní Ógáin, E., Lumley, T. and Pritchard, D. (2012) *Making an impact*. London: New Philanthropy Capital.

they take their impact seriously, partly so the grantees can improve, and partly so that funders themselves know what impact they might be having.

Being able to aggregate the impact of different activities into a single figure

Theoretically, funders could aggregate the impact of all their grantees into a single measure, by monetising the impacts of each grantee's cost-benefit analysis or SROI, and combining them. But for all projects to be directly comparable they would have to be suitable for cost-benefit analysis or SROI, and the evaluations would have to be done within the same framework, using the same assumptions and estimates where necessary, and so on. This is likely to happen only in rare circumstances.

Using results to support decision-making

Ideally, economic evaluations can help funders decide who and what to support and compare the relative value of their funding across different grantees. In practice the differences in context and the discretion involved in conducting economic evaluations make this benefit more theoretical.

Given current variations in practices and quality of data and analyses, we would be concerned if funders, including government, were making resourcing decisions solely on the basis of the apparent differences in the results of economic evaluations. Such results may be important, if the evaluation is done well, but are not sufficient to be used in isolation of other considerations.

What are the limitations for funders of economic evaluations of charities and social enterprises?

Some of the limitations of economic evaluations noted above for charities and social enterprises also apply to funders.

Limited overlap between economic and cashable benefits

Economic benefits are not always easily translated into cash. For example, studies that show preventative services, such as intervening early in child development, can save money for public services many years from now may be of little use to cash-strapped commissioners. Similarly, a befriending programme that reduces the isolation and loneliness of elderly people may create value that can be expressed in monetary terms, but the value created cannot be exchanged or spent in the way that cash can. This is sometimes used as a criticism of economic analysis, particularly cost-benefit analysis, where social impact is expressed in monetary terms but does not involve cash.

This is a valid and important point but not really a fair criticism. Economic evaluations are designed to shed light on how resources should be allocated to achieve maximum value. Complaining that the value cannot be converted into cash is misunderstanding that point.

Part of this confusion arises because money is used both as a means of exchange and as a unit to estimate what individuals and society value. Criticising economic benefits for not being cashable confuses these two uses. The potential for confusion is arguably greatest in public sector commissioning, where estimates of value created are taken as an estimate of potential cash savings. This confusion can also arise when estimating the value of some preventative services.

Action for Children tried to address this problem in an economic evaluation of its impact on troubled families.[24] It conducted research to estimate the economic benefits that could be realised as cash savings by local authorities. Part of the problem with this approach is that for potential savings to be realised, local authorities have to make decisions to free up resources that are under-used, and such decisions are outside charities' control.

A cycle of inflated results

One concern we have heard that is difficult to support with evidence is that funders' use of economic evaluations to make decisions can lead to a cycle of inflated economic impacts, as organisations try to better the results of their peers.

This can happen in two ways. First, only charities with high ratios report the results of their economic analyses. Second, organisations or consultants make assumptions at their discretion to produce higher ratios. Neither is necessarily 'wrong', but the end result may be misleading. This has been called ratio inflation.[25]

However, this concern should not really be levelled directly at economic evaluation approaches. If part of their value lies in allowing comparisons between programmes and organisations, and promoting the benefits of competition—namely higher impact—this cannot also be a limitation. Instead, the concern is that relatively weak controls around the quality of economic evaluations allow the possibility for ratio inflation, and this may go unnoticed by funders.

24 Loughborough University Centre for Child and Family Research and Action for Children (2012) ***The cost-effectiveness of Action for Children's Intensive Support Services***. Watford: Action for Children.

25 Quoting Professor Fergus Lyon from Third Sector Research Centre, '*there is a huge amount of discretion involved in any impact measurement. You can decide which indicators to use, what timeframe to look at, and who to talk to'*. (Source: http://www.thinknpc.org/blog/comparing-apples-and-oranges/)

3. IS ECONOMIC EVALUATION RIGHT FOR MY ORGANISATION?

At NPC we think economic evaluations can be very useful. But we also think there are occasions when they are not so useful. This section provides guidance to charities and funders to help you decide whether an economic evaluation is appropriate for your work, and what type is best.

Each of the five methods we discuss in this paper has advantages and disadvantages, and each is suited to different circumstances. Break-even analysis has the fewest restrictions and so is the easiest to do, but it does not tell you what your impact is—rather what it needs to be for your intervention to be financially worthwhile. Cost-effectiveness and cost-minimisation evaluations are helpful as a way to compare programmes, but possible in relatively few cases. Cost-benefit analysis and SROI are useful for making decisions about allocating resources, but may not always be appropriate. When they are appropriate, if done poorly they may be misleading and cause resources to be targeted in the wrong place.

This section discusses how to decide which approach is most appropriate for you, and what can be done to improve the quality of economic evaluations.

How do I decide which type of economic evaluation (if any) is right?

