Social Return on Investment – and commissioning

How commissioners can use SROI to achieve better results

Cabinet Office
Office of the Third Sector

SROI – and commissioning

The SROI Network
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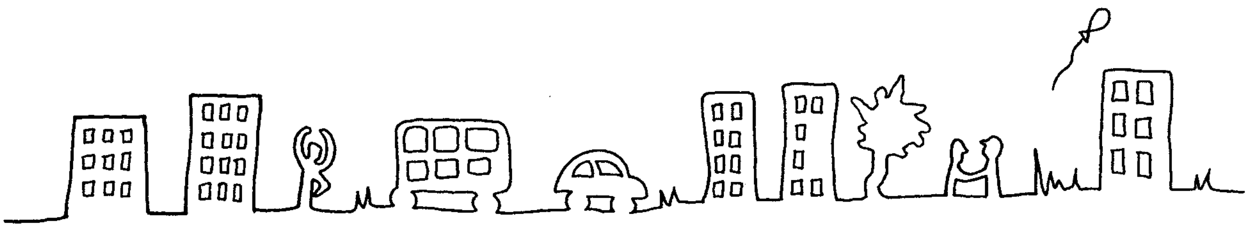
Background

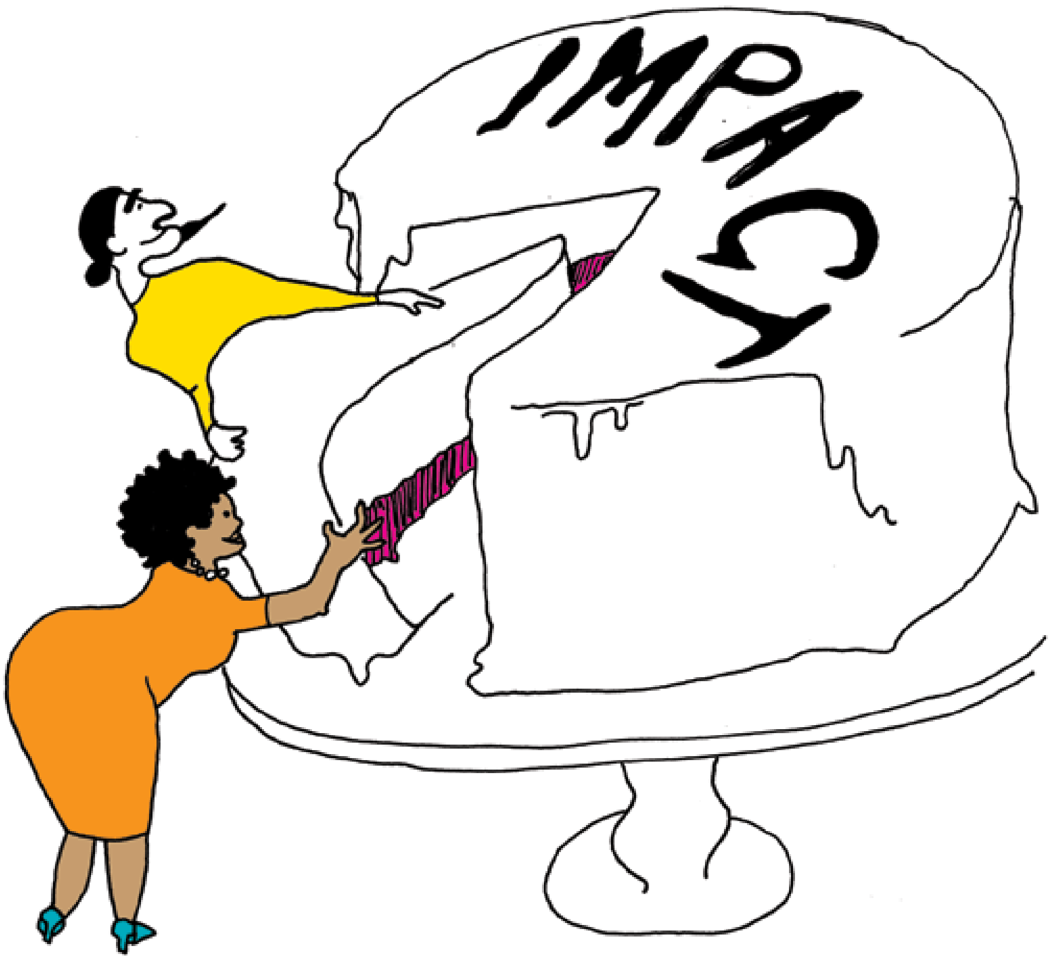
Good commissioning requires many factors to be taken into account at each stage of the commissioning process in order to achieve regulatory and policy aims, including value for money and reduced inequality. With increased attention on commissioning there is a growing appetite for commissioners to understand and manage the effects of commissioned services.

