

## HOW TO MAKE USE OF ECONOMIC ARGUMENTS IN POLICY MAKING AND ADVOCACY?

### Introduction

There are two main approaches to using economic data to advocate for health equity, both of which are described in detail in a useful report produced by the World Health Organisation in 2013<sup>i</sup>. The first involves estimating various economic costs attributable to health inequalities as they are currently observed, and the second assesses the potential economic benefits arising from reduced health inequalities as a result of specific policy choices. The WHO report summarises these as: a) establishing the basic rationale for public policy intervention, and b) assessing whether the intervention represents 'good value for money'. For advocates, an argument for or against an intervention relies mainly on a 'return on investment' concept to argue for change in order to maximise economic gains or reduce costs. From an advocacy perspective 'cost' or 'economic' burden studies can highlight a problem, but they cannot make the case for particular policy solutions. Both are likely to be relevant as part of an overall advocacy message but the limitations of each need to be made explicit and borne in mind by advocates.

This paper looks more broadly at the history of the use and development of return on investment and economics-based techniques in relation to social policy and social policy making, with reference to health and health inequalities where relevant. It briefly describes the main approaches to applying financial or monetary values to social aspects of life and well-being, provides an introduction to some of the most well-known methodologies for doing so, and discusses the challenges involved. It focuses on those methodologies that are most often used to assess or evaluate actual interventions or potential interventions.

In recent years there has also been a move to measure the value (or return) of the interventions carried out by organisations that cannot be described in monetary terms. This is seen in moves to incorporate social considerations into cost-benefit analysis. For example, in the UK in 2013 the Department of Work and Pensions published a *Social Cost-Benefit Analysis* (CBA) framework which for the first time included estimates of the social costs and benefits of implementing employment programmes in the UK<sup>ii</sup>. It is also



shown in the emergence of, and growing levels of awareness amongst governments, corporations and civil society organisations, of methodologies like *Social Return On Investment* (SROI) and the creation of bodies like the SROI Network<sup>iii</sup> to support it. SROI methodology goes one step further than social CBA, and aims to ensure that the people affected by an intervention are recognised and reflected in decision making.

*Multi-Criteria Analysis* (MCA) has evolved from both of these approaches, and its practitioners argue that how the costs and benefits of an action are distributed need to be taken into account, as different stakeholders will be affected in different ways, and no single ratio is created at the end of the process. This is important when considering the strategy of proportionate universalism as a means of levelling up health to increase health equity. It requires a 'judgement' or negotiation group made up of a programme's stakeholders or representatives. Where no stakeholder conflicts exist, MCA is not currently considered the most helpful way to demonstrate the best option as it can be time consuming, iterative and is ultimately a subjective tool<sup>iv</sup>.

Other, less well-developed or applied approaches, that have emerged over the past few decades but fall within the scope of this briefing paper are *Social Accounting and Audit* (SAA) and Well-being Valuation (see below).

From a methodological perspective, most of the techniques described have been developed to evaluate the effectiveness of projects, programmes, policy interventions or organisational and therefore make use of actual intervention data. One other approach that has been applied, particularly in the area of health economics and in relation to health inequalities, has been to develop 'scenarios' from which monetised outcomes are identified. Despite the differences in methodology, what all the approaches have in common is an attempt to monetise social and/or environmental impacts.

### **Return on investment and cost-benefit analysis**

*Return on investment* (ROI) is a performance measure used to compare the efficiency of different investments. Put simply, ROI is calculated by dividing the benefit of an investment by the cost of the investment and the result is shown as a percentage or a ratio. ROI is a popular metric because of its versatility and simplicity: investors or governments can make decisions based, for example, on the return for every £1 invested. *Cost-benefit analysis* (CBA) is typically used to weigh up and assess what will work best from a variety of intervention options. It is the predominant tool used to assess projects and policies and whether or not they should be undertaken.

But how do you measure the ROI of an activity that doesn't solely create a financial benefit, or where the costs are felt in social or environmental terms and where there are no readily available market values to refer to?

- **Social Cost-Benefit Analysis (CBA)**

Social CBA seeks to reveal the full social costs and social benefits of policies in monetary terms. Financial proxies are used to calculate social outcomes and most draw on one or more standard approaches. These include *stated preference*, *revealed preference* and (more recently) *life satisfaction* approaches. While the first two approaches are well established in economics, life satisfaction draws on existing well-being data and looks at the impact of a wide range of variables, including income on life satisfaction. The value of that variable can be derived by comparing the increase in income needed to keep life satisfaction constant when another variable is altered.