There are many things to consider, and the final decision is rarely black and white. We assume, given that you have read this far, that you want to answer one of the following:

- what is the lowest cost of achieving a given goal?
- what is a programme's value, and is it worth it?

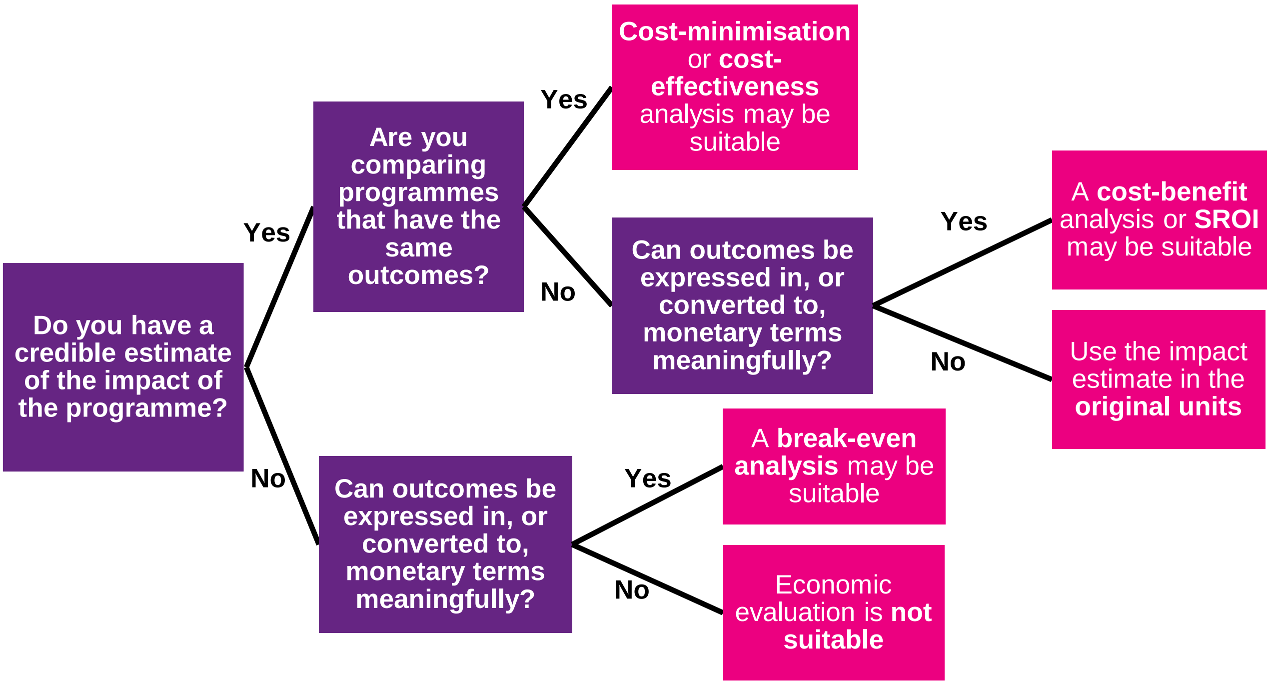
We also assume that at least some stakeholders and decision-makers care enough about the answers to those questions to make this a worthwhile exercise. In other words, someone wants or needs the information that will be generated by an economic evaluation. Finally, we assume that you have or can find enough resources to conduct an economic evaluation if it turns out to be the right option.

These are not assumptions to be made lightly, but if they are true for your organisation, your choice of economic evaluation will be influenced by the answers to these three questions:

1. Do you have, or can you create, credible estimates of the impact of your programme or service?
2. Can the outcomes you are trying to achieve be expressed in, or converted to, monetary values in a meaningful way?
3. Are you comparing different programmes that have the same outcomes?

The decision tree below suggests which type of analysis might be suitable, depending on your answers. Each question is discussed in more detail below. Note that this is not a mechanical decision: there is room for disagreement over which type of evaluation might be best in different circumstances.

Figure 3: Decision tree for conducting an economic evaluation



1. Do you have a credible estimate of the impact of the programme?

Economic evaluations require a credible evaluation of the impact of the service or programme being assessed. Comparing the cost of a programme with the benefits it achieves—regardless of whether these are expressed as monetary values—requires knowing what would have happened if the programme did not exist. In other words, you need to understand whether the apparent benefits would have happened anyway.

This estimate of the difference your programme makes compared to what would have happened without it is known as the counterfactual. There are different ways to estimate the counterfactual, and each has its drawbacks (see *Box 7*).

A credible estimate of the impact of your programme usually requires you to collect detailed information about the people you are trying to help and how your work helps them. The more you know about your beneficiaries and the effect of your programme on them, the more detailed and personalised your evaluation model can be. Take a programme that tries to reduce the level of crime as an example: the costs of crime vary significantly depending on the type of crime committed. Petty crime like theft or minor acts of vandalism involves lower costs than a gang fight, hence preventing it will have a lower economic impact. You need to understand the effect of the programme on different types of crime committed and their frequency. Without fully understanding this context and the change that you make, you cannot build a meaningful economic model.