Social Return on Investment (SROI) is a practical tool that helps commissioners focus on the impact of their decisions. Its use can help commissioners to demonstrate and improve their contribution to important policy objectives including meeting the needs of end-users and other stakeholders. Indeed, its use can help commissioners to ensure they fully meet the principles and guidance on value for money, including aspects such as considering "wider costs and benefits" prior to procurement in a way that is manageable and proportionate.

This supplement highlights some of the issues around the links between SROI and current commissioning policy. It then explains how SROI can be used by commissioners to achieve more social value from commissioning, or if they are approached with existing SROI analyses by (potential) suppliers. The supplement is designed to be read in conjunction with *A guide to Social Return on Investment*[1].



1 Available at www.thesroinetwork.org


IMPACT

1 Social value, SROI and commissioning

Social Return on Investment (SROI)
SROI enables commissioners to identify and value any important factors that are currently excluded from the price of the service they are responsible for, ie social value. This means commissioners may assess and value actual or potential outcomes from an activity and use this analysis to inform budget setting, strategic planning (including definition of user requirements), selection of commissioning mechanisms, evaluation of performance and even award criteria[1]. SROI provides a means to:

- map the full range of outcomes of a service and consider other relevant outcomes;
- value these outcomes in order to make a comprehensive and informed assessment about value for money;
- frame the discussion on where these outcomes are relevant and how they may be included in commissioning.

Commissioners can use the principles of SROI to:

- improve services and their outcomes;
- unlock potential in their supply base;
- reconfigure services or change commissioning practice to better meet people's needs;
- support or evidence links to policy objectives and avoid unintended consequences;
- save money.

Commissioners may not need or want to develop full SROI reports to a standard that could be assured, but will find that using the principles of SROI improves the analysis available to them.

Commissioning policy – value for money
Importantly, the use of SROI supports the assessment of value for money. HM Treasury guidance states that:

Value for money is defined as the optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user's requirement. Value for money is not the choice of goods and services based on the lowest cost bid[2].

In principle, any appraisal should take account of all benefits to the UK[3]....

Wider social and environmental costs and benefits for which there is no market price also need to be brought into any assessment. They will often be more difficult to assess but are often important and should not be ignored simply because they cannot easily be costed.[4]

1 Social value can only be used as award criteria in the event that it has been predetermined as relevant to the subject matter of the (re-defined) contract and the intention to use it as award criteria published with the contract notice. It is also important to ensure that the way it is expressed could not lead to discrimination against non-UK suppliers bidding for the work.

2 HM Treasury (2006) Value for money guidance, p7 www.hm-treasury.gov.uk./media/4/4/vfm_assessmentguidance061006opt.pdf [13 August 2008]

3 HM Treasury (2003) Green Book, p2 www.hm-treasury.gov.uk/economic_data_and_tools/greenbook/data_greenbook_index.cfm [25 August 2008]

4 *Ibid* p19

SROI – and commissioning

These principles are used in performance assessment systems and applied by bodies such as the Audit Commission and National Audit Office[1]. Using SROI, commissioners can assess value for money by looking at:

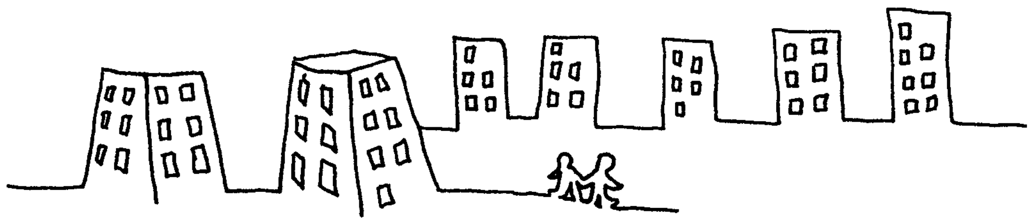
- Costs and benefits that specifically relate to their area of responsibility;
- Costs and benefits to the public sector as a whole;
- Costs and benefits to society that government policy does not presently consider to relate to the public sector, but that are important to stakeholder groups.

