Buzzacott
CHARTERED ACCOUNTANTS

The high-profile demise of Kids Company provided a catalyst that has brought to a head the unprecedented hostile scrutiny that the charity and not-for-profit sector has come under in recent years.

The driving force of *social value*

Sections of the media and political parties continue to stoke the on-going debate on senior management pay within the sector, criticisms of charitable fundraising, gagging of charities that attempt to influence government policy and spending decisions, and more recently, vilification of the sector's attempts to generate income commercially (as with Age UK and its lucrative affinity arrangements).

In order to restore public confidence, there is no doubt that charities must be able to clearly articulate their call on society's resources – to show how they deliver 'social value'. Crucially, how can we evaluate whether charities are creating as much impact as possible given the resources they receive? Here, we explore some of the developments in measuring and reporting, and how these are likely to affect all charities and social businesses in the near future.

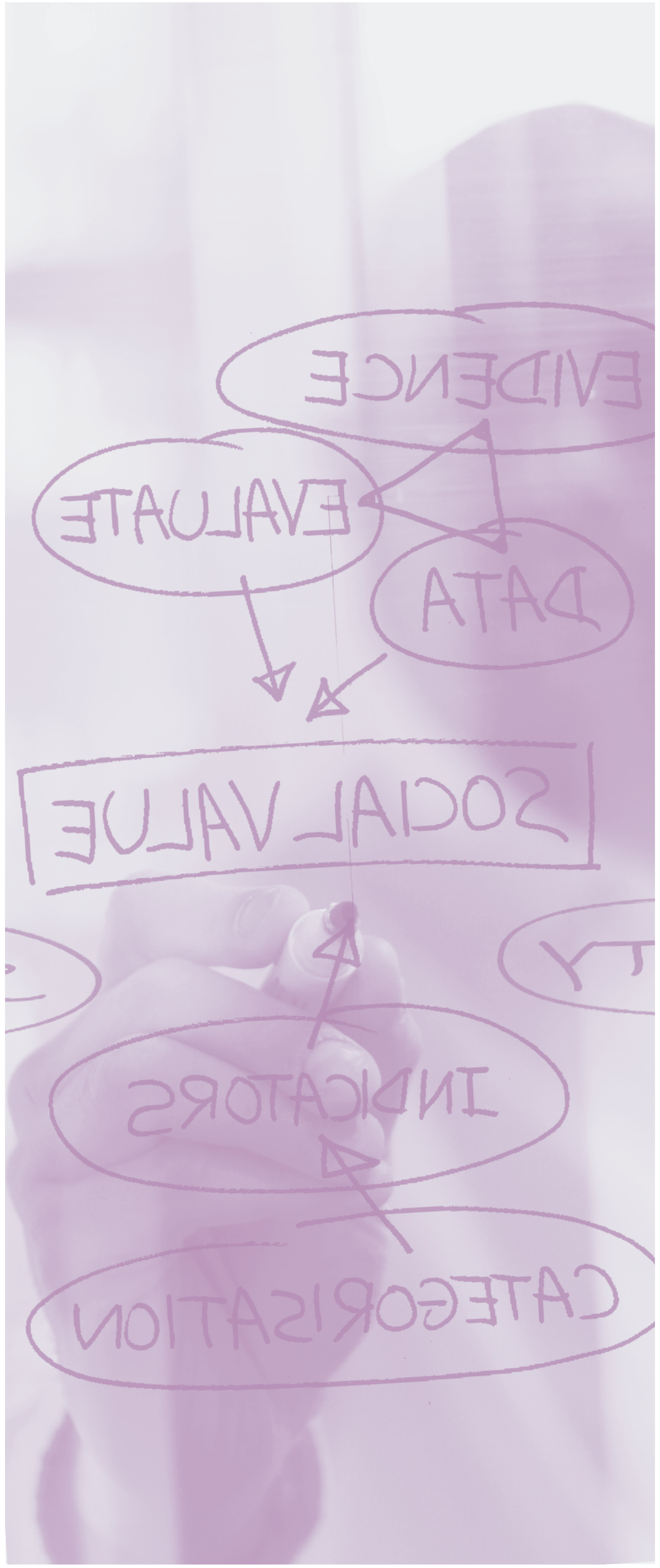
Evidence-based decision making

It has been noted that many of the driving forces behind calls for measurement and reporting of social value have emerged from financial backgrounds. Naturally, this has aroused some cynicism among those who work in the voluntary parts of the charity sector. However, finance and consumer-focused businesses have moved into a post-modern era, and leading approaches to social value measurement are of that world.

The key requirements are collection of the right data and the processing of that data through categorisation and evaluation frameworks that support rational and evidence-based decision making. However, unpalatable to many this may be, those are the key elements familiar to accountants the world over – from columnar red covered cash books to globally rolled out enterprise management solutions, these are the objectives of budgeting, accounting and reporting systems.

Of course it has taken nearly 500 years since the death of Pacioli for double-entry bookkeeping to evolve into its current form and the emergence of social value reporting is in its relative infancy. However, by standing on the shoulders of accountants it has been possible for the development of tools and methodologies to support the newer discipline to emerge at a relatively rapid pace.

There is a growing number of software products on offer that include the mechanical tools to aggregate and report the information that management, funders, investors or other stakeholders require. There are also increasingly comprehensive and widely accepted banks of 'indicators' and proxy financial values for specific outcomes achieved. Such tools will take away the labour of producing results once the parameters are established, but the key decisions in producing meaningful information will arise when deciding 'what matters' in the context of each organisation's purposes and overall objectives.