Box 7: How do I create a good counterfactual?

A good counterfactual is the best estimate you can create of how the world would look without your programme. By comparing your observations to the counterfactual you can estimate your programme's impact. The problem is that we cannot measure a world that does not exist: we have to estimate it. Conducting a randomised control trial (RCT) is generally considered to be the best way to make this estimate, with people randomly assigned to either participate in a programme (the intervention group) or not (the control group). This is how drugs are tested to see if they work before they are put on the market. The randomisation means that all the factors that may affect the results will be distributed equally between the two groups, so the only systematic (ie, non-random) difference between them is whether they were part of the programme or not.

If you are concerned about denying people your service, you can use people on a waiting list as a control group, or assign similar people at random to different levels, doses or elements of a service to see what makes a difference. It is not always possible or appropriate to randomly assign people to your programme. If this is the case you need to consider other ways to create a counterfactual.

The next best method is to compare the outcomes of people who participated in a programme with people who did not, when participation is *not* random. The difference between the intervention and control groups is still an estimate of the impact of the intervention. However, there might also be systematic differences between these two groups that explain differences in impact—for example, participants might have higher levels of motivation, so it may not be the programme itself that is making a difference. This estimate is therefore not quite as good as a RCT, but is an easier and cheaper way to estimate the counterfactual.

Another alternative is to look at other comparison groups, for example by comparing your programme to national or local authority data for similar people or services. You could also ask beneficiaries directly to assess what would have happened without the programme—this method is relatively easy but unreliable as it is very subjective.

Not every approach is appropriate for every organisation, and what is the best approach depends heavily on the context in which you operate.

The smaller and more specific your beneficiary group, the more careful you need to be when using estimates of the value of your programme that apply to a large population. The value to a young person of being in a youth club in North Liverpool might be very different from the value for a young person in Cambridge. Using a national estimate of how young people value being in a youth club for evaluations of these two clubs might produce misleading results. The more insight you have into your beneficiaries and how much they (rather than other people) value your service or product, the more accurate your economic evaluation will be.

If you run a service where anonymity is essential—a confidential helpline, for example—or where you will not able to stay in touch with participants to follow up, you will find it hard to conduct most types of economic evaluation. You may be able to change some element of the programme to estimate the effect you have, perhaps by asking a sample of people for their consent to be followed up or by asking people directly what difference the programme makes to them, as in an SROI analysis. The specifics of how you do this are important and can make the difference between a good-quality and a poor-quality evaluation.

If you cannot create a credible estimate of the impact of your programme, you can still conduct a break-even analysis.

Box 8: Is comparing a group before receiving a service with the same group after receiving a service the same as having a comparison group?

The short answer is no. Before and after measures indicate whether a change is taking place. However, the difference between the two measures will not tell us whether the observed change can be ascribed to your intervention. There may be another reason for the difference between the before and after results. Or the difference may reflect natural variation and what is known as 'regression to the mean', where outliers at one point in time tend to disappear at a later point.

If you collect data using before and after measures, you can still consider an economic evaluation such as a break-even analysis. Generally though, you would not have enough credible data to do a cost-benefit analysis or SROI. There are exceptions. Imagine a forum that allows prisoners to express their grievances in prison. This might result in a reduction in disciplinary incidents. If everything else in the prison stayed the same—not an unrealistic assumption in a confined prison environment with limited alternative opportunities—a before and after study may be reasonable.

2. Are you comparing programmes that have the same outcomes?

If you have a credible estimate of your programme's impact, and you are comparing that to programmes that also have good impact estimates *and* the same outcomes, the easiest approach is a cost-minimisation or cost-effectiveness evaluation. The hard work has already been done in getting the credible estimates of impact. You could compare the costs of increasing a young person's self-confidence through long-term mentoring or short-term outward bound courses. You would not need to monetise the benefit of self-confidence as long as it is measured in the same way for both programmes. So instead, you can compare the costs of achieving the same outcomes straight away.

However, this assumption that the programmes to be compared will have the same outcomes is restrictive. In the charity sector there are typically many outcomes to track and measure; rarely does one programme have exactly the same outcomes as another. One challenge for the healthcare sector, for example, is that patients typically care not just about health outcomes but also about their experience. An impersonal, efficient service might be more cost-effective to produce good health outcomes, compared to a more personalised service, but it may be less effective at making people feel good about their experience. User experience might get missed in a cost-effectiveness study, but could be more important for some patients than health outcomes. This user experience can be measured in multiple ways; this is problematic for an economic evaluation, as it makes a straightforward cost-per-outcome comparison difficult.

If you are not comparing programmes with common outcomes, you will need to put a monetary value on your programme's impact, which brings us to the next question.