In addition, social CBA usually measures the indirect or 'knock-on' costs and benefits of an intervention. These may include *tangible impacts with a market value* (e.g. number of jobs indirectly created), *tangible impacts with no market value* (e.g. environmental impacts), or *intangible impacts with no market value* (e.g. well-being or social capital). In practice, the latter has tended not to be included in social CBA. This omission goes to the heart of a wider economic debate about how we should measure socio-economic progress and the shortcomings of GDP as a measure for doing so.

Social CBA is, relative to other forms of cost-based analysis (e.g. cost-effectiveness or cost-utility analyses), currently considered the most comprehensive approach to evaluating the social determinants of health interventions (WHO, 2013).

- **Social return on investment (SROI)**

SROI goes one step further than social cost-benefit analysis and is probably the most widely recognised of the frameworks or methodologies for accounting for non-financial value. It is an approach that seeks to enable better decision making by taking into account the social, economic and environmental outcomes created by an activity or organisation and aims to bring consistency to the way value is measured. It is strongly grounded in direct stakeholder engagement, and is best described as an impact assessment process in which monetary values are applied to social, environmental and economic outcomes. The result is expressed as a ratio and allows organisations to state that an investment of £1 delivers £x of social value. As a process, SROI involves identifying the outcomes of the activity being measured, giving them a financial value, excluding outcomes that would have happened anyway or result from other factors and then calculating the ratio of investment to benefit or value created.

It is not an academic exercise that can be applied independent of or ‘outside’ of the activity being measured and can be resource intensive due to the stakeholder engagement required. This is one of the most widely held misconceptions about SROI amongst non-practitioners.

#### **SROI Network, Global Value Exchange and The Social Evaluator**

The SROI Network is a global network of individuals and organisations, headquartered in the UK, which promotes the use and development of the SROI methodology. There are also national networks in the Netherlands and Sweden and more widely across the globe.

The SROI Network runs The Global Value Exchange (previously WikiVOIS) which is an open source database of *Values, Outcomes, Indicators* and *Stakeholders* and provides a free platform for information to be shared to enable greater consistency and transparency in measuring social and environmental values.

<http://www.globalvaluexchange.org/>,  
<http://www.thesroinetwork.org/netherlands>

<http://www.thesroinetwork.org/sweden>,

The social e-evaluator is a web-based tool ([www.socialevaluator.eu](http://www.socialevaluator.eu)) which can be used to produce an SROI report.

SROI is seen as useful tool for a wide range of organisations, including businesses, civil society organisations and government. Its uses range from being a planning and management tool, to evaluating alternative policy options. However, it is still a relatively new methodology and is not well-understood outside its network of trained practitioners. This brings with it a number of challenges including the scope for human error in making estimates and assumptions on financial proxies, difficulties comparing ratios that have been created in different contexts, variability in the quality of practice due to its open source nature, and different levels of rigour to be applied depending on the audience of the results.

Indeed, a study undertaken predominantly for reporting or publicity purposes will require less rigour (including time and resource) than one designed for policy evaluation purposes. The SROI Network recognises that more guidance is needed on levels of rigour for different audiences and for guidance on people who are just starting to think about social returns. The SROI Network has a growing number of members internationally, with the practice most highly developed in the UK, USA (where it was first developed), Canada and Australia.

### Example: BITC's social return on investment of Ready for Work

Ready for Work (RFW) is a national programme that engages business to support disadvantaged groups, particularly people who have experienced homelessness, into employment. The RFW team undertook an SROI evaluation to demonstrate the value created for society and the cost savings to government of supporting homeless people and those at risk of homelessness into employment through the RFW programme. The analysis monetised the positive benefits of the 302 clients entering employment. The research process involved:

**Defining the scope:** study limited to effect of entry to employment (other outcomes, for which there was a lack of robust proxy data to enable financial value to be assigned, included entry to volunteering, training or further education and improved employability).

**Identifying relevant stakeholders:** clients, government, companies and homelessness agencies.

**Engaging stakeholders:** e.g. surveying companies, one-to-one conversations with agencies, consulting government on appropriate proxies.

**Identifying and measuring inputs, outputs and outcomes:** using programme management and monitoring data.

**Monetising impacts:** identifying key changes for clients and corresponding financial benefits for government; monetising each type of benefit using both actual and proxy data (e.g. using government Tax Benefit Model and cost-benefit analysis framework).

