WHAT DOES GOOD ECONOMIC ANALYSIS LOOK LIKE?

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Lynn Simmonds and Anne Kazimirski

On 13 June 2016, NPC held a seminar for charities and funders about what good economic analysis looks like within impact measurement. The event was part of our impact measurement seminar series—hosted in in partnership with Kingston Smith Fundraising and Management—designed to give charities and funders an introduction to various aspects of impact measurement.

At the event, **Karl Leathem—Consultant at Kingston Smith Fundraising and Management**—provided an overview of different types of economic analysis and their underpinning principles. Attendees then heard from **Joelle Bradly, Evaluation and Impact Manager at Barnardo's**, and **Bryan Allen, Communications, Marketing and Fundraising Manager from St Vincent de Paul Society,** who shared examples and suggestions from their own experience. The event was chaired by **Anne Kazimirski, Head of Measurement and Evaluation at NPC**.

This report highlights the main themes discussed, summarises advice from our speakers and draws on the experience of those in attendance, as well as NPC's publication *Economic analysis: What is it good for?*

Why is economic analysis important?

Economic analysis helps charities and their funders compare the value of the impact created by a social intervention with the cost of creating it. These comparisons help decide how best to allocate resources. Economic analysis is a form of evaluation that goes beyond the question *'does it work?'* that other impact evaluations address, and helps answer the question *'is it worth it?'*.

'In the new policy context of the Social Value Act it will become increasingly important to reflect the social return on investment of public investment.'

Joelle Bradly, Barnardo's

The profile of economic analysis in charities' and funders' impact measurement practice has increased in recent years, as the sector finds itself under more pressure to produce estimates of what value is being created for every pound invested. Still, economic analysis does not always provide the most compelling piece of evidence to show the impact of a charity. Charities might not have the necessary elements in place to do good economic analysis and can find it challenging—because, for instance, it relies on good outcomes data and a strong evidence base. Economic analysis needs to be robust, or else it is easy to find fault in calculations. If economic analysis is done poorly, it can lead to wrong decisions about the allocations of charitable resources.

How can you determine whether economic evaluation is right for your organisation?

While the descision to undertake an economic analysis depends on many factors, considering the following questions will help to guide you. If your answer is 'no' to any of the questions, then economic analysis is probably not appropriate.

'Doing economic analysis needs to be carefully planned and resourced.'

Bryan Allen, St Vincent de Paul Society

1. Do you have a good reason for doing an economic evaluation?

You should have a clear question you want to investigate (eg, does my programme provide value for money?), and a good reason for asking this question. Consider what you will do with the results and whether it is worth the time and resources needed.

2. Do you have good outcomes data?

Do you have data that allows you to compare your outcomes with those that would have happened anyway if your programme or intervention did not exist (the counterfactual)? Data from a 'control' group which has not received an intervention is ideal, but there may be alternatives such as collecting data from those on a waiting list for your service, or comparison to national estimates. Without a counterfactual, the economic analysis will provide an indication of *potential* economic impact rather than *actual* economic impact, and is much more reliant on potentially biased assumptions.

3. Do you have time and resources to do a decent economic evaluation?

To do it properly, you will need time and money, whether you do it yourself or contract it out. Do not underestimate the rigour required to carry out economic analysis. This can result in poor economic analysis and undermine the credibility of your evidence.

4. Can the outcomes you are trying to achieve be expressed in, or converted to, monetary values in a meaningful way?

To answer this, make sure you consider the difference that is achievable as a result of your work. It is relatively simple to assign monetary values to some outcomes, for example educational attainment, physical health or employment. Softer outcomes such as improved confidence, well-being and self-esteem are much trickier to assign financial value to. Although these outcomes are important, an economic evaluation may not be the best approach to understand the value of these outcomes.

What are the different types of economic analysis?

There are different types of economic evaluation, and they not only differ by methodology but also have different aims. The different types include:

- **Cost effectiveness:** This compares two programmes, with the aim of establishing which is most cost effective—that is, which can deliver the most impact for the lowest cost.
- **Cost-benefit analysis** and **social return on investment (SROI)**: Both aim to establish whether the outcomes of an intervention are worth the money and resources invested in it. It can be done retrospectively to evaluate the actual outcomes achieved, or as a forecast of the value of intended outcomes. Both types of economic analysis put a financial value on the outcomes, and compare this to the cost of the programme. They differ in some of the methodology they use to estimate monetary values.