3. Can the outcomes you are trying to achieve be expressed in monetary terms in a meaningful way?

Deciding whether an outcome can be given a sensible monetary value is partly subjective, although there is much research about how this can be done well, and where giving outcomes a monetary value is misleading. Putting a monetary value on an outcome in a way that is not readily accepted or understood by funders or your staff may reap no benefits, whilst wasting resources.

There are several ways to attach a monetary value to an outcome. Such values are also called financial proxies.

First there is a straightforward way to ascribe financial values to hard or economic outcomes. To capture the cost of crime, we can look at the cost of arresting someone, attending the magistrate's court, and spending a night in prison. *Table 2* gives several examples of such estimates.

Table 2: Examples of proxies that could be used for monetisation

Costs of multiple needs: data collected	
Criminal justice system	**Health and mental health**
• Arrests • Other police contact • Magistrates court attendance • Crown court attendance • Nights in prison • Nights in police custody	• Visits to GP • Visits to A&E • Nights in hospital • Nights in mental health hospital • Outpatient appointment • CMH appointment
Drugs and alcohol	**Housing**
• One-to-one contact with drug and alcohol team • Group contact with drug and alcohol team • Weeks on substitute prescriptions • Nights in inpatient rehab and detox	• Rough sleeping • Direct access hostel • Room in shared private rented sector property • Own private rented sector tenancy • Second stage supported accommodation • Own social tenancy

Source: FTI Consulting

However, this approach will not work for all outcomes. It is tricky to calculate the financial value of 'soft' outcomes like well-being or life satisfaction. *Box 9* discusses other ways that economists have come up with to monetise softer outcomes.

Just because you can monetise an outcome, it does not mean that you should. The decision to put a financial value on an outcome should be based on both practical and philosophical considerations. On the practical side, you should consider the purpose of your economic analysis. If it is to show funders the potential savings to be made by funding your programme, you must be careful about what you monetise and what you leave out. You need to ensure that your estimates are cashable or realisable wherever possible, as discussed in section two. Philosophically, monetary values may not make sense for some outcomes, such as whether someone is a victim of crime or not. It is possible to estimate an average cost incurred by victims of crime, but monetary values of emotional and psychological costs may not capture the sense of injustice felt. Be aware of such limitations and talk to the intended audience of your economic evaluation to get their views.

Box 9: Can social outcomes like well-being and community cohesion be monetised?

Methods have been developed to try to put monetary values on things that do not have an obvious monetary value. For example, the Office for National Statistics has been developing Satellite Accounts to estimate a monetary value for unpaid work, such as housework. The Global Value Exchange is a database of values used in economic analyses. More recently the Housing Association Charitable Trust published the results of its study analysing how people trade off additional income with feelings of happiness to estimate the monetary value of factors that affect personal well-being.

Common methods used to attach a monetary value to a social outcome are:

- **Stated preference:** This approach uses specially-constructed surveys to capture people's preferences. It directly asks people what they are willing to pay or to accept for a particular outcome. For example, to monetise the impact of having offenders settled back into their families, you can use a survey to ask family members what they would pay to have an offender in their lives, rather than in prison. This approach is sometimes referred to as *contingent valuation* or *choice modelling*.
- **Revealed preference:** This method considers where the market has already given something a price and uses the difference between market prices to estimate the value people place on social outcomes. For example, if you wanted to value the impact of crime on people's feelings of safety and security, you might look at the difference in house prices between high-crime and low-crime areas.
- **Life satisfaction approach:** This approach, also known as the subjective well-being approach (SWB), uses data from large national surveys, such as the British Household Panel Survey. These surveys ask a range of questions, including on satisfaction with life. Statistical inference is used to estimate the impact of different outcomes on life satisfaction. For example, the results can show that attending a part-time training programme increases the life satisfaction of an individual by 10%. Further analysis shows that an individual would need to receive £1,000 in additional household income to increase their life satisfaction by the same amount (ie, by 10%). It can therefore be concluded that the value of undertaking a part-time training course over a year is equivalent to £1,000.

All these methods carry limitations, including hypothetical bias, misrepresentation of true preferences for one's own gain, survey bias and high cost. There is also a philosophical point to be considered: should we put a monetary value on anything and everything?

If, in the end, you decide not to monetise some outcomes, but recognise that they are as important as those included in your economic model, you should at the very least acknowledge them in your reporting and explain how the 'left-out' social outcomes link with your economic outcomes.

It is also important to assess from whose perspective you are monetising your outcomes. Is it savings to public spending that benefit the taxpayer, is it a monetary equivalent of life satisfaction that accrues to a beneficiary (and possibly their family), or is it increases in (local or national) GDP? The more precise you are about who benefits from a programme, the more value your economic evaluation will have.