Example – Achieving real value for money: using SROI to assess providers of residential care for children

Shaftesbury Young People is a provider of high quality residential care for children. It is not the cheapest provider on a unit cost basis, but outcomes for care leavers from its homes are better than for the general care population with fewer leaving care without going on to education, employment or training. SROI provided a means of capturing and valuing the longer term costs and benefits that stem from this improvement in outcomes. It demonstrated that for every additional £1 invested in higher quality care, a further £4.40-£6.10 was generated in social benefit, suggesting that in the long run we are all better off by investing in higher quality care[2].

In the example above, the SROI assessment produced data that could have been used in a number of ways:

- To help the commissioner to justify internally why they should specify the more challenging outcomes that this provider is capable of delivering next time the contract was due for renewal. This effectively changes the definition of "user need" and would mean everyone bidding had to demonstrate they could deliver these outcomes as a minimum;
- As the basis for developing outcomes-related criteria and weighting for scoring tenders that would need to be published with the contract notice. This would allow assessment of different levels of quality as part of a value for money assessment;
- To influence policy, for example, relating to commissioning, such as setting up a new programme, or making the case for budget pooling where costs and benefits cross traditional boundaries.



1 See for example: www.hm-treasury.gov.uk/data_greenbook_money_sustainability.htm

2 Lawlor, E (2008) A False Economy: how failing to invest in the care system will cost us all (London: new economics foundation).

World Class Commissioning

The use of SROI is clearly supportive of World Class Commissioning, for example, for health and social care commissioning[1]:

- Acting as a framework for engagement of stakeholders including patients, providers and other public sector staff;
- Focusing on outcomes in commissioning – allowing provider innovation;
- Offering a means to value outcomes for the more marginalised in the system – addressing health inequalities.

Joint local planning

The development of Comprehensive Area Assessment (CAA) and Local Area Agreements (LAAs) in England and Single Outcome Agreements (SOAs) in Scotland[2], indicates that local public bodies will increasingly need to consider the effect that they have together on the outcomes for, and general conditions in, their local area. In this context SROI is a useful tool for exploring the relationships between commissioned services, local strategies and plans, and the results obtained.

Efficiency and category management

In certain parts of the public sector's marketplace, cashable savings on recurrent contracts remain the key issue with real budgetary pressures. In some cases, reducing unit costs may be necessary in the short term; however, SROI offers commissioners a tool to appraise negative and unintended consequences of such moves. It can also value the outcomes that could be achieved – protecting appropriate quality. Its use, therefore, ensures that savings are genuine.

Commissioning from the third sector

SROI is not just about commissioning from the third sector, however, the ability to identify and evaluate outcomes that third sector organisations claim to offer was of interest to those participating in the first round of the National Programme for Third Sector Commissioning. Training on SROI will be included in the second phase of the programme. As SROI is not just about the third sector, similarly, the use of SROI is not the only consideration in financial relationships with the third sector; for example, see the National Audit Office's Decision Support Tool[3].

Added value

Whilst the building blocks of SROI can be used to identify and value all outcomes, its true power rests in identifying outcomes for marginalised stakeholders that have previously been ignored. This social value is known by some as "added value". Once a commissioner has identified added value and asked for it to be included in a market price, it is no longer added value and becomes part of the scope of the requirement. "Added value", in this context, is a misnomer because outcomes labelled "added value" may in fact be central to the objective of maximising public value and so should be part of the core outcomes that commissioners look for.

1 For a full explanation of World Class Commissioning see www.dh.gov.uk/en/managingyourorganisation/commissioning/worldclasscommissioning/index.htm

2 There are no directly comparable initiatives in Wales and Northern Ireland.

3 www.nao.org.uk/our_work_by_sector/third_sector/better_funding.aspx

2 Integrating SROI into commissioning

Where to start

Whilst SROI can be used in all situations to help commissioners ensure they achieve true value for money, the following situations may indicate a particular chance to improve or protect the social value achieved by commissioning:

- Proposals from suppliers (which are dealt with in the next section);
- Failure of services or difficulties in improving performance of a local area against National Indicators;
- New services and markets being established;
- A need or opportunity to get closer to marginalised stakeholders evidenced by complaints, statistics or lack of engagement or reach;
- Service re-designs and joint commissioning across service areas.

When to start

Generally, commissioning runs in three broad stages:

- Strategic planning;
- Procurement (or the use of another commissioning mechanism);
- Review.

For most requirements these will be repeated over a cycle and it will be most productive to analyse social value during the strategic planning or review stages of the cycle. Certainly, in most procurement procedures, once a contract notice has been issued there will be no more opportunity within that cycle to take unspecified social value into account in contract award decisions.