Getting started: The basics of good economic analysis

Choosing the right type of economic analysis for your intervention

Selecting the right type of economic analysis for your intervention will depend on the questions you need to answer about your work. It also requires you to have an understanding of the limitations of each type of evaluation. Examples are illustrated in the table below:

Table 1: The different types of economic analysis

Type of evaluation	Key questions	Example finding	Interpretation in economic terms	Limitations of this type of evaluation
Cost-effectiveness analysis	Which programme is more cost effective—A or B?	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.	It does not tell you whether the benefits of a programme are greater than the costs of delivering it. Lowest cost does not necessarily mean cost effectiveness. A programme can be more expensive but make more of a difference.
Cost-benefit analysis	What is the social value of the programme, and is it worth it? Does the project provide value for money?	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 process involves literature review to estimate the economic value of social benefits. It does not involve stakeholders to the same extent as SROI.
Social return on investment (SROI)				SROI has a principle-based approach. These principles state that SROI should involve stakeholders, particularly service users, to have a say on what the financial value of the social benefits are for them (in addition to economic value based on literature review). This approach is vulnerable to subjectivity and bias, hence testing assumptions and achieving transparency is key.

Understanding the Principles of Social Value

Underpinning all types of economic analysis are core principles that, if followed, contribute towards a more robust and inclusive process of calculating a charity's social value.

The Principles of Social Value provide the '*basic building blocks for anyone who wants to make decisions that take social value into account.*'[1]

The Social Value 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
7. Verify the result

[1] Social Value International (2015) *The seven principles of social value*

Six steps towards good economic analysis

Good economic analysis depends on a sound and structured approach to calculating social value. In particular, charities that wish to use SROI should follow six steps[2], which are underpinned by the Principles of Social Value:

Step 1: Establishing scope and identifying key stakeholders

- Be explicit about the scope or boundaries of your programme and thus how you intend to apply SROI analysis.
- Do not do economic analysis on your own. It is crucial you **involve stakeholders** and consult with them. Your stakeholders are the people and organisations who are affected by the change your activity makes. For each stakeholder, consider whether the change or outcome is positive or negative and intentional or unintentional.
- Clarify the reasons why certain stakeholders are included (eg, the group that has the most to gain) and those that might be excluded from the analysis (eg, outcomes achieved are too indirect to measure effectively).

Step 2: Mapping outcomes

- Consult with stakeholders to **understand what changes** they want to see and involve them in mapping outcomes.
- A theory of change[3] can help to map the sequence of change, highlight important outcomes, and identify measurement priorities. Mapping outcomes in this way also helps you to test the direct and indirect contributions of your activities.
- Don't ignore the counterfactual—be clear about the change that might have occurred anyway[4].

'For projects that aim to improve confidence and self-esteem, financial proxies for savings can include the cost of training to improve presentation skills or public speaking.'

Joelle Bradly, Barnardo's

Step 3: Evidencing outcomes and giving them value

- **Value the things that matter**—avoid the temptation of only including indicators that you think are easy to measure or are readily available.
- If an outcome is important to you or your key stakeholders, then you will need to measure it using an appropriate indicator and place a financial value against it. Test different options of financial proxies with stakeholders so you can understand what is important and relevant to them.
- Put a value on both the positive and negative outcomes to ensure you reflect the full social value.

Step 4: Establishing impact

- **Only include what is material.** Determine what information and evidence must be included in the analysis and present it in a way that gives clear indications about what your impact is to stakeholders.
- **Don't over claim—**only claim the value that you are responsible for creating. To test your assumptions about direct impact, ask yourself these key questions:
  - What would have happened anyway?
  - Who else contributed to the outcomes?
  - How does the outcome drop off over time?
- Use existing data held by stakeholders to be more efficient in your data collection methods.

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[2] See The SROI Network (2012) *A guide to social return on investment* for a detailed, step by step guide through the six stages of SROI

3 Kail A & Lumley, T (2012) *Theory of change: The beginning of making a difference*. New Philanthropy Capital.

4 The 'counterfactual' is an estimate of what would have happened in the absence of the intervention, service, or organisation.