The perspective from which you are monetising will also have implications on how you monetise. In practice, different people attach different values to the same outcome. In other words, we are likely to see a gap between the average market price of a product or service and how much a specific individual values it. This is best illustrated with an example. In the summer an ice cream van may sell a cone at £0.99. This is the market price. But not every individual will attach exactly the same value to a cone. Somebody who is hot may value the cone at £1.99,[26] while somebody with toothache or a person who just had a lollipop might value the cone at close to £0.

26 The difference between a market price and someone's willingness to pay is known as consumer surplus, as it reflects the benefit that the consumer gets from buying something at a lower price than they would be willing to pay.

£0.99 is also not an equivalent measure of the cone's value for someone with a high income compared to someone with a low income. What this illustrates is that every individual is different, and taking market price at times might be misleading if you are focussing on the value of something for a small group of people. If your aim is to capture the value you are creating for a small and homogenous group of beneficiaries, asking them directly—subject to various methodological problems that arise when trying to do this meaningfully—may be more appropriate than estimating market value. If you want to estimate the value of a programme for a large and heterogeneous group, it makes more sense to estimate the 'typical' beneficiary according to market value.

If monetary values of what you are trying to achieve are not meaningful, you should just report the estimate of the impact of your programme, if you have it, using the natural measures, or, if you do not have it, look at how you can create such a measure of your impact. NPC's *Four pillar approach* provides step-by-step guidance to do this.[27]

How do I make an economic evaluation as rigorous as it can be?

Regardless of which type of economic evaluation you undertake, there are good practices you can follow to increase the rigour and credibility of your evaluation. These practices apply to most forms of evaluation, not just economic. The points below are in addition to following the seven SROI principles:

1. involve stakeholders;
2. understand what changes;
3. value the things that matter;
4. only include what is material;
5. do not over-claim;
6. be transparent; and
7. verify the result.[28]

Ensure whoever does the economic evaluation is trained and has the right resources

You need somebody who is trained in economic evaluations to conduct one. But like any profession or trade, being trained as an economist does not guarantee high quality. You can hire an external evaluator with experience in economic evaluations, or use an internal economist if you have one among your staff. Various organisations train people in the different forms of economic evaluations; however you should not assume that a few days training in a subject with which someone is otherwise unfamiliar will make them capable of conducting a robust economic evaluation.

If you decide to hire an external evaluator we suggest you review some examples of their work and ask other economists to comment on it before you commission them. Pro Bono Economics makes examples of good - quality work publicly available.

Use existing evidence

Before you start collecting data, make sure you are familiar with the relevant academic literature. If existing evidence for programmes similar to yours is already strong, you need only collect data that shows your

27 Kazimirski, A. and Pritchard, D. (2014) *NPC's four pillar approach*. London: New Philanthropy Capital.

28 Source: http://www.thesroinetwork.org/what-is-sroi.

programme is likely to replicate those results. If your service is innovative and there is little existing evidence, you will need to increase the rigour of your evidence over time to persuade yourselves and others that your service works. Accessing and understanding academic literature is not simple, so you may need support to do this.

Box 10: Improve credibility by making full use of existing research

Charities should use existing research on the effects of well-run programmes to inform their own economic evaluations. Joan Petersilia, a respected US criminologist, has noted that over 100 years of trying to reduce reoffending has shown that it is exceptional for a programme, when rigorously tested, to reduce recidivism by more than 15 or 20 per cent. Results from the Justice Data Lab—an NPC initiative run by the Ministry of Justice that compares reconviction rates of participants in a programme to reconviction rates of a comparator group—support this: out of 118 programmes that have been assessed, only one had an estimated reduction in reoffending greater than 15%, and 20 had an estimated reduction of less than 15%.

Any economic evaluation of a programme designed to reduce reoffending that is based on an estimate of more than 20% should be subject to further analysis to make sure that the estimate is reliable. Effects of this size—the 2009 Pro Bono Economics / Frontier Economics analysis of St. Giles' *Through the Gates* project was based on an estimated reduction in reoffending of 40%—might be possible, and it is obviously very important to highlight programmes that are this effective. But estimates of this size need to be based on robust research if they are to be believed.

NPC is working with several government departments to replicate the Justice Data Lab in other policy areas to increase the availability of usable research.

Build your evaluation around a theory of change

A theory of change is a map of how an organisation or a project intends to deliver its desired outcomes.[29] Designing a measurement framework around your theory of change is considered best practice. It ensures that you collect information that tells you what difference you are making. Working out a theory of change involves deciding what data to collect, the level of rigour of evidence you need, and how to collect your data. Your theory of change can help you demonstrate how economic and social outcomes are related. This is particularly useful when considering preventative work. As already discussed, many organisations find the process of conducting an economic evaluation useful as it helps them understand how and to whom they add value, regardless of whether they end up with a monetary estimate of their impact.