“There is a growing number of software products on offer that include the mechanical tools to aggregate and report the information that management, funders, investors or other stakeholders require.”

Learning from others

There are many approaches to identifying what to measure (it should be 'what matters' as highlighted previously) and well-established methodologies such as Social Return on Investment (SROI) provide comprehensive approaches to this. However, examples of systematic reporting of non-financial outcomes are also emerging from other sectors. Increasingly, charities are looking to the likes of the corporate sector with its huge resources to develop high quality methodologies, measures and reporting for inspiration in evidence-based approaches to achieving impact.

Leading the way in the corporate sector, the multi-national French luxury goods holding company Kering has produced an 'Environmental Profit and Loss Account' (EP&L) with open source details of the methodologies, assumptions etc. used for several years. This is a process it began in 2011 with its Puma sports goods division, and in its 2014 EP&L Kering reported €793m of net adverse environmental impact.

Taking an evidence-based approach similar to that of Kering is essential when trying to attract social investment, but more importantly, it also helps charities to understand the impact that they achieve, what works best and therefore how to maximise it.

A case of simple good governance?

Understanding the way in which social value is created is arguably a fundamental requirement of good governance. It is a factor that should be at the forefront of every board member's mind when making decisions. In the same way that corporate boards seek to enhance shareholder value, charities seek to maximise public benefit (and to minimise wasteful consumption of resources that do not contribute to the main aim). Maximising shareholder value requires detailed accounting systems and management information systems to inform decisions. The same is true for maximising social impact – systems need to be in place and robust evidence available to boards in order for them to make informed decisions.

At Buzzacott, we believe that more and more charities and social businesses will be implementing systems to capture, analyse and report data on their social value creation – from planning through to external reporting under statutory and SORP requirements. We also believe that external stakeholders will value external assurance validating the methodologies deployed by organisations reporting their claimed achievements.

Do let us know your views, and watch this space.

Get in touch:

Edward Finch
Partner
Charity and Not-for-Profit
+44 (0)20 7556 1411
finche@buzzacott.co.uk

David Fardell
Managing Director of
Buzzacott Giving Solutions
+44 (0)20 7556 1437
fardelld@buzzacott.co.uk