

In association with



## SOCIAL RETURN ON INVESTMENT

Tools for officers and members with governance and scrutiny responsibilities to help them tackle major change

February 2016

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social value design maximise  
value confidence opportunity support  
continuous improvement  
trust economic development balance research  
**social return on investment**  
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The Centre for Public Scrutiny (CfPS) is the leading national body promoting and supporting excellence in governance and scrutiny. CfPS believes that embedding the principles of transparency, accountability and involvement into an organisation's culture and processes leads to better decisions and improved outcomes. As a charity, our work has a strong track record of influencing policy and practice nationally and locally. CfPS works throughout the UK, providing specialist training and consultancy to individuals and organisations looking to improve their governance and scrutiny skills, culture systems and processes.

Councils are changing fast. They are changing the way they work with others to design and deliver services (with the breaking down of traditional boundaries between “the council” and “external partners”) and the way that they think about the needs of local people. This is as much about improving the effectiveness and impact of services as it is about saving money – although saving money is of course a key priority for the sector at the moment. Spending less, and spending wisely, are concepts that will be familiar to anyone who has been working in public service for the past quarter century, but the scale and pace of change since 2010 has thrown that long-held aspiration into sharp relief.

This report aims to help its readers to understand how local councils’ scrutiny functions (and good governance more generally) can help to meet this challenge.

Grant Thornton and the Centre for Public Scrutiny have a track record of working together to help non-executive councillors, and the council officers who support them, to improve the way they do their work. For both organisations improvement in public services is a core part of our purpose. World class scrutiny can facilitate the public sector in ensuring that we develop and maintain a vibrant economy that will allow people and communities to thrive.

This publication is the first in a short series which takes, as its starting point, work that CfPS undertook last year on transformation and commissioning. CfPS supported nine areas in England and Wales to explore how scrutiny might need to change and develop to better tackle the challenge of major service change in local government. The fruits of that research and support were published in “The change game” in June 2015.

This publication expands on that work to explore in more depth the opportunities arising from the use of social return on investment principles (SROI). SROI has been a strong focus of CfPS’s practical work for some time, having formed the core of an in-depth programme of research on health inequalities, culminating in the report “Tipping the scales!”.

We’re keen to see councils bring rigour and a focus on financial assurance to bear on their plans for change. Scrutiny can play a vital, unique role in that work. We hope that this publication helps to explain how that might work in practice.



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## INTRODUCTION

This is the first of three briefings being published over 2015/16 to help scrutiny practitioners to understand and tackle major service change.

In June 2015 we published “The change game”, the culmination of a year of research, and targeted support to nine areas in England and Wales. Our aim was to evaluate the ways in which the involvement of scrutiny councillors could have in developing, evaluating and improving councils’ plans for major change.

Since we started that work in summer 2014, the scope and nature of massive changes in the way that local government designs and delivers services has expanded – both in terms of scope, and in terms of the other parts of the public sector which are involved. The devolution agenda will bring local government more closely together with Central Government, as a delivery partner, as well as with the NHS, police, Department for Work and Pensions, housing, schools and other parts of the public sector locally and nationally. It will also provoke recalibrations in the relationship between local government and business, and local government and the voluntary sector. Employees of organisations in these sectors will need to think themselves about major change, what it means for them and how it will be managed and governed – a reason why the lessons in this paper, although they are expressed in terms of the challenges and opportunities for local government, are equally applicable in other areas.

Furthermore, the outcome of the November 2015 Spending Review has suggested that some major financial challenges will continue all the way to 2020 and beyond. In parallel, councils are recognising that changing expectations and needs amongst the public gives them an opportunity to rethink how services are designed and delivered.

We anticipate that devolution and transformation, as big themes for the sector at the moment, will intersect as councils and their partners seek to work with their neighbours to deliver services more effectively – sometimes using the same sub-regional structures to which devolution deals apply, but often involving looser confederations, partnerships and the establishment of joint legal structures such as Teckal companies.

In this context, councils’ scrutiny functions need to work harder for their authorities and the communities they serve. Adding value was a major theme in “The change game” – the practical advice in this paper expands on this by exploring the potential of scrutiny to adopt approaches framed with the concept of return on investment. This is both about scrutiny practitioners being able to justify the value of the work they do on major change (using return on investment as a way to channel and focus their work), and on the scrutiny of major service change itself focus on the return on investment of that change.

## WHO IS THIS DOCUMENT FOR?

**The purpose of this document is twofold:**

- For scrutiny practitioners, to build on the practical advice and guidance given in “Tipping the scales”, and other publications where we have tackled the issue of return on investment – as well as to build on the lessons arising from our local government support work in 2014/15, which were summarised in “The change game”;
- For leaders (senior officers and executive councillors) in local government, to explain the key contribution that scrutiny can make and why bringing the scrutiny function into the centre of challenging and contentious decisions, with major impacts, can actually be a positive force. The guide is intended to provide an overview of the different techniques which can guide scrutiny’s involvement, but for these techniques to work, those on the executive side of local authorities will need to think about their own roles – in opening up information, providing space for scrutiny’s input and thinking about the niche, or gaps, in current practice that scrutiny might successfully fill.

## WHAT IS SROI?

A range of different models exist for attributing a value to social outcomes. Like others across the UK public sector, we are focusing on social return on investment (SROI).

**For our work, we are thinking of social return on investment in two ways.**

- The social return on investment of scrutiny itself. How should we make sure that scrutiny adds value?
- Using the concept of social return on investment as a hook for an investigation into a decision, or programme, involving major change. So, how do we know, in making this big decision, that the impact and outcome local people will get from it is worth the effort and expense?

Understanding social return on investment is about understanding impact. Councils and other public bodies have limited resources at their disposal; those should be directed where can have the most effective outcomes.

The social return on any investment can be calculated in terms of social value. Using social value as a way to evaluate the impact of a decision or policy is a critical element of SROI. This is about measuring outcome (impact and value) rather than output (reach and scale). Outcome can then be measured against input – a calculation which is sometimes presented as a ratio. Of course, in order to do this, it is necessary to be able to measure (and ultimately to monetise) impact.