Consider positive and negative unintended outcomes

Outcomes can be positive or negative; intended or unintended (see *Figure 3*). Every charity or social enterprise has its mission or goals, which are equivalent to its positive intended outcomes. There is rarely an intended negative outcome. However, in the course of your programme you might discover that you have an unintended impact that can be positive or negative. For example, improving a school by paying teachers higher wages may help that school, but at the expense of the quality of teachers at other schools. Failing to recognise or think about potential negative consequences may result in your economic analysis being overoptimistic, or pessimistic.

29 Kail, A. and Lumley, T. (2012) *Theory of Change: The beginning of making a difference*. London: New Philanthropy Capital.

Figure 3: Positive, negative, intended and unintended outcomes

	Positive	Negative
Intended	Usually your current mission	eg, a programme that tries to reduce bullying in the playground aims to reduce the power of the bully. This could be considered an intended negative outcome for the bully.
Unintended	eg, a charity provides support for children from ethnic minority groups who are failing behind at school. In the course of the programme, the charity also discovers that in addition to children, it has a positive but unintended impact on their families. It improves their overall well-being and helps them to integrate better into UK culture.	eg, a homelessness prevention programme among other things helps a person to get access to state benefits that they were not aware they were eligible for. From a purely economic perspective, this will incur extra cost to the state (at least in the short-term).

Use the strongest counterfactual you can

As discussed in the previous section, you do not necessarily need a control group to carry out an economic analysis—specifically a cost-benefit analysis or SROI—but the stronger your counterfactual is, the stronger your evaluation's rigour and credibility.

Use standardised tools for data collection

Standardised tools are ways of collecting data, such as surveys, that have been tested for reliability and validity. Using standardised tools helps to ensure the data collected are robust. They measure the same thing for different people and organisations across different contexts, so results can be compared. Validated tools also produce results you can trust. NPC's Well-being Measure is a standardised and validated tool. It has been tested across multiple groups of young people and validated externally. Not all existing tools are standardised or validated, as this can be time-consuming and difficult.

How should I report the results of an economic evaluation?

Once you have conducted your evaluation, you need to report it. There are some important points to bear in mind when reporting results; some apply to reporting social impact in general, whilst others apply specifically to reporting the results of economic evaluations.

Do not over-claim your impact

This is one of the seven SROI principles. It is natural to want to make the strongest claims you can about your programme. But by over-claiming your impact you risk losing credibility with stakeholders, staff, and funders; limiting your ability to learn and improve; and ultimately undermining your mission by distorting what you learn about how best to serve your beneficiaries. It is important to acknowledge other influences and organisations that may have an effect on your programme's outcomes to provide a clear picture of the impact of your work.

Report negative findings as well as positive findings

To contribute to the body of knowledge of what does and does not work for your beneficiaries, report any negative findings or weaknesses in programmes along with the positive. We recognise that this is difficult to put into practice without risking giving your organisation a disadvantage in the struggle for funding and resources; we would like to see a collective effort to be more open about negative results driven by leaders across the sector.

Box 11: Reporting negative results

For many charities, producing rigorous evidence of results is difficult and costly; but the lack of transparent information on achievements is partly a consequence of the conventional wisdom that to attract funds and motivate staff and stakeholders, all your results must be positive.

However, the scene is changing slowly. There are some notable examples of organisations publishing negative results:

- Oxfam led the way as a charity with its honest and objective Effectiveness Reviews.
- The 2008-2011 Failure Reports of Engineers Without Borders.
- *Enterprise Solutions to Scale*, the Shell Foundation's reflections on its first 10 years.
- The Hewlett Foundation's report on disappointing results of its multi-year, multimillion dollar initiative designed to improve the lives of residents in the Bay Area.
- The aptly named http://www.admittingfailure.com, *'an open space for [international] development professionals who recognize that the only 'bad' failure is one that's repeated'.*
- The Ministry of Justice's Justice Data Lab (JDL) publishes all the results of public sector and charity-run programmes that use the JDL.
- Only Connect, a UK creative crime prevention charity, has committed to publish all its evaluations, regardless of what they show.

Charities interested in improving their accountability and transparency can find useful resources on the ImpACT Coalition website. These include the ImpACT Toolkit, which helps organisations assess how transparent and accountable they are and suggests ways forward, and the ImpACT Manifesto, which organisations can sign up to.

The *Principles of Good Impact Reporting* sets out six principles for charities to follow, and was published in 2012 by ACEVO, the Charity Finance Group, the Institute of Fundraising, NCVO, NPC, the Small Charities Coalition, Social Enterprise UK and the SROI Network.

Be clear about who bears the costs and who receives the benefits

The statement that a programme brings £X million in value to society or provides 10% greater value for money than a similar programme may be a helpful headline figure, but it is important to be clear about exactly who benefits and how. The benefits may fall directly to the beneficiaries; to people close to them, such as family, carers and friends; to taxpayers; or to others. Being clear about the distribution of benefits is as important as being clear on the extent of any benefit.