**Calculating impact:** using multiple data sources (in the absence of comparative control group data) to calculate deadweight (the degree to which an outcome would have happened even if the activity had not taken place); applying an attribution figure based on stakeholder input; identifying drop-off rate for impacts over time; applying a discount rate based on HM Treasury Green Book values.

#### Calculating the SROI ratio.

Finally a **sensitivity analysis** was undertaken to challenge assumptions and estimations.

**Results:** Every **£1** invested in Ready for Work generates a minimum of **£3.12** benefit to society. One year's investment in the programme creates over **£3.2m** of value to society over a five year period. Every **£1** invested by central government enables the programme to obtain a further **£0.81** from the private sector.

### Examples of approaches to accounting for the social value of organisations and activities: Social Accounting & Audit and Well-being Valuation

**Social Accounting & Audit** (SAA) involves assessing the social value generated by an organisation in order to understand the organisation's impact on people, the planet or resources used. SAA can be used by any organisation, whether voluntary, public or private sector, and of any size or scale. It is underpinned by eight principles and follows a four-stage process. Customers, clients and other stakeholders can be involved in the process, but it can be time and labour intensive. Social accounting is currently not explicitly recognised by funders and lenders and in recent years has tended to be overlooked because SROI has successfully gained the interest of more people including government policy makers<sup>v</sup>.

Further information:

Social Audit Network

The Centre for Social & Environmental Accounting Research is an international membership network based at St Andrews University in Scotland and a source of information on social accounting practice. It has three partnerships/satellite offices in Canada, France and South America.

**Well-being Valuation:** The Well-being Valuation approach is being pioneered by UK-based economist Daniel Fujiwara, working closely with UK social housing providers and housing sector organisation HAUT. It draws on large national survey data including people's living circumstances and their responses to well-being questions. The approach uses this data to estimate the impact of the good, service or income on people's self-reported well-being, and uses these estimates to calculate the exact amount of money that would produce the equivalent impact on well-being. It is then possible to state that the uplift in the life satisfaction caused by the good or service is worth £x per year; this is the Well-being Value for that good or service. One 'challenge' noticed with this technique is the potential for it to result in very high valuations, as large increases in income are needed to increase well-being. If a project increases well-being it is therefore likely to have a large value applied to it.

## **Summary of methods, techniques and their primary uses**

| Method  | Purpose   | Used by/for  |
|---|---|--|
| <b>Social cost-benefit analysis</b>                     | To systematically assess and evaluate the social impact of a policy or project to support investment decisions, where benefits do not have market values.   | Can be used for private and public investment, but is usually used by policy makers to assess policy options or to approve investments.  |
| <b>SROI</b>   | <p>To assess and understand the social, economic and environmental outcomes created by an activity or organisation. A framework based on set of principles.</p> <p>To evaluate the success of social investments.</p> <p>To monitor progress by applying it regularly as a management tool.</p>   | <p>Usually used to evaluate project or programme 'investments'.</p> <p>Can also be applied at organisational level, and is most often used in this way by social enterprises.</p>                                  |
| <b>Social Accounting and Audit / Ethical Accounting</b> | To identify social benefits delivered by organisations. Does not require 'financialisation' of outcomes.  | Civil society, corporations and social enterprises. Limited use by public sector except in Scandinavia.  |
| <b>Well-being Valuation</b>                             | To define a set of numerical values describing the social impact of community-focused activities, goods or services.  | Used as a basis for assessment of social impact of individual activities, programmes or projects. The values generated can be used to monetise outcomes within SROI or Social CBA and support these methodologies. |
| <b>Health Economics</b>                                 | To study the functioning of healthcare systems and health-affecting behaviours. Covers a range of topics. Most relevant to health inequalities is the economic evaluation of two alternative courses of action (using variety of techniques including CBA) and cost-of-illness studies which include direct, indirect and intangible costs. | Generally used by health economists, often for providing economic implications of policy options.  |

## **Monetising outcomes and social valuation**

First, it is worth noting that all valuation approaches are time intensive and costly. There are limited robust academic figures to draw upon and as a consequence result in the use of proxies. The WHO resource book on the economics of social determinants of health and health inequalities points out that most cost-benefit studies in policy areas related to the social determinants of health don't capture health effects, although the recent Social CBA framework published by the UK's Department for Work and Pensions does include health as an impact.