This is easier the more that the direct impact of a decision can be easily measured. Measurement makes it easier to use the principles of SROI in a way that makes sense. The process of measurement requires that the issue, and outcome, that needs to be delivered is properly understood. For example:

- Identify external pressure or impetus to change – this might be the need to make financial savings, the need to improve outcomes for local people, a combination of these or something else;

- Work out what outcomes local people want and expect. This is the basis of SROI – setting out the outcomes in order to better frame the debate;
- Define measures that will allow you to measure these outcomes;
- Design methods of delivery which will work with these measures;
- Put structures in place to allow those methods of delivery to be used fully. In particular, this requires that organisations who use SROI place it at the centre of their plans and strategies – fundamentally, it sits at the core of decision-making.

This is an example of a transformation process working back from outcomes to structures. Even if an approach in which SROI is central is not taken, most councils will be able to bring about some “quick wins” simply by seeking to use scrutiny to reflect on the outcomes that are being sought and to challenge on the plans for how those will be measured.

**For a scrutiny review, the process is broadly similar:**

- Identifying topics to review;
- Prioritising, and producing impact statements;
- Stakeholder engagement and scoping;
- Undertaking the review.

We will explore both approaches in full below. We will first look at transformation itself by looking at how SROI can help scrutiny practitioners and senior managers to understand issues around planning and design, and around monitoring, review and quality. We will then look at how those principles, can be applied to scrutiny’s own work.

## FIRST STEPS

There are two main preparatory tasks associated with the use of SROI techniques in the public sector. Both are important to think about for scrutiny practitioners exploring SROI, but neither should be seen as a barrier or complex challenge to be overcome. Tackling both issues will provide a good “way in” for practitioners, and a way to build dialogue and relationships with decision-makers.

### 1. Understanding inputs and outcomes

There are all sorts of resources which go into major decisions, and into scrutiny reviews. There has to be a way of balancing these against the projected outcomes. In order to make a judgment as to whether a return justifies the investment made to achieve it, a financial value needs to be assigned to both the inputs, and the outcomes.

Being specific about what the inputs and outcomes might actually be is probably a good place to start, and this alone will provide some immediate benefit for scrutiny practitioners. Asking clear and concise questions about the inputs – exactly what they are, exactly how much they cost – and similar questions about outcomes – will focus the minds of those involved in governance on the key issues, making it easier for everyone to concentrate on what’s important. It will help to understand where further challenge and support to decision-makers’ activities might be necessary.

Having a clear sense of all of these inputs and outcomes is a good first step to start being able to unpick how they might be measured, as well.

## INPUTS

### For scrutiny work

- Member time;
- Time of democratic services / scrutiny officers;
- Time of officers in service departments and the council's partners;
- Time of representatives of commissioned providers and other third parties.

Generally, the nature of scrutiny work makes it straightforward to evaluate inputs on the basis of hours spent.

### For major change more generally

Council budgets, incorporating:

- Cost of research into customer/resident need, evaluation of current service provision, “deep dives” (the process by which managers take detailed looks at complex processes, to better understand how the inputs of resources lead to outputs and outcomes), “check” processes (the set of requirements that a new or transformed service must deliver; usually developed further to rigorous research and testing) and so on;
- Cost of specification of new services;
- Fees to outside bodies for professional services (lawyers, consultants, others);  
Establishing new structures and bodies (eg Teckal companies, which are companies wholly owned by one or more public sector bodies, to manage trading relationships and service provision, and other delivery vehicles);
- Costs associated with human resources and organisational development, including:
  - Restructures and redundancies;
  - Training and development for staff in new roles.
- Costs of procurement, and of transitional arrangements from moving from one provider, or kind of service delivery, to another;
- On-going costs associated with the monitoring and evaluation of new arrangements as they progress;
- On-going provision of staff and other resources in line with new delivery arrangements.

It is more difficult to use “hours spent” as a way of adding up inputs for major change more generally. Putting a financial value on the inputs is more of a complex process. It is very difficult to separate the research and work which focuses specifically on a change out from other inputs.

## OUTCOMES

We are deliberately talking about outcomes here, not outputs. An output is (for example) the creation or safeguarding of a job. An outcome is the overall reduction of unemployment in a locality - something which demonstrates an added social impact on the wider community.

Putting a monetary value on these kinds of outcomes is challenging, and is one of the areas where effective scrutiny can make a real difference. Managers – and scrutineers – who want to adopt an approach that looks at return on investment in detail will have to adopt an approach to their work which focuses on the financial value of various risks.

This risk can often be best expressed in social terms – the cost of crime (in terms of economic loss, the criminal justice system, imprisonment, and knock-on social costs), the cost to public services and wider society of a road traffic accident, the cost of inequality (social and economic costs expressed through the benefit system, in the economy through people with poor educational outcomes having low disposable income and requiring, sometimes, more interventions by the state to live their lives productively) and so on. We, and others, have done substantial work on health inequalities, and their impact on society at large – poor housing, inadequate social care and a range of other complex factors present their own risks here. Significant costs come attached to these risks (not least in health, where a failure to intervene early can often lead to expensive acute interventions later – not to mention the wider cost of illness to society in terms of social bonds, communities and wellbeing). Many of these risks will be wider costs to society not taken into account in individual decision-making (which we cover in more detail later).

Similarly, decision-makers can take action which can reduce risk, and cost. The public sector has “levers” at its disposal – at national level (in terms of strategic policy – Acts of Parliament and so on) and at local level as well. Councils will look at actions they can take that will improve local people’s lives, improve economic activity and so on. Recently, the measure of “GVA” (gross value added) has been used as a key measure to demonstrate the impact of measures on economic development – particularly in the context of English devolution. In national infrastructure, economic output is used as the basis for the “benefit cost ratio” that underpins the decision of whether to spend money on, for example, large transport projects. As an example, the HS2 high speed line has a BCR (benefit cost ratio) of 1:1.6 (reference at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/3651/hs2-economic-case-value-for-money.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/3651/hs2-economic-case-value-for-money.pdf) ). Social returns on investment can be extrapolated from these economic measures (so, growth in the economy can be seen as leading to improvements in people’s lives).

The costs associated with these risks and benefits are often known, even if they are not widely used. The task for the manager, or scrutineer, is to bring those costs together, and measure them against the cost of the input that would be required to mitigate them (if they are a risk) or to mitigate them (if they are a benefit).