The SROI process

The six stage process outlined in *A guide to Social Return on Investment*[1] can be followed by commissioners. There are issues that should be considered in most but not all of these stages.

Stage 1 – Establishing scope and identifying stakeholders

Identifying scope is an iterative process; therefore a commissioner may start with the scope of what they normally commission, but should be aware that the eventual scope of the SROI analysis may need to be wider in order to address social value, which will mean talking to other commissioners. It is best to talk directly with stakeholders, however, a starting point for analysis may be found by using data from existing documents that have already involved stakeholders in their development (eg the Sustainable Community Strategy[2]), or by working through intermediaries for some stakeholder groups.

It will be necessary to engage with suppliers as stakeholders. Any potential procurement or EU Treaty issues can be avoided by engaging with suppliers either **before** a particular requirement has been identified or post award.

1 Available at www.thesroinetwork.org

2 See for example the various references to the role of Sustainable Community Strategy in guidance on the new statutory framework for Local Area Agreements (LAA), Joint Strategic Needs Assessments and the new, simplified best value regime at http://www.communities.gov.uk/documents/localgovernment/pdf/885397.pdf

Stage 3 – Evidencing outcomes and giving them a value

Some of the issues and possibilities in stages one and three are discussed in a case study in the annex to this document (see page 13). Commissioners will also need to consider how to deal with valuable outcomes that are outside the scope of their own contracts, for example:

- those that are not achieved within the contract timeframe;
- those that are not relevant to the current subject matter of the contract; or
- those that relate to a different service area.

Stage 4 – Establishing impact

At this stage, commissioners should focus on the value that would be created if they did something different from the norm and on unintended consequences. The point of the exercise is not, for example, to justify purchasing home care in the first place, but to find opportunities to improve economic activity of young service users with a disability or to assess the likely effect of aggregating contracts.

Stage 5 – Calculating the SROI

SROI expresses social return as a story culminating in a ratio of input to impact. In arriving at this overall ratio, the social return to each stakeholder will have been explored. This includes returns for different stakeholders, including different commissioners and public bodies, and therefore supports joint commissioning.

Stage 6 – Reporting, using and embedding

Commissioners are unlikely to be concerned with formal reporting. However, embedding the results is crucial and could include using them to:

- support the case for increasing or reallocating budget or taking measures such as piloting a new service, switching to individual budgets or using other powers;
- change the scope of what is commissioned, for example, by combining two areas of service, by specialising, or by using the small lots concession to enable participation of smaller suppliers;
- improve the specification of what is commissioned, for example, by increasing emphasis on outcomes;
- decide on the weighting of award criteria;
- inform contract monitoring.

Using SROI may identify social value that is important or significant enough to need to be incorporated into the service being commissioned. However, it is worth noting that the outcomes relating to that social value will then need to be monitored in that contract. In some cases this may introduce a disproportionate cost[1], in which case it may be more effective to encourage rather than require delivery of that social value.

1 The National Audit Office has published guidance on intelligent monitoring which may be helpful in this context, please see: www.nao.org.uk/guidance_and_good_practice/good_practice/third_sector/intelligent_monitoring.aspx

3 Responding to and interpreting SROI analyses

Commissioners may be approached by a supplier or potential supplier with an SROI analysis. There are two points in the process when a commissioner might be approached with an SROI analysis – as a stakeholder when the analysis is being prepared and as a decision maker once the analysis is complete. The following points are offered in order to help commissioners use suppliers' SROI analyses:

- As long as the analysis does not pertain to a service that is currently out to tender, there should be no barrier to discussing the findings with the supplier. Indeed, SROI should be a useful aid to communication of what may previously have been an opaque or emotive argument;
- The supplier may approach a commissioner with the analysis because they think they could deliver outcomes that the commissioner has not (currently or previously) sufficiently reflected in the scope and specification, contract award decision or as part of performance management. The supplier may find it hard to establish how much account a commissioner can take of an argument in their decision making and, indeed, which commissioner to approach. Even if the commissioner feels they cannot take account of the results of the analysis, the supplier is likely to value their feedback;
- It may be useful to identify, early on in any discussions, what the supplier hopes to achieve by showing the commissioner the analysis. Possible reasons include:
  - to make a case for a new service;
  - to suggest changes to scope or specification of a particular service before it is tendered so that they have a chance to compete to deliver more or different outcomes, or on the basis of outcomes rather than activities;
  - to demonstrate performance or put forward a monitoring and evaluation framework for a contract.