Most approaches, particularly in relation to health, aim to identify outcomes that can be monetised, for example reduced costs to health services of treating various diseases. Studies that have focused on economic effects of health outcomes have included the following factors: healthcare costs (or savings), costs of social security schemes, losses or gains to Gross Domestic Product through reduced or increased labour productivity and the monetary value of total losses (or gains) in welfare. A wide range of economic principles and econometric methods are applied in order to make economic valuations of outcomes, including the need to discount costs and benefits over time, and to take account of other causal factors. These are mainly standard issues and widely accepted practices for cost-benefit analysis, but the choice of rates and assumptions can have a significant impact on the final valuation. It is too early to tell what impact the Well-being Valuation approach will have in this field. Its developers acknowledge that it is relatively lightweight compared to the in-depth insight of a conventional SROI approach, but they also argue that its strength lies in all values being generated from the same methodological base.

One of the main challenges of all the methodologies is the need to identify outcomes across multiple policy areas. One effect of this is to scale down the scope of studies to focus on those outcomes where measurement is 'more achievable', or where the results will be more credible. For example, our own SROI study of the Ready for Work programme (above) only looked at the effect of employment and not on the other outcomes delivered by the programme; this was partly due to resource issues and partly determined by the interests of the main audience for the findings – in this case potential investors, both public and private.

## **The challenges of using economics in policy making and advocacy**

Making a case in economic terms is often considered the 'holy grail' in terms of justifying an investment decision or influencing investment decisions. This clearly entails some moral and ethical dilemmas,

which we do not touch upon in this briefing. However, there are clear challenges to arriving at this holy grail, and these are borne out in our own experiences of conducting an SROI and in the WHO resource book on the subject.

In short, the problem is that no economic case is ever watertight, and seemingly comparable analyses are rarely actually comparable. This is largely because all of the techniques for assessing or applying financial value to non-financial activities or outcomes rely on assumptions – which may be incorrect as they are often estimations. Examples include the rate at which wages will rise in the future, tax conditions, and technological change (or lack thereof). These assumptions differ from study to study and produce different results. Within the field of SROI, different methodologies are used both to identify and assess impacts and then to monetise them, making comparison difficult if not impossible. In identifying the challenges involved in undertaking SROI, many of the challenges involved in making any form of economic argument come to light – from attributing health (or other) outcomes to an intervention to the assumptions required to apply costs and values to the benefits of the intervention.

There are very few empirical social valuation studies (and those that have been done tend to have been carried out in high-income countries), meaning that most studies take as their assumptions values drawn from other studies ('benefit transfer'). The values used in many SROI studies are therefore rarely based on empirical research and the choice of proxy value can lead to both over- and under-claiming. As a result, global initiatives like the Global Value Exchange<sup>vi</sup> represent significant developments in the field but do not eliminate - and may even perpetuate - some of the inconsistencies that create challenges not only for researchers, but for end audiences too.

With the agenda of growth currently central to EU policy, the danger is that decisions will be made based on studies which appear to show the potentials for economic growth, but which are based on incorrect assumptions or even bad practice.

From an advocacy perspective this becomes particularly important when decisions may be being made by non-economists who do not necessarily have the knowledge or skills to interpret the data, or the time to compare methodologies in detail, which are often in small type in an appendix at the back of a report. The type of evidence available also affects how economic arguments can be used in advocacy, for example economic burden studies can be used to highlight the size and importance of health inequality as a policy problem but they may not be able to make the case for particular policy solutions.

## REFERENCES

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<sup>i</sup> See [http://apps.who.int/iris/bitstream/10665/84213/1/9789241548625\\_eng.pdf](http://apps.who.int/iris/bitstream/10665/84213/1/9789241548625_eng.pdf).

<sup>ii</sup> See <https://www.gov.uk/government/publications/the-dwp-social-cost-benefit-analysis-framework-wp86>.

<sup>iii</sup> See <http://www.thesroinetwork.org/>.

<sup>iv</sup> See [http://ec.europa.eu/europeaid/evaluation/methodology/examples/too\\_cri\\_res\\_en.pdf](http://ec.europa.eu/europeaid/evaluation/methodology/examples/too_cri_res_en.pdf) for more information on advantages and limitations.

<sup>v</sup> See <http://www.socialauditnetwork.org.uk/getting-started/brief-history-social-accounting-and-audit/> for more information on the history of social audit and SROI relative to each other.

<sup>vi</sup> See <http://www.globalvalueexchange.org/>.