This is the essence of calculating social return on investment based on outcomes.

Where monetising return on investment in a certain area is not possible – or, at least, not possible in a way that would not be reductive and meaningless – it is important that decision-makers at least discuss the non-monetisable factors, to understand them better and to see if they would be likely to have an effect on benefit/cost judgments. This is discussed in more detail below in the section on externalities.



With a minimum of effort, scrutineers can ask some direct and probing questions that will open up their understanding of an organisation's understanding of SROI, and the extent to which SROI is used to influence decision making. They can ask about inputs, about likely outcomes, and about risks. If councils are using SROI as a basis for decision-making, this should provide some key answers - allowing members to probe further and potentially to provide some assistance to the council as it develops its understanding of the wider social impact of its decisions. If a council does not use SROI, this will beg the question of how it is likely to understand the impact of what it does and whether that impact is worth it.

### Scrutiny “quick wins” on inputs and outcomes

The scrutiny function can act as a “check” process, using its developing knowledge of the change itself to ask some basic questions about the fundamentals of decision-making, to get a sense of the robustness of decision making and where it might need to go next. This is a part of the process which, at the outset, will require little in the way of direct preparation.

- Find out what the projected outcomes are of a proposed course of action, and ask the following:
  - Are those outcomes clear and unambiguous? How have they been arrived at?
  - To what extent are those outcomes wholly under the control of the council and its partners - or are there external factors in play?
  - Where do the main risks to delivery lie?
- Find out what the inputs will be to deliver those outcomes, and ask the following:
  - How do we know that those inputs are accurate? Might costs increase, and in what circumstances might that happen?
  - If inputs are unpredictable what does that mean for the way that the council analyses cost and benefit overall?
- Based on the answers to the above questions, in what areas might further input from scrutiny be productive?

## 2. Culture

The second major issue to understand is culture.

### **Making research and information available**

A return on investment approach – especially one that focuses on social value – will require that scrutineers and managers alike are prepared to be focused, forensic and directed in how they conduct their work. Getting an accurate sense of inputs and outcomes, as we have described above, makes it necessary to conduct detailed research, getting under the skin of an issue and challenging assumptions about how to deliver services in the future. For big change projects, this is a job for managers and decision-makers. Scrutineers have a critical responsibility for making sure that they fully understand this, through challenge and support to their activities.

The fruits of this research need to be shared with scrutineers to ensure that their work can be carried out in an informed and intelligent way. This can sometimes be difficult. Sharing research with scrutineers, and helping them to understand it, can be seen as both politically and organisationally risky. Decision-makers feel that they need a “safe space” for developing policy, and may be unwilling to let public scrutiny into that space.

Scrutiny's response to this, if it happens, will need to be different in every area. It may be that scrutineers can start by looking at the generalities of the issues involved to build up trust and positive working relationships. It may be that scrutineers and decision-makers can sit down together informally and work through what information might productively be made available, and how scrutiny will be carried out.

### **Dealing with resistance to SROI itself**

SROI is not a panacea. Adopting the principles which we have set out above will not make it automatically easier to understand, design and deliver services. Some councils use other methods. Some use similar methods but don't call them "social return on investment". All of these methods may be equally valid; it's the principles used, rather than what they are called, that is the most important issue.

The biggest cause of resistance to the use of SROI principles, whatever they might be called from council to council, is that the amount of research required to underpin SROI at the outset will be significant, especially where councils have not been gathering data effectively or consistently in the past. The scale and pace of many major change programme may lead to the conclusion that there is only one preferred option - the evidence to back this up may be partial, but making a quick decision is necessary when savings need to be made immediately.

With local government dealing with a difficult budget situation, this is a tempting line of argument, but it risks storing up significant delivery problems further down the line. In three or four years' time, managers and members may have to spend significant time and effort picking up the pieces of failed services, and carrying out further, costly transformation exercises, when the ones being designed now deliver outcomes which are substandard and which fail to meet changing needs.

Scrutiny practitioners, and the decision-makers they hold to account, should capitalise on the opportunity that scrutiny brings to open out the process in a timely and proportionate way. Political debate and disagreement over what is the "right" option does need to happen, and framing that debate through scrutiny, using SROI as a focus, provides the perfect chance to make a public dialogue about change, and why it is needed, much more constructive. We know that the scrutiny process will result in the improvement of plans for change. A focus on SROI will target this intervention more forensically, giving decision-makers the confidence to provide more information, to be more candid and to reflect and be more self-critical. Where this kind of openness might be difficult in a public forum, seeking to have this dialogue more informally can work, if the alternative is that scrutiny won't be able to have an influence otherwise.

This opening out of the process will not happen automatically, and where current methods and means of scrutiny are seen as unproductive, all those involved may need to take a leap of faith to explore new ways of doing things. The section in "The change game" on "changing scrutiny itself", and the section of this report relating to using SROI principles to direct scrutiny's own activity, will help with this. CfPS's publication "Tipping the scales" also provides some useful context.

### **Scrutiny "quick wins" on culture**

Scrutiny can take immediate action to provoke people to think differently about SROI, about how they gather evidence to support it, and about the way that they can have a further input on the process. Questions to ask may include:

- Is the calculation of social return on investment a recognised way for us to develop policy and make decisions in this authority?
- If it isn't, what do we do instead to make these judgments, and how do we fulfil our duties under the Social Value Act 2012 to consider social value as a critical element in decision-making?

- What research has been carried out to support a change process?
- Is there any information which we might expect to see, or to have, but which is missing - either because it would be resource-intensive to collect, or for some other reason? What might this mean for the final decision?
- How can scrutineers access and use that information in a way that is useful?
- How can scrutineers work with decision-makers to understand SROI better, and to build a productive role for scrutiny at the heart of the process?
- What will be practical outcomes of such positive scrutiny interventions be, and what will we need to put in place to achieve those outcomes?

## ENHANCING THE RETURN ON INVESTMENT OF A TRANSFORMATION PROJECT THROUGH GOOD SCRUTINY

Establishing the return on investment of transformation was a factor (although not a dominant factor) in all the areas where we provided transformation support and assistance in 2014/15.

