The charities (protection and social investment) bill and SROI

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The Charities (Protection and Social Investment) Bill currently working its way through Parliament will (amongst other things) give effect to a recommendation from the Law Commission that charities should have a statutory power to undertake social investment. Many charities arguably already had the power to do this but if it is passed, this provision will bring welcome clarity.

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The provisions as currently drafted allow charities (except those created by statute or Royal Charter) to invest 'with a view to both (a) directly furthering the charity's purpose; and (b) achieving a financial return for the charity'.

The Bill does not set out any minimum degree of mission benefit which must be achieved so that trustees can look at a combination of mission benefit and financial return without the need to quantify each element. Trustees, of course, have a basic duty to act in the best interests of the charity. Under the Bill there will be a statutory obligation for trustees to satisfy themselves that it is in the interests of the charity to make the social investment, having due regard to the benefit they expect it to achieve. Trustees will, therefore, need, in every situation, to strike a balance between mission benefit and financial return and will want to seek professional advice as they do so. The charity's investment policy will also need to be amended to cover social investment.

One striking feature of the Bill is that investments made using the power will not have to be restricted to the investing charity's objects although they must be seen as a means of furthering the charity's own objects. Lord Bridges, in a debate in the House of Lords, put it this way.

'A charity might have the care of horses as its charitable purpose. It may wish to invest in a horse and donkey social enterprise, which provides joint facilities for both. The social enterprise may also expect to make a financial return, perhaps from charging visitors. Having weighed the benefits to horses along with the expected risk-adjusted financial return, the horse charity is able to invest in the horse and donkey social enterprise. So long as the trustees have satisfied themselves that the combination of expected financial return and mission benefit in relation to horses is appropriate, this is covered under the social investment power.'

The power does not apply to the use of assets held as a permanent endowment. Charities are also free to decide that they do not want to make use of the power – and can exclude it by a specific provision in their governing document.

What will be key is the means by which charities can assess and measure social return. David Richardson goes on to consider those issues.

Social return on investment (SROI) attempts to put a social value on the outcome of an investment in addition to the historic financial consideration that is used in traditional financial accounting. It can be used by any organisation to consider the social impact of its actions as well as financial ones.

The history of SROI can be traced back to 2000 when a San Francisco-based philanthropic fund, Roberts, first sought to establish a method of measuring the wider implications on society of its grant making.

Over the intervening years, interest in this sort of accounting has developed particularly into the area of environmental and climate sustainability and in 2006, a network was established to promulgate further techniques and measurement tools for this type of analysis. This network is now called Social

Value and has over 700 members globally. Its aim is to standardise, as far as possible, the assessment of the social impact of a particular investment, policy or organisation. This methodology is inevitably subjective and it is not always possible to put a financial proxy value to all considerations but the aim is to involve all stakeholders to ensure that social impact is broadly considered.

In the UK, the government recognised the potential of this analysis and in 2007 commissioned a project to assess guidelines when organisations apply for government funding for a particular project.

There are now seven principles agreed on by most practitioners in *SROI* and these form the building blocks for any entity that wishes to assess in the widest terms whether an undertaking is worth following.

1. Involve stakeholders

Stakeholders are those people or organisations that directly experience change as a result of the activity. They will, therefore, be best placed to describe the change. Stakeholders need to be identified and involved throughout the analysis.

2. Understand what changes

Articulate how change is created both positively and negatively and those which are intended and those which are unintended. These changes are the outcomes of the activity and need to be assessed and measured.

3. Value the outcomes that matter

Making decisions about allocating resources between different options needs to recognise the possibly different values of stakeholders. Ensure that these values are relevant.

4. Only include what is material

Determine what information and evidence must be included in the analysis to give a true and fair picture such that stakeholders can draw reasonable conclusions about impact. There may well be many outcomes, and decisions should be made about those that really matter. Stakeholders need to assure themselves that material issues have been included.

5. Do not overclaim

Only claim the value that the activity is responsible for recreating. This principle requires reference to supporting data and benchmarks to assess the extent to which a change is genuinely attributable to the activity.

6. Be transparent

Demonstrate the basis on which the analysis may be considered accurate and unbiased and show that it will be reported to and discussed with stakeholders.

7. Verify the result

Ensure that there is independent and appropriate assurance about the changes observed.

Whilst following these principles will give the person preparing the social impact assessment guidance there is inevitably a substantial element of subjectivity particularly involving the ‘monetisation’ of extra-financial factors. This is the putting of a valuation on outcomes which do not have a market price. This is not always straightforward or even possible.

The approach is to establish financial ‘proxies’ which are appropriate and explainable in order to establish credibility and these will also be subjective but a methodology can often be established. Stakeholders are often able to estimate how much they value an outcome as against other outcomes and the government publishes a wide range of data which can be used. Sometimes monetisation is fairly straightforward, like a cost saving, but at other items, one is forced to rely on stakeholder preferences.

There is a wealth of information on SROI and as with any young discipline it is still evolving but the basis for techniques has now been established and it seems highly likely that this form of accounting will continue to grow.

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