Be clear about differences between fixed and variable costs

In calculating economic costs and benefits, it is important to distinguish between fixed and variable costs. Fixed costs are constant over an assessment period, while variable costs change depending on the level of activity. For example, the fixed costs of hosting a parental support group include the cost of the space, staff time, and any equipment costs. Variable costs increase when you add one or more parents to the group. These might be small costs such as material and refreshments. When thinking about saving public sector costs, you may find that a programme only affects variable, not fixed, costs. For instance, preventing a few people from returning to prison will save the government variable costs, but is unlikely to affect the fixed costs of running a prison. To be credible, it is important to be clear which variable and fixed costs are included and excluded from your evaluation. It is also critical to be clear about this distinction if you are thinking about the value of scaling up a programme.

Be clear and transparent about your methods and data sources

Different stakeholders have different needs for information. Some may be interested in summary information, but others will want to see the detail behind your figures. To help all stakeholders understand your economic evaluation it is important to be clear about the methods you used, your sources of data, estimates and assumptions made, and any limitations of your approach.

Get your evaluation peer reviewed

It is easy to look at your own programmes through rose-tinted glasses and make estimates and judgements that are biased in favour of your programme. One way to minimise such bias is to have your analysis peer reviewed by somebody who is independent and has no vested interest in making your service look more effective than it is. Potential peer reviewers are people in similar organisations, academics, and representatives of research organisations or think tanks.

What do I do with the results of an economic evaluation?

Generally there are two groups of reasons to engage in any type of evaluation—to prove and to improve.

NPC recommends that organisations publish their economic evaluations to demonstrate or prove the impact they are having to a range of stakeholders, including funders, supporters, similar organisations, and staff. The previous question discusses how best to report results.

But the results should also feed into an organisation's strategy and review of its performance so it can learn and improve. Evaluations should not be conducted for their own sake. Exactly how the results of an economic evaluation can and should feed into a charity's review and planning of its services depends on its management and governance processes. One would expect an economic evaluation to influence decisions about the allocation of resources across a charity's services, with the potential to redeploy resources to achieve a greater impact.

If I want to conduct an economic evaluation, what are the next steps?

If you have gone through this guide and decided that some form of economic evaluation is useful for your organisation, there are some further questions to consider that are typical of any evaluation:

- Will your evaluation be conducted internally or by an external consultant?
- What is right balance between the level of rigour desired and the level of resources available?
- What question does the evaluation seek to answer?
- What is the scope of the evaluation?
- When does the evaluation need to be completed?

The answers to these questions can then be developed into an action plan to guide you forward in your evaluation.

What are the alternatives to an economic evaluation?

Economic evaluation is not the only way to capture impact, and as discussed here is not always appropriate.

If an economic evaluation is not a suitable option for you, you can evaluate or assess your impact using other methodologies and tools. There are too many to choose from to go into detail here, but good sources of advice on conducting evaluations (beyond our own) include the Charities' Evaluation Service[30] (now part of NCVO) and the *Better Evaluation* website.[31]

At NPC we have published our own approach to developing a framework to collect and analyse data to help charities and social enterprises self-assess their work: *NPC's Four Pillar approach*,[32] available to download for free on our website.

30 http://www.ces-vol.org.uk/

31 http://betterevaluation.org/

32 Kazimirski, A. and Pritchard, D. (2014) *NPC's four pillar approach*. London: New Philanthropy Capital.

4. RECOMMENDATIONS

In the future, we hope that economic evaluations will be applied to the work of the charity sector more than they are at present. But to get to this point, and to ensure that the potential benefits of economic evaluations are actually realised, there need to be some changes in the way the sector thinks about and approaches economic evaluation. This section discusses those changes and who should make them.

Recommendations for funders (including commissioners)

Funders should be familiar with the pros and cons of different types of economic evaluation

A pre-requisite for any improvement is that funders understand what types of economic evaluation are appropriate and when. In our experience charities are sensitive to funders' perspectives on how they report their impact. For funders to make their views about what they consider good and bad practices known to charities, they need to be familiar with the pros and cons of different approaches themselves.

Funders should promote good practices and discourage bad ones

Funders can play an important role in promoting good practices and discouraging bad ones. Funders should be particularly aware of the risk of ratio inflation discussed in this report, and not tolerate practices that promote it. In addition to discouraging the inappropriate use of economic evaluations, funders should promote the good practices identified in section three.

Funders should consider funding the development of economic evaluation

We often argue that there is insufficient investment by funders in the infrastructure that supports the assessment of social impact. Inefficiency and poor practice continues because funders, individually and collectively, do not see it as their role to make measuring and reporting impact easier, cheaper, and more robust. This report identifies a number of issues to be addressed in the development of economic evaluation and a number of recommendations on how to improve the use and value of economic evaluation. Funders need to support these, by directly funding improvements to methods and approaches, or indirectly by funding organisations that are trying to do good quality economic evaluations.