In all cases, members wanted firstly to understand what benefits major change would bring, how the posited change (rather than keeping things the same, or making different changes) could deliver that change, and how the council and its partners would know that this change had happened.

### **Scrutiny's involvement tended to focus on two areas:**

- The planning and design of the change.
- The monitoring and evaluation of the change.

We have identified some key areas of focus under each of these two sections. For each of these areas we have provided practical advice based on two themes – issues for scrutiny to address (so the kind of questions that scrutineers might expect to be able to get answers to), and areas for scrutiny to explore (the positive contribution, in each area, that robust scrutiny arrangements can make to enhancing the decision-making body's approach on each of these issues). For scrutiny practitioners, this will help to frame their involvement. For senior officers and members on the executive side, it will help them to understand how they can design their arrangements for planning and delivering major change to maximise the return that scrutiny can bring to that process.

### **1. Planning and design**

**User experience.** Understanding how people interact with a service is critical to improving it. This is about looking at the way that a service is designed from the point of view of a user. The term (often shortened to "UX") is used and referenced heavily in the IT world, as a means for taking account of how people use websites, but it has far broader implications for the way that people design services.

User experience can be aligned to the idea of "customer insight" (which is a concept which will be more familiar to local government officers). The LGA has concluded a detailed programme of support to councils on customer insight in relation to major service transformation. Full details, including links to case studies, are at [http://www.local.gov.uk/productivity/-/journal\\_content/56/10180/3510959/ARTICLE](http://www.local.gov.uk/productivity/-/journal_content/56/10180/3510959/ARTICLE)

Getting design correct is critical to ensuring that a service delivers value for money. Central to getting design correct is having a sense about what end-users want, need and expect.

Conversations with local people can help to reveal something about what those needs are, and how they might be provided for in the way that services are currently delivered. Bristol Council's consultation code of good practice provides an example of this understanding being used to influence the way that these conversations happen across a whole authority - <https://www.bristol.gov.uk/have-your-say/code-good-practice-public-consultation>

This kind of consultation is relatively common, and we saw examples in our 2014/15 support work of scrutiny looking in-depth at the outcomes from these conversations to inform and influence their work. What is less common is for councils to look at new designs from the perspective of local people. This was however a central theme of the Total Place piloting programme in 2009/10 – see “Customer insight: through a Total Place lens” (LGA, 2010), [http://www.local.gov.uk/c/document\\_library/get\\_file?uuid=01c4f8c6-8aa3-4777-9dae-84aa450097fa&groupId=10180](http://www.local.gov.uk/c/document_library/get_file?uuid=01c4f8c6-8aa3-4777-9dae-84aa450097fa&groupId=10180)

Key questions on this point will include “how will they interact with the system?” and “what will a typical pathway look like?” This is especially relevant for services – like social care – which are dominated by human interactions. The use of “user experience” principles highlight the importance of emotion and attitude to people's satisfaction and well-being, rather than the design of structures and processes which may be more administratively efficient, but which may offer a poor experience to those on the receiving end (linking to SROI outcomes).

The issue of user experience connects closely to the concept of “systems thinking” – considering all aspects of a system in designing it from the ground up, rather than seeking to improve the efficiency of individual elements. The Open University offers a free six-hour online unit on systems thinking which, while presented in academic style, explains some of the principle's issues and how they can be put into practice, <http://www.open.edu/openlearn/science-maths-technology/computing-and-ict/systems-computer/systems-thinking-and-practice/content-section-0>

There are a wealth of resources available on customer insight, covering the segmentation of audiences (to make analysis easier), through “journey mapping” (understanding how people interact with public services irrespective of the organisation involved, understanding where the links and gaps lie that ensure that services are more, or less, attuned to people's needs) and more traditional ways of engaging with people to understand their needs, like focus groups.

#### **Journey mapping case study: Tameside MBC**

Tameside Council identified that changes to the free school meals application process could deliver better customer service and, at the same time, save money for the council.

Journey mapping helped them understand the process from the customer viewpoint, whilst quantifying the cost to the council. Customers were abandoning claims, deterred by a complex process and the associated stigma. Meanwhile, for the council, on-line applications cost 7p, compared to £10 for a face-to-face application. Clearly a system overhaul that directed appropriate customers online could help both customers and council, but the cost benefit could only be realised if the process could be followed end-to-end with no disruptions.

Using learning from the journey mapping they had carried out, Tameside were able to implement systems that allowed this uninterrupted process. Applicants for free meals were able to enjoy a simpler, more streamlined process that is much more cost-effective for the council.

(example taken from journey mapping Cabinet Office toolkit, [http://webarchive.nationalarchives.gov.uk/+http://www.cabinetoffice.gov.uk/media/123970/journey\\_mapping1.pdf](http://webarchive.nationalarchives.gov.uk/+http://www.cabinetoffice.gov.uk/media/123970/journey_mapping1.pdf))

Large numbers of customer insight case studies relating to service transformation can also be found at [http://www.local.gov.uk/productivity/-/journal\\_content/56/10180/3510959/ARTICLE](http://www.local.gov.uk/productivity/-/journal_content/56/10180/3510959/ARTICLE)

### Key issues for scrutiny to address

- How does the organisation seek to learn about and understand local people's needs and aspirations?
- Does the organisation build this understanding into assessments it makes of the return on investment of particular policies it is developing and pursuing?
- How can local people influence what major change looks and feels like?

### Options for scrutiny to explore

- Carrying out conversations with local people to complement ones led by the executive, to develop a more fundamental understanding of what local need is;
- Running co-design or co-production processes for new services on behalf of the council, to develop and manage the expectations of local people;
- Considering how different public expectations can lead to different returns on investment, and what this means for whether the services being designed are value for money;
- Using customer data / feedback from local people as a tool to evaluate the continuing return on investment of the change.

**Making better benefit/cost judgments (and identifying unexpected externalities).** We have already pointed out the critical importance of benefit/cost judgments. Often expressed in the form of a ratio, being able to trade off the benefits and costs of an option gives decision-makers a more accurate insight into whether the return on investment of a decision or policy is justified by its cost.