SOCIAL RETURN

4 Sources of support

There is a range of support available to help you use SROI, including *A guide to Social Return on Investment*, training, consultancy and an indicator bank. The following websites are useful sources of this support.

The SROI Network website contains a range of SROI resources including *A guide to Social Return on Investment*, a full description of the principles of SROI and details of SROI training courses: **www.thesroinetwork.org**. If you have an SROI report you would be happy to share, please send it to the SROI Network and they will include it in their SROI library.

The website of the Scottish Government funded SROI Project contains a range of SROI resources, which will include an indicator bank and information on accredited SROI training: **www.sroiproject.org.uk**.

new economics foundation's website contains a range of relevant resources, including information about SROI in commissioning and public policy, **www.neweconomics.org/gen/newways_socialreturn.aspx** and information on the sustainable commissioning model: **www.procurementcupboard.org/Tools.aspx**.

nef consulting provides SROI resources and consultancy for third sector organisations, including details of SROI training: **www.nef-consulting.co.uk**.

Charities Evaluation Services' website contains a range of resources on evaluation and outcomes assessment in the third sector: **www.ces-vol.org.uk**.

National Council for Voluntary Organisations' website contains information and advice on strategy and impact: **www.ncvo-vol.org.uk/strategy-impact**.

New Philanthropy Capital's website contains a range of resources relevant to measuring social value, including SROI, well-being, reporting to funders and full cost recovery: **www.philanthropycapital.org**.

IDeA's website has a range of resources including *A Better Return: Setting the foundations for intelligent commissioning to achieve value for money* and will have information on training on SROI for commissioners available through the National Programme for Third Sector Commissioning: **www.idea.gov.uk**.

For more information on the **Office of the Third Sector's Measuring Social Value project** go to **www.cabinetoffice.gov.uk/third_sector/Research_and_statistics/measuring_social_value.aspx**.

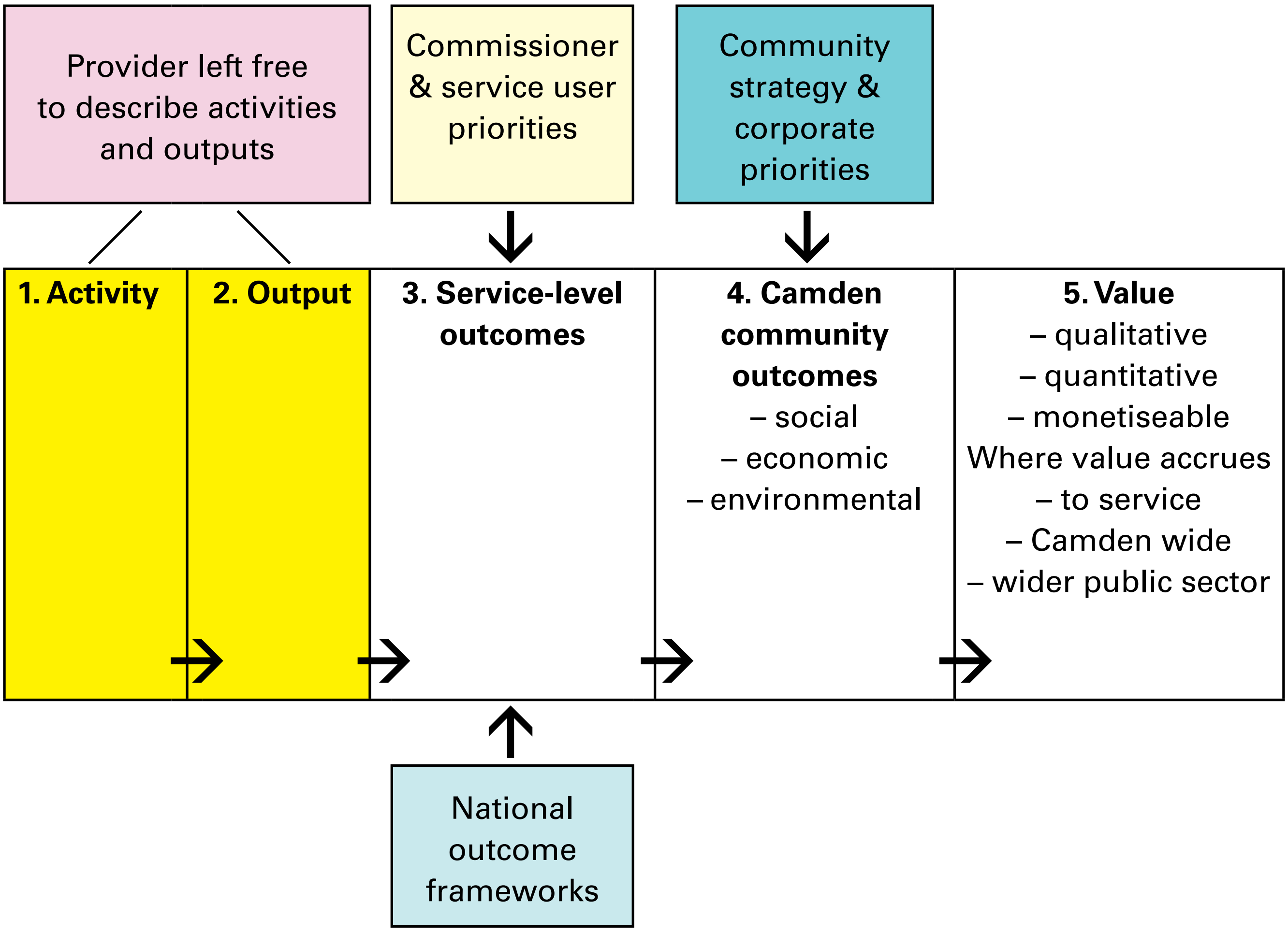
Annex – The Sustainable Commissioning Model

