

QUANTIFYING THE BENEFITS OF SOCIAL PROCUREMENT (COST-BENEFIT ANALYSIS)

1. COST-BENEFIT ANALYSIS

A cost-benefit analysis is a process whereby the costs and benefits of a particular decision are weighed against those of alternative courses of action within the same period, in order for them to be directly compared.

A critical component of any business case is quantifying the benefits and the costs. A cost-benefit case needs to be undertaken to ensure the:

- best value-for-money
- achievement of the most effective policy outcomes
- realistic assessment of risk is carried out.

Ideally, financial value should be determined for both tangible and intangible costs and benefits. Costs and benefits that can be directly expressed in monetary terms are referred to as 'quantitative' and usually refer to monetary terms. Costs or benefits that cannot be quantified in economic terms are referred to as 'qualitative costs' and 'qualitative benefits'. Some abstract costs can be quantified in monetary terms, for example, travel time, where minutes saved can be converted into dollars of estimated savings.¹

Qualitative costs are legitimate costs to incorporate into cost-benefit analyses.

A cost-benefit analysis identifies and tallies up all the positive factors (benefits) and negative factors (costs) and subtracts the negatives from the positives. The result is expressed in terms of a benefit/cost ratio which is calculated by dividing the monetary value of outcomes by the input costs. The higher the cost-benefit ratio of the project, the more favourable it is to pursue.

This ratio indicates the benefit received for every dollar contributed. For example, the benefit/cost ratio of 1.5:1 for a burglary prevention program, this indicates that for every dollar spent on this program, \$1.50 worth of benefits is received (for example, by the avoidance of future burglaries).²

2. COST-BENEFIT ANALYSIS OF SOCIAL PROCUREMENT

The growing use of cost-benefit analysis in social procurement has been driven by the increased public demand for transparency and accountability of government-funded projects.

¹ "Cost Benefit Analysis Procedure Manual", Civil Aviation Training Authority, http://www.casa.gov.au/wcmswr/_assets/main/manuals/regulate/acm/257r003.pdf

² Dossetor, K. (2011) "Cost-benefit analysis and its application to crime prevention and criminal justice research", Australian Institute of Criminology, Technical and Background Paper 42

Cost-benefit analyses are particularly important for social procurement initiatives, as quantification of benefit is one of the key mechanisms by which to generate support for projects with social outcomes. Governments are increasingly accountable for their expenditure and anecdotal evidence of the potential benefit of a project is often insufficient to convince executives that a project will provide social added value.

While social procurement is still in its infancy, the application of cost-benefit analysis to social procurement is increasingly being embraced. To date, most work has been undertaken in the United Kingdom; relatively few cost-benefit analyses, in respect to social procurement, have been completed in Australia.

3. MODELS OF SOCIAL OUTCOME MEASUREMENT

Social benefits are often difficult to quantify - social procurement outcomes, such as increased community spirit, family cohesiveness and perceptions of safety, can often be very difficult to convert to quantifiable benefits.

Although estimation of social costs and benefits can be challenging, a number of methods have been established by which to measure social outcomes:

- **Global Reporting Initiative** incorporates a set of core measurements and a common reporting framework. The Public Agency Sector Supplement (PASS)³ launched by the GRI is designed for general use by public agencies operating in the three main tiers of government (national, regional, local) and offers public agencies the opportunity to assess and communicate their organisational performance relating to sustainable development (guidelines@globalreporting.org).
- **Local Multiplier 3 (LM3)** was developed by the new economics foundation as a simple and understandable way of measuring local economic impact. The three steps in LM3 are: (1) a source of income; (2) how it is spent; and (3) how it is re-spent within a 'local economy' (a defined geographic area).⁴
- **Social accounting and audit** enables organisations to build on their existing monitoring and reporting systems with a process which measures social, environmental and economic impacts and provides for performance reporting.⁵ Social accounting collects existing knowledge and experience systematically, integrating structured engagement between the organisation and its stakeholders.
- **Social accounting "cluster"** involves the independent validation and benchmarking of services.⁶
- **Social Return on Investment (SROI)** is a US-developed mechanism for reporting on social and environmental value, which uses accounting methods for calculating the return from an

³ Herbohn, K and Griffiths, A (2008) "Sustainability reporting in local government: systemic change or greenwash? A research report prepared for CPA Australia", CPA Australia, December 2007: www.cpaaustralia.com.au

⁴ <http://www.proveandimprove.org/new/tools/localmultiplier3.php>

⁵ "Social Accounting and Audit Pilot Initiative: A partnership between Co-operative Development Scotland (CDS) and the Social Audit Network (SAN) Summary Paper", Social Audit Network: <http://www.socialauditnetwork.org.uk/>

⁶ Communities Scotland (2006) "Making the Case: Social Added Value Guide": <http://www.evaluationsupportscotland.org.uk>

investment, which makes it familiar to funders, investors and financial institutions.⁷ SROI places financial “proxy” values on the project effects identified by stakeholders which do not typically have market values.

CASE STUDY AND QUANTIFICATION EXAMPLES

- Recycle Fife⁸ recycles aluminium and steel cans and paper through a community collection scheme whilst providing employment and volunteering opportunities to disadvantaged groups. The organisations SROI analysis examined both the environmental benefits and the social impact by estimating:
 - increase in earning potential
 - reduction in benefit costs
 - personal development of employees and volunteers.The analysis indicated that for every £1 invested in the establishment of the organisation £5.20 was returned in the social and environmental value.
- In a study undertaken by The Brotherhood of St Laurence, it was found that for every dollar invested in an intermediate labour market program, approximately \$14 worth of benefits would be generated.⁹
- A Scottish case study which sought to divert young people at risk from entering the criminal justice system found that for every £1 (AUD\$1.50) invested, £12.81 (AUD\$19.50) of social value was created.¹⁰
- The pioneering Scottish mental health social enterprise, Roll on Wheels, found that for every \$250 spent by the local health authority on the contract, an additional \$240 is generated for the local community from the service.¹¹

⁷ The SROI Network UK: www.sroi-uk.org/home-uk

⁸ Fife Council (undated) “Community Benefit Clauses in Social Procurement”

⁹ Mestan, K. and Scutella, R. (2007) “Investing in People: Intermediate Labour Market as Pathways to Employment”

¹⁰ Communities Scotland (2006) “Making the Case: Social Added Value Guide”

¹¹ Kernot, C. “A Quiet Revolution”, *Griffith Review*, Edition 24