Benefit/cost analysis is a vital element of making judgments about SROI. Making an SROI judgment is in fact impossible unless the social benefits and costs of a decision are well understood. As such, effective benefit/cost analysis (sometimes also called cost/benefit analysis or CBA) hinges on research. Government has produced detailed guidance on how local partnerships might carry out these analyses ("Supporting public service transformation: cost benefit analysis guidance for local partnerships" (HMG, 2014), <https://www.gov.uk/government/publications/supporting-public-service-transformation-cost-benefit-analysis-guidance-for-local-partnerships>. See also the Government's Green Book, which sets out comprehensive guidance for these arrangements in Whitehall.). The central thesis is that decision-makers need to clearly understand the detail of the "New Delivery Model" (what's being proposed, often abbreviated to NDM) and how it differs from "Business As Usual" (BAU).

The extra benefits arising from the NDM need to be balanced against the costs of implementation. Guidance asserts that benefit/cost analysis can be carried out at various stages of a project – in this section we are focusing on "ex-ante CBA" – analysis carried out prior to a decision being made. We look at other approaches later in the document.

The two key inputs to a benefit/costs analysis are the costs and the outcomes; together these allow decision-makers to put together an economic case, and a financial case, for change. Identifying these costs and outcomes is critical. Comprehensive research, study and reflection is needed.

In particular, it is important that planners and decision-makers take into account externalities. This can be a vital role for scrutiny.

Externalities are costs which fall to others (in particular, the wider community) arising from action taken by an individual or a group of individuals. Pollution is an obvious examples of an externality – a cost that falls on wider society which may not be reflected in the balance sheet of the organisation causing it. A topic-specific example (relating specifically to pollution, waste and the environment) can be found in, “The economics of waste and waste policy” (Defra, 2011), [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/69500/pb13548-economic-principles-wr110613.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69500/pb13548-economic-principles-wr110613.pdf)

For example, a tinned goods manufacturer produces its products next to a river into which it discharges untreated effluent. The cost of dealing with the effluent is not factored into the price the manufacturer charges for its products; the cost is borne by those who wish to use the water further downstream, but have to treat it before doing so. Of course, these kinds of visible and obvious externalities are now dealt with through regulations and legislation – industrial premises are inspected and the cost borne, through taxation, by the public at large, with the immediate cost for reducing the effect and impact of such externalities passed back to producers. These kinds of externalities can be known, predicted and understood – and compensated for. The management of the regime to assess and compensate for “blight” in the construction of HS2 is a good example of an externality which Government has internalised, and brought within the overall benefit/cost judgment for the whole project (and which has actually had a substantial effect on the BCR for that project).

Some externalities are less easy to predict and understand. This is where assessment of return on investment intersects with risk management. Risk management is the practice of understanding what these externalities (and other knock-on effects on a decision) will be, and how their negative impacts can be mitigated. The NAO provide an introduction to risk management in their commissioning toolkit - <https://www.nao.org.uk/successful-commissioning/delivering-to-users/risk-management/>.

The challenge for return on investment, and benefit/cost analysis, is answering the question “where do you stop?” Some costs, and some benefits, may be partially attributable to a planned decision, but assessing quite how much can be difficult. In an increasingly interconnected public sector, there could be a real temptation to bring in consideration of a huge range of possible impacts, rendering SROI a much more complex exercise than it needs to be. The use of “gross value added” as a measure for determining the impact of Government action on economic growth is a classic example of an attempt to manage this. Other externalities may occur – their impact may be significant but it can be difficult to be sure. How can this uncertainty be expressed in a balance sheet? By rolling in a very wide range of externalities, a project can be made to look much less attractive, in benefit/cost terms, than it might do otherwise. The opposite can also be the case – ignoring a significant negative impact because of a feeling that it too “remote” from the decision can make a decision look more attractive.

This is why getting these kinds of evaluations right is so important – and why councillors need to understand the thought processes that underpin them.

**Key issues for scrutiny to address:**

- Is the council actually taking a whole system benefit/cost approach when evaluating whether to undertake a major change? More profound partnership working may allow public bodies, working together, to capitalise on benefits that accrue to one organisation’s responsibilities, even if the costs are borne by another. If this “whole system” understanding does not exist, why doesn’t it?
- What evidence has the council and its partners used to assess their costs – collectively and as distinct organisations? What is the division between capital (one-off, used for implementation) and revenue (ongoing, delivery of the service) expenditure, and what are the risks that costs may change significantly? What might this mean for partnership working?

- What research has the council done with its partners to assure itself of the likely benefits of changing its approach? How will partners change their approach alongside? Does the council's assessment make any assumptions about future service need?
- What assumptions does the plan make about the future evaluation of the service? At which point might future changes make the proposed change not value for money?
- What are the principal externalities and how they are they being identified and managed?

#### **Options for scrutiny to explore:**

- Desktop review of key documentation to ensure that benefits and costs are being evaluated accurately;
- Ensuring that members and officers share a common understanding of how evidence is used to underpin judgments on benefits and costs;
- Exploring the partnership and “whole system” dimension, to ensure that the costs and benefits are understood properly across a locality, not just in a single public body;
- Bringing in a wider range of perspectives on the impacts (positive and negative) on certain issues, and on the likely existence and impacts of externalities;
- Thinking about the way that externalities are planned and managed in the risk register, and whether any of those risks/externalities coming to pass would have a significant impact on SROI.

**Considering other options, and alternative opportunity costs.** Other options always exist – it is never a binary choice between one proposed approach and business as usual. Weighing up options is an important element of evaluating return on investment.

Decision-makers will have gathered a range of information to support their preferred option. As part of this exercise, other options are likely to have presented themselves, which will need to be evaluated and discarded.

#### **Case study: Houses of Parliament restoration**

The authorities responsible for running the Houses of Parliament commissioned an independent options appraisal to help them to consider what approach to take to the ongoing maintenance of the Palace of Westminster. Importantly, this work was preceded by a “pre-feasibility study” to set the parameters for the options appraisal itself.

The IOA explored a range of scenarios combining potential improvements (ranging from minimum requirements to substantial improvements) with three delivery options:

- Continuing repairs and replacement of the fabric and systems of the Palace over a significant period of time.
- A defined, rolling programme of more substantial repairs and replacement over a long period, but still working around continued use of the Palace.
- Scheduling works over a more concentrated period with parliamentary activities moved elsewhere to allow unrestricted access for the delivery of works.