The following is a case study of work by the London Borough of Camden and nef (the new economics foundation), who jointly developed an approach to outcomes-based commissioning, called the Sustainable Commissioning Model (SCM)[1].

Step 1: Outcomes-based commissioning

The SCM is described in Diagram 1. The specification issued by commissioners when inviting tenders stipulates a set of service-level (column 3) and wider community (column 4) outcomes that the provider will need to meet. The service-level outcomes are drawn from commissioner and service user priorities, while the community-level outcomes are drawn down from existing policy documents such as the sustainable community strategy. In their tender, potential providers describe the activities they will deliver (column 1) and how this leads to a set of outputs (column 2) and ultimately to the outcomes stipulated in the service specification. The final part of the model (column 5) uses the principles developed around monetisation in SROI to assess the value different potential providers create through meeting the service-level and community outcomes[2].

Diagram 1: The Sustainable Commissioning Model



1 www.procurementcupboard.org/Files/Sustainable%20Commissioning%20Model%20-%20briefing%20June%2008.pdf

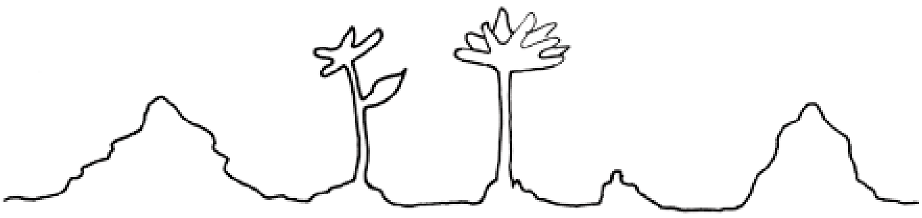
2 The valuing model was not used in this way during the first pilots in Camden, but has subsequently been under development.

The SCM is a significant departure from specifying activities and outputs and asking respondents to provide a price for these. The advantage of giving potential suppliers the freedom to describe activities and how they lead to outcomes is two-fold. Firstly, it encourages innovation in service delivery that, in turn, can lead to more effective meeting of needs at the service level and the realisation of greater public benefit if it means that wider community objectives, such as those around local economic impact or the environment, are also met. Secondly, it makes visible a far more comprehensive set of impacts that can then be taken into consideration when awarding the tender.

Step 2: Monitoring of contracts

To ensure that providers deliver once contracts are awarded, a monitoring framework that is capable of capturing performance against the service – and wider community-level outcomes is required. At the very least, this means that the common practice of monitoring providers against output targets would have to be replaced with reporting against outcomes. However, a more productive approach would be to require annual SROI reporting. SROI is preferable to simple reports against outcome targets, because it has the added robustness of considering which of those outcomes would have been achieved anyway (deadweight), are simply displaced from elsewhere or are due to the involvement of other organisations (attribution). In Camden, the contract was piloted initially with a mental health day-care services contract and the service-level outcomes are monitored using the Outcomes Star tool[1]. Wider community outcomes are also reported on by providers annually and the valuing model will enable these to be calculated as a social return.

1 for more information, see: www.triangleconsulting.co.uk



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