Step 5: Calculating the economic value

- **Be transparent** about how you calculated your cost-benefit ratio or SROI, so people can understand how you reached your ratio. Remember, the results of different programmes are rarely comparable. So, when making comparisons, you will need to confidently explain the source of data and be transparent about how you reached your calculations.
- Present your ratio as a range—an exact figure implies more certainty than is usually feasible in economic analysis.

'Remember, it isn't a scientific process—there are assumptions, so you must be transparent about them.'

Joelle Bradly, Barnardo's

Step 6: Reporting, using and embedding

- **Verify your results.** Seek independent verification of your calculations with your stakeholders and other economists or SROI professionals.
- Learn from your results and ask whether you can improve the way you are measuring things to improve the data you are gathering.

Case Study: St Vincent de Paul Society

Who?

St Vincent de Paul Society (SVP) is an international Christian voluntary organisation dedicated to tackling poverty and disadvantage by providing practical assistance to those in need.

Why?

In order to expand its work, SVP explored economic analysis to attract new investment for its befriending schemes. SVP was interested in analysis that would support funding applications and approaches to potential supporters.

How?

To estimate the potential economic impact of its befriending scheme, SVP sourced external pro bono support through the Pro Bono Economics scheme. SVP worked closely with the external consultants to understand the process and how calculations were reached. The analysis estimated the potential impact of befriending on SVP's main target group: elderly people.

Key lessons

Having undergone this process, SVP can share the following insights:

There are a range of resources to use when calculating cost-benefit ratios: SVP's analysis included estimates of improvements in quality of life and estimates of reduction in costs to the NHS. There are many potentially relevant 'values' out there, and so it is important to be clear about the sources that you use and why they are most relevant to you.

Be transparent about the limitations of your data: SVP found it challenging to get feedback from beneficiaries, and does not yet have quantitative data on changes in outcomes for its service users. SVP is therefore keen to build its evidence base to inform the estimates of its economic impact.

Economic analysis should include negative outcomes: Be clear about your negative outcomes when presenting your social value account. SVP's analysis included negative outcomes. For example, the costs attached to increasing numbers of people going into care as a result of SVP befriending services identifying the needs of elderly people who were once isolated. Taking this into account helped to reflect the true value of SVP's impact.

Final thoughts

There are many benefits to applying economic analysis to assess the impact of interventions. It can help charities to: improve understanding of their impact; aggregate impact into a single figure or ratio; and present clear results that can be used to support decision-making. The process needs careful planning and appropriate skills and resource, and is heavily reliant on a good evidence base.

If you do decide to use economic analysis, look for opportunities to learn from the results—it is not just about proving your value to your funders and stakeholders. Ensure you validate your results with stakeholders and independent verifiers, and be confident at explaining the values reached when questioned.

More in this series

This guide is part of a series developed from NPC seminars to give and introduction to carious aspects of impact measurement. Other topics in this series include:

From our 2016 series with Kingston Smith

Reporting when things don't go to plan

How to make your data more meaningful

From our 2015 series

Stories and numbers: Collecting the right impact data

Keeping it in proportion: Impact measurement for small charities

Result! What good impact reporting looks like

Measuring your campaigning impact: An introduction

We will soon have new dates and topics for our measurement seminars in 2017, so check the events section of our website for the latest information.

Further resources

Cabinet Office: Centre for Social Impact Bonds Toolkit https://data.gov.uk/sib_knowledge_box/toolkit

Global Value Exchange: www.globalvaluexchange.org/

Housing Association Charitable Trust (HACT) http://hact.org.uk/publications-and-tools

HM Treasury (2013) The Green Book: Appraisal and evaluation in central government

Pritchard, D & Svistak, M (2014) *Economic analysis: What is it good for?* New Philanthropy Capital

Pro Bono Economics: http://www.probonoeconomics.com/

Social Value UK, http://socialvalueuk.org/

Society of Benefit-Cost Analysis: http://benefitcostanalysis.org/

The SROI Network (2012) *A Guide to Social Return on Investment*, Social Value UK

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.

New Philanthropy Capital
185 Park Street, London SE1 9BL
020 7620 4850
info@thinkNPC.org
@NPCthinks

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www.thinkNPC.org