<http://www.restorationandrenewal.parliament.uk/IOA-report.html> (Chapter 3 contains detailed methodological information)

### Case study: Newcastle City Council

Newcastle has a comprehensive system for programme and project management. Part of this is an options appraisal framework, which can be found at <https://community2.newcastle.gov.uk/projects/content/options-appraisal-and-value-money>

Both the National Audit Office and CIPFA have produced detailed guidance on options appraisal (“Options appraisal: a practical guide for public service organisations” (CIPFA, 2011), <http://www.cipfa.org/policy-and-guidance/publications/o/option-appraisal-a-practical-guide-for-public-service-organisations-book> (£), “General guidance on options appraisals” (CIPFA, 2010), <http://ow.ly/VLiOM>, “Option appraisal: making informed decisions in Government” (NAO, 2011), <https://www.nao.org.uk/report/option-appraisal-making-informed-decisions-in-government/>). Its use links closely to the comments we made above on cost/benefit analysis, but this process is about applying that cost/benefit judgments to a number of options to choose the best one.

The Treasury’s “Green Book”, which sets out expectations for financial probity and budget management across the public sector, says that options appraisals should be carried out around major decisions whenever “practical”. What is practical in any given place is a moot point but most council major change programmes are likely to be substantial and wide-ranging in nature – rendering this critical form of project management a requirement.

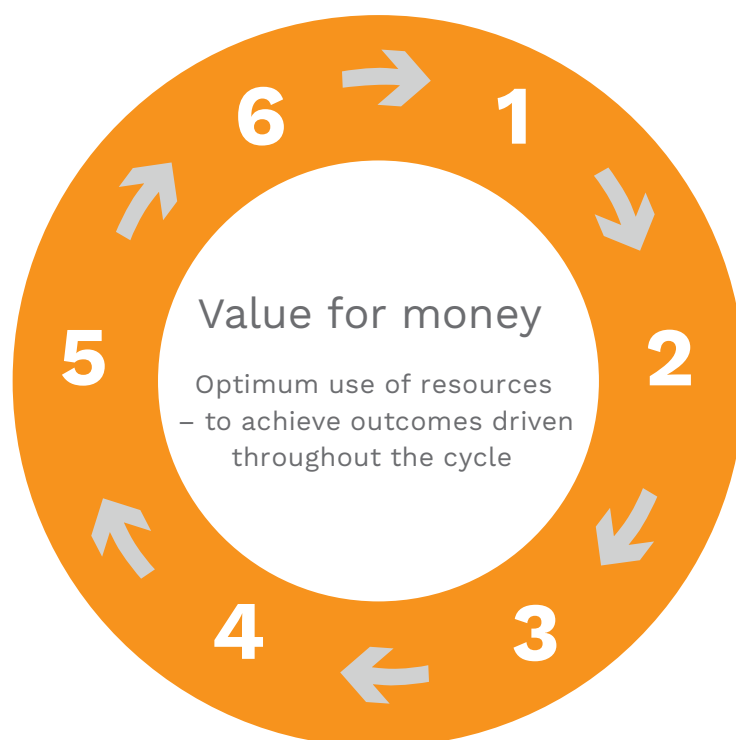
We have already dealt with benefit/cost analysis for individual pieces of work – options appraisals require that identical analyses be carried out for multiple options. While it will usually be the option which comes out of the analysis the best that is selected, that will not always be the case. If it is not, the option eventually selected must be subjected to rigorous justification. There will usually be a set of overarching criteria that will be used to help professionals to make the judgment as to which option is most compelling.

We noted in the section on “culture” the risks relating to assuming that no other options exist. A similar risk arises where options appraisals are carried out which are substandard – too few credible options being considered, or too many assumptions being made about the impact of proposed decisions. The risk is that the options appraisal becomes a paper exercise – something which must be completed for the sake of it rather than to actively influence decision making.

The solution to this challenge lies in integrating options appraisal with the wider management and policy cycle. The NAO suggest this as a means to improve future appraisals, and to reflect on performance and improvement. This point around monitoring and evaluation is covered in more detail on the following page.



# Option appraisal and management cycle



## 1. Strategy

The department integrates its policy development, impact assessment, and option appraisal processes to enable effective portfolio management and forward planning of government interventions.

## 2. Planning

The department develops and compares an adequate number of solutions and options for a particular intervention.

The department uses analytic resources for option appraisals proportionate to costs, benefits, and risks identified in the appraisals.

The appraisals monetise the impacts of government intervention sufficiently to allow for meaningful comparisons and prioritisation between different government interventions.

## 3. Implementation

The department has quality assurance processes in place that help produce high-quality appraisals and also allow for a systematic assessment of the department's appraisal capability.

## 4. Measurement

The department uses option appraisals as 'live' documents during implementation phase to ensure that costs and benefits are within the agreed envelopes.

## 5. Evaluation

The department schedules formal evaluation when appraising government interventions, appoints responsibilities for the evaluations and compares the outcome of the evaluations against the original options appraisal.

## 6. Feedback

The department shares lessons learned of completed appraisals and successful monetisation techniques within the department and across government and ensures that this information is used in the new appraisal cycles.

Source: National Audit Office

### Key issues for scrutiny to address

- Are options appraisals carried out, and if so do they conform with the good practice set out by CIPFA, NAO and others?
- How are options appraisals founded on SROI principles?
- How do options appraisals draw in evidence on wider planning issues – user experience, more detailed benefit/cost analysis and the study of externalities, and so on?
- Who carries out the options appraisal and using what criteria? How were these criteria arrived at?

### Options for scrutiny to consider

- Challenging the council to produce evidence-based appraisals as part of the design process;
- Identifying a defined role to play – possibly a formal role – in options appraisal;
- Playing a part in the feedback mechanisms to improve future options appraisals.

## 2. Monitoring and evaluation

**Quality assurance.** Where a council is planning to put its plans in place, it will put in place monitoring systems. Where plans for change have been designed in accordance with SROI principles, the council will also put in place performance measures which reflect those principles.