Recommendations for charities and social enterprises

Use the process of economic evaluation as a way to understand value

Charities commonly cite the main benefit of conducting an economic evaluation as an increase in their understanding of how they add value. This is enough reason alone to conduct an economic evaluation, although there are other ways, arguably easier and cheaper, to do this. If charities do not have a clear understanding of how they add value, they should consider conducting an economic evaluation alongside consideration of other approaches, using this guidance to help them decide if it is appropriate.

Collect good impact data

It should be clear from above that good economic evaluations rest heavily on good impact data. Therefore the first thing charities should do is make sure they are collecting high-quality data on their impact. How to do this is covered elsewhere, for example in NPC's *Four pillars approach*.

Use the guidance provided in this report

This may seem an obvious recommendation, but it is worth making explicit. This report provides guidance on what different types of economic evaluations are useful for, when it is worth considering doing one, and good practices to follow if you do choose to conduct an economic evaluation. We recommend that charities use this guidance and report back to us on what is useful, what is less useful, and what they feel is missing, so that we can continue to improve it ourselves.

Do not use an economic evaluation to distort what you do

An important recommendation for charities is not, deliberately or inadvertently, to allow an economic evaluation to distort what you do and the impact you have. The methods of evaluating social impact are improving, and so are standards. It is in your organisation's interests and in the long-term interests of your beneficiaries to report the impact you have as faithfully and clearly as you can if you choose to use an economic evaluation. Where there is a choice, economic evaluations should be conducted or managed by research, financial, or operational departments in a charity, not by the fundraising or marketing department.

Publish results and be transparent

The charity sector would be able to accelerate the development of effective solutions to social problems if it was better at sharing knowledge of what does and does not work together with good practices. We encourage all charities to be transparent in reporting their evaluations and impact studies so that others can learn from them.

Include funding evaluation in proposals

Charities should include the cost of robust evaluations in their proposals to funders. At times, under the conditions discussed in this report, this can include funding for economic evaluations.

Recommendations for practitioners of economic evaluation

Develop, disseminate, and use good practices

There are a number of good practice guides on how to conduct economic evaluations. These have tended to be put out by individual organisations, albeit with input from others (for example, the SROI Network's set of seven principles). We would like to see the major organisations involved in conducting economic evaluations jointly endorse and publish guidance on good practice.

Use the guidance provided in this report

This is the same recommendation given to charities above. We would like to see consultants and economists use the guidance in this report and report back to us on what is useful, what is less useful, and what is missing.

Be transparent in methods and results

Practitioners, being the experts, have a particular responsibility to be clear and transparent in presenting their analyses. We would like to see the development of a common approach to reporting on the quality of an economic evaluation, similar to that in healthcare sector.[33]

Peer review

Unlike the practice of producing academic papers, there is no tradition of economic evaluations produced by charities undergoing peer review, although The SROI Network is one exception as the network has an assurance process to check that the seven principles are followed.[34] Part of the reason for the absence of peer review is the cost. This is where funders can and should step in. One way to improve the quality of economic evaluations is to have a greater level of peer review of such reports. Practitioners should collectively consider how to do this, in consultation with charities and funders.

33 For example, the Consolidated Standards of Reporting Trials (CONSORT) provides an approach to consistently report randomized controlled trials in the health sector.

34 See http://www.thesroinetwork.org/sroi-analysis/assurance.

ADDITIONAL RESOURCES

In addition to the references in the footnotes, here is a selection of useful online resources:

- **HM Treasury Green Book**: the government's authoritative resource on conducting economic evaluations. https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent
- **Pro Bono Economics**: this organisation can provide pro bono support. http://www.probonoeconomics.com/
- **The SROI Network**: its website includes the guide to SROI, advice, and other resources. http://www.thesroinetwork.org/
- **Global Value Exchange**: an open source database of values, outcomes, indicators and stakeholders. http://www.globalvaluexchange.org/
- **Cabinet Office Centre for Social Impact Bonds Toolkit**: this contains guidance on cost-benefit analysis and a database of more than 600 unit costs of government services and outcomes in crime, education and skills, employment and economy, fire, health, housing and social services. http://data.gov.uk/sib_knowledge_box/toolkit
- **Housing Association Charitable Trust (HACT)** webpage on calculating social value: this contains various resources, including the Social Value Bank, a set of estimates of the value of numerous social outcomes based on their estimated impact on subjective well-being. http://hact.org.uk/publications-and-tools
- **Society of Benefit-Cost Analysis**: an association working to promote and improve the theory and practice of benefit-cost analysis. Includes useful resources. http://benefitcostanalysis.org/

TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy which occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

Increasing the impact of charities: NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

Increasing the impact of funders: NPC's role is to make funders more successful too. We share the passion funders have for helping charities and changing people's lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

Strengthening the partnership between charities and funders: NPC's mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.

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