Scrutiny can have a strong role to play in assuring the quality of transformed services, but the way it does this may end up looking very different to the traditional way that scrutiny undertakes performance management. Traditional performance management might involve council officers coming to committee to be quizzed about a service based on a quarterly performance scorecard. The delivery of a transformed service might involve significant complexity – a number of external partners might be involved, and other monitoring arrangements may have been put in place which makes the value that scrutiny adds more difficult to discern.

The experience of councils we supported in 2014/15 suggests that some kind of “quality assurance” role might be productive. QA is a recognised system for improvement in the NHS (an example of its use at a high level can be found at <https://www.england.nhs.uk/revalidation/wp-content/uploads/sites/10/2014/04/fqa.pdf>), but will be a less common concept for those in local government. In the NHS, QA provides a mechanism for commissioners to continually evaluate the performance, and quality of service, delivered by providers. A variety of evidence is brought together – the patient experience, clinical outcomes, time-based milestones for the delivery of certain improvements, commissioning contracts and so on. Professionals evaluate this, escalating issues which present causes for concern. It represents a more comprehensive and holistic version of the performance management systems which will be familiar to local government practitioners (“Making the best use of performance and finance information” (CfPS, 2012) provides a useful introduction primer to these issues for scrutineers.) As a continuous process, it allows commissioners to understand where changes to the benefits and costs of the service or the outcomes for local people might lie, and hence whether there is a continued, positive return on investment for professionals and for local people. It links in to the “continuous improvement” points we make towards the end of this section.

### Key issues for scrutiny to address:

- Does the council (as a commissioner, as a customer, as a provider) understand what quality is, and what it looks like?
- How will quality and delivery be measured?
- What role is performed by the council’s partners in assuring quality? (that is, what role do providers play, what role do commissioners play, what role do others play)
- Given these interlocking roles, on what areas should scrutiny focus to add value?

### Options for scrutiny to explore:

- Setting up systems which allow members' to prioritise work better by sharing performance and other data informally, between meetings, and using it to decide whether and how particular items should be brought to committee for more detailed discussion;
- Agreeing a key focus area for scrutiny quality assurance – understanding that (where a service is commissioned or provided through a delivery vehicle other than the council) contract management arrangements will handle most issues. There will always be an assurance “niche” that scrutiny can fill better than others;
- Getting scrutiny members more involved in understanding how providers work, and how services are delivered on the front line. While the tendency can be for contract managers within the council to “protect” providers from councillors, having frank and open discussions between members and providers (particularly under large-scale commissioning arrangements, or where there might otherwise be a remoteness between politicians and those providing services on the ground) can be extremely helpful for providers to understand the local community better, and for members to assist them to better evaluate and oversee the quality of the service being provided.

**Risk management.** The assessment and management of risk does not end when a benefit/cost analysis has been carried out and a transformation plan has been agreed. Risk factors, the cost in mitigating risks, and associated issues all continue, and all have an impact on the SROI of a policy or service. If scrutiny retains an oversight role on risk issues, it can be pivotal to ensuring that the authority has a consistent approach to how it identifies, manages, and mitigates risk. Importantly, effective mitigation relies on understanding the relative costs of different risks occurring, which means that a scrutiny function with an SROI focus will be particularly useful.

Scrutiny can also evaluate whether risk management is focused on internal, or external, issues. A mature approach to assessing SROI is to build risk in to the return on investment calculation by focusing the attention of decision-makers on risks in the community – poorer life chances, more crime, more illness, and so on. Some risk registers focus more on risks that are internal to the organisation delivering the service – management and financial risks, for example. A failure to accurately assess and manage risks in the community, where the service or issue is actually experienced, makes assessments of social return on investment much more difficult to ascertain.

### Case study: NHS Risk Management Policy and Process Guide

NHS England operates a national system for risk management. It defines a system which focuses on the identification and management of risk at local level, with escalation through the hierarchy of NHS England as an organisation.

There is a four stage process for the management of risk ►

The focus throughout is on the need to report and escalate risks where further intervention might be required.

Risk is framed in terms of risk to the delivery of the objectives of the organisation. However, an external focus on the needs to patients and other service users is maintained because those objectives will refer directly to those outcomes for citizens.



<https://www.england.nhs.uk/wp-content/uploads/2012/11/risk-man-strat.pdf>

Critically, for a risk-centred approach to scrutiny to work, sensitive information on risk will need to be shared by decision-makers. This has been a challenge in the past. Risk issues can be politically and organisationally contentious, and risk information can be misinterpreted. In delivering our programme of support to councils in 2014/15, risk information was one of the more challenging kinds of documentation to gain access to.

This kind of work will, therefore, require that councillors are briefed to have the confidence to use and understand risk information. This will require an element of preparation and forethought – training and development and informal discussions between members and officers about corporate and service-specific risk issues – before substantive work is undertaken by scrutiny. It will also require that decision-makers consider their position where risk data is felt to be politically or organisationally sensitive.

#### **Key issues for scrutiny to address:**

- How are risks identified?
- Are risk registers more “internal” or “external” in nature? What gaps might exist, and how might this affect the council’s ability to build?
- On what evidence are the impact and likelihood of risks assessed?
- Who decides which mitigations are appropriate, what impact those mitigations are likely to have – and using what criteria?
- To what extent does the personal judgment of professionals play a part in the above processes – and what other perspectives are brought in?

#### **Options for scrutiny to explore:**

- Giving members a formal or semi-formal role in co-designing risk arrangements with decision-makers – or some semi-formal role in oversight for those arrangements, to bring perspective and challenge to the process and to make risk more of a central consideration;
- Spreading a culture of effective risk management across the organisation, and amongst partners, by speaking to middle managers and frontline staff about risk and acting as a mediator between those with different views on where risk lies;
- Using risk as a driver for the selection of scrutiny topics (see section below on return on investment and scrutiny);
- Exploring, with the council, different ways for it to use and understand how risk, performance management and financial management work together in the monitoring and embedding of new working arrangements. So, aligning targets and outcomes in those three datasets – and focusing those targets and outcomes on SROI principles – will provide a robust means for monitoring delivery in the future.

**Recalculating cost and driving continuous improvement.** Transformation and major change is not a “one time only” activity. Once councils have taken the first step to transform what they do and how they work, it is likely that they will put in place systems to continuously challenge themselves to improve further.

In the section on planning and design we raised the prospect of options appraisals and benefit/cost analyses being used as part of the wider improvement and policy cycle. Major change does not happen in isolation; things change, and there are two things that authorities need to do to plan for the future:

- Firstly, feed the outcomes of change programmes back into the design of future decisions, to increase the robustness of the process and to ensure that high quality data filters back into that planning process;
- Secondly, to ensure that where evidence or data that underpins a decision to change (ie, the data that backs up a benefit/costs analysis, or data that shows a particular social impact) itself changes, the council is ready to re-evaluate what that means for the service. This is about ensuring that services, in future, are flexible enough to change to meet new requirements. This flexibility is something that, itself, needs to be accounted for in the design stage.

**Key issues for scrutiny to address:**

- How will the council use outcomes to inform future change activity? Once the decision / change has been implemented, what do we wish we knew at the outset,
- that would have helped us to do it better?
- How are lessons learned? How are these lessons used across the whole council, and the whole area, to influence future change?
- How will we make sure that we are monitoring things closely (but proportionately), so that we can change the way we deliver services in the future to take account of changes on the ground?
- How are we designing new services to be sufficiently flexible to bring this about?

**Options for scrutiny to explore:**

- Extracting and disseminating key lessons from change programmes, alongside other corporate activity;
- Being a champion for flexibility in the way that the council thinks and talks about change. Linking back to future planning and design exercises, ensuring that they take account of changing local circumstances to make large-scale, resource intensive, big-bang changes less necessary in future to tackle budget crises, demographic shifts etc.

## ENHANCING THE RETURN ON INVESTMENT OF SCRUTINY ITSELF

The research we carried out to support our report “The change game” highlighted the importance of making changes to scrutiny itself; without reflection on the role and function of scrutiny, and its need to transform, it will find itself ill-equipped to deal with the different forms of services, and different ways of delivery, which will emerge in the coming years. One mechanism to review and reflect on scrutiny’s role – on the value of it, and the positive role it performs in change – is to assess its own return on investment.

In “Tipping the scales”, we set out four stages of a “scrutiny journey”, to allow the return on investment of an overview and scrutiny review to be measured. It’s important to bear in mind that these stages are not ones that can only be applied to a traditional scrutiny task and finish review, but to scrutiny input and involvement in any matter, in any way.

### **The four stages are:**

- Identifying and shortlisting topics;
- Prioritisation;
- Stakeholder engagement and scoping;
- Undertaking the review.

In the interests of brevity we have merged the first two of these stages in this report.

### **Identifying and shortlisting topics, and prioritisation**

In “The change game” we highlighted the critical importance of prioritisation. For scrutiny, having a key area of focus will make judgments on return on investment much easier to identify. We selected three focus areas as examples, and here we explain how they might be interpreted from the point of view of SROI.

- Focus on value: through the selection of topics, highlighting those issues where social value is particularly important, or where using SROI to assess plans, potentially as part of options appraisals;
- Focus on risk: focusing on social risks, out in the community, rather than on internal management risks – by so doing, connecting change work back to local people. An effective co-design process could involve joint work with the public to more accurately identify risk, and this is a process on which scrutiny might lead;
- Focus on the system: this is about ensuring that the council and its partners have the systems in place to deliver change. SROI is a demanding methodology (or group of methodologies) so scrutiny’s focus here, for individual change or transformation programmes, could be to evaluate whether the council knows enough about social impact to act, how (in staff and managerial terms) it is embedding principles such as social value in its plans and whether the resource exists to carry out the research that proper SROI-based options appraisals require;
- Focus on performance and quality: this might be to ensure that performance monitoring systems are designed to measure social impact, and that scrutiny acts as a critical feedback mechanism for future change.

In “Tipping the scales” we recommended that Impact Statements be developed for scrutiny. As far as possible, these can be aligned with the outcomes and objectives of the transformation programme itself, to tie scrutiny in with those changes – if the outcomes are sufficiently robust. Impact Statements will ensure that scrutiny’s involvement stays focused on local people and the local community, rather than becoming drawn off in other directions owing to the complex nature of the work the council undertakes. Impact Statements can help with two things – firstly, with shortlisting (using the statements to conduct a cost/benefit analysis and options appraisal of what scrutiny can look at) and secondly, with evaluating the impact of scrutiny’s work, against what was originally planned, in the interests of continuous improvement.

### **Stakeholder engagement**

This links closely with the section above on user experience. What role does scrutiny have to play in understanding local need? How can scrutiny get local people involved in directing its own work on major change?

Our work on SROI in 2013 and earlier demonstrated the critical importance of the “stakeholder engagement” stage in targeting and focusing scrutiny work. Carrying this work out on health inequalities involved the use of the Marmot “wider determinants of health” to produce some key lines of enquiry for scrutiny reviews. On more general topics, we think that the identification of scrutiny’s focus area (see above) will provide the foundation for this engagement. A scrutiny function which plans to focus its work on risk might choose to frame key questions of stakeholders in a way that is different to ones for performance, for example.

We present some possible topics and questions for each of these focus areas as an appendix, alongside some suggestions of people to invite to stakeholder engagement meetings.

### **Undertaking the review**

This is about applying SROI principles to scrutiny work itself. Returning to the first part of this paper, the inputs and outputs of scrutiny’s involvement could be monetised, and the principles we have discussed in previous discussions could be applied specifically to scrutiny. For example:

- If scrutiny makes recommendations, what is the benefit/cost of the New Delivery Model (scrutiny’s recommendations) compared to Business As Usual (what already happens)?
- Is this difference greater or less than the cost of the review itself?
- What externalities might exist of which we might have failed to take account?
- Might these changes have been undertaken anyway? How can we be sure that they can be attributed to scrutiny’s work?
- How and when will we monitor and evaluate to make these judgments?
- How will the lessons we learn from this exercise be fed back into improving the way that we do our work?
- Do we, and will have, have the data to hand to allow us to do all of this?

Applying SROI methodologies to scrutiny itself can provide an excellent way for scrutiny to better understand the processes that managers might go through in applying those principles to major changes in services. It will also make it easier for scrutiny take make more meaningful recommendations to push the council to adopt SROI methodologies where they are currently not used, or used only inconsistently. Scrutiny can and should see itself as a champion for the use of these robust systems, and their application to the challenge of major change.



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