

When to put a price tag on it

A guide to help third sector and funders talk about economic evaluation

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Evaluation Support Scotland (ESS) works with third sector organisations and funders so that they can measure and report on their impact

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This guide will be of interest to you if you work in the third sector and are interested in **doing economic evaluation for funding reasons**. It will help you have a meaningful conversation with your funder about economic evaluation so you take the right approach and avoid wasting precious time or resources.

Please note that this guide **won't tell you** how to do economic evaluation. For advice on carrying out economic evaluation check out the **Resources** section of this guide.

We have seen an increasing number of economic evaluations¹ being carried out in Scotland (and the rest of the UK) over the last few years.

Third sector organisations tell us they want to do an economic evaluation because they think that:

- It will impress their current funder(s).
- It will help them get new funding.
- It will help them make the case for the type of service they provide.
- Money talks. It's better to show the difference their organisation makes in money terms than in soft outcomes.
- It will be easier than another type of evaluation.

However, our [research](#) told us that:

- Economic evaluation **isn't** something that funders want all of the time and some don't want it at all.
- Funders acknowledge the difficulty of economic evaluation for third sector organisations (time, resources, knowledge and skills).
- Having an economic evaluation alone **won't usually** increase an organisation's chance of funding.
- Many funders don't currently use economic data for decision-making.
- Funders **do** value other types of evaluation.

Go to the back of this guide for an **infographic** with more funders' messages.

Feedback from the people we work with suggests that third sector organisations still **struggle to decide** if economic evaluation is for them. Truth be told, the world of 'economic evaluation' can be confusing to say the least. There are lots of different types of economic evaluation and they can be time-consuming and difficult to carry out.



We produced this guide to help third sector organisations and funders unpack, explore and discuss some of the issues around economic evaluation.

¹ By 'economic evaluation' we mean showing the difference your work makes in financial terms.

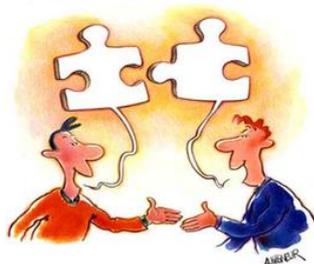
Who is the economic evaluation for?

So you are thinking about doing an economic evaluation to secure funding. The first question you should ask yourself is: **am I doing this for existing funder(s) or to get new funding?**

For existing funder(s): Hopefully you already have a relationship with them so you can approach them to discuss your ideas. It might be helpful to familiarise yourself with their evaluation and reporting requirements. If you are not sure how to go about doing this, check out the *Harmonising Reporting* guidance published by the [Scotland Funders' Forum](#) to help funders and funded organisations make reporting more useful and less burdensome.

For new funder(s): Having a direct conversation with someone you don't know might not be straightforward; however, you can still ask questions about how the funder makes decisions and what matters to them.

Many funders want to have a mutually beneficial relationship with funded organisations. The ALLIANCE Self-Management IMPACT Fund produced some *top tips for funded organisations* that might help you in preparation for your conversation(s) with your funder(s). Go to the **Resources** section for details.



It's not just ESS that thinks conversation is important. NPC, a charity think tank and consultancy from London, highlighted in its report [Economic Evaluation: What is it good for?](#) (2014) the need for more conversation between funders and funded organisations, as well as the need to build their capacity, capability and confidence – training and support needs also identified by ESS's research.

"Strengthening voluntary and community organisations' engagement with economic evaluation will involve building their capacity, capability and confidence. The confidence needs to involve negotiating the scope of what such organisations can realistically achieve."

Dr Iris Elliott, Mental Health Foundation

Get ready to talk to your funder

Do your homework

Don't forget to do some research before approaching your funder to have a conversation about economic evaluation and whether it's the right thing for your organisation to do. Remember that knowledge is power. For example, [Big Lottery Fund](#), [Inspiring Scotland](#) and [Life Changes Trust](#) offer guidance on economic evaluation on their websites. Look for public statements that set out

your funder's position on evaluation, including economic evaluation; for example:

"We believe evaluation is a key part of any project that is serious about making a real difference. This opinion is not just unique to us. Most funding agencies place an emphasis on understanding what impact projects may or may not make and understanding why." **Big Lottery Fund**

"The Life Changes Trust recognises that the economic impact of activities and projects can be significant. However as the main focus of the work of the Trust is to increase the quality of life and well-being of our beneficiaries, we do not think it is appropriate to think of this in only financial terms. Economic evaluation may be useful where used to complement other evaluation work. The Trust will discuss with fundees where they think economic evaluation would be useful and agree on approach and funding." **Life Changes Trust**

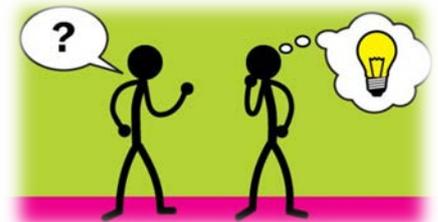
You can find out more about your funder and their views through:

- Websites
- Local and national strategies
- Responses to consultations and evidence calls
- Position papers and reports
- Public statements/press releases
- Public meetings/conferences.

Talk to your funding officer

Funding bodies are made of **people** with different roles and responsibilities. You might hear general messages from 'funders' about economic evaluation when you are out and about. Remember that **context** is important. These messages might (or might not) apply to your work so make sure you discuss these with the individual member of staff assessing your application.

Also, funding officers have in-depth information about what you are trying to do and the difference you want to make, and will be in a better position to explore with you whether an economic evaluation might add value to your work.



Don't be afraid to ask questions

Funders come in **different shapes and sizes**. This applies also to their grant-making processes too, which means that the power to make decisions doesn't

always lie at the same level. So it's helpful to know who makes decisions and what information they need to make those decisions.

Think about **who** you actually need to influence. If you are not sure, ask your funding officer (or funding staff with a knowledge exchange or learning role) about how they make decisions around funding.

You might not be alone on that one

It's worth asking your funder (or an intermediary body) whether they know of other funded organisations that are interested in doing economic evaluation or that could benefit from one. Sometimes it's better to work as a collective (e.g. all homelessness organisations) than as an individual organisation – it could lead to sharing resources, peer support and a stronger voice.

Build your economic case

Look for opportunities to build the economic case of your project or intervention in the long term, particularly if you are trying to convince decision-makers to invest in the development of a new service.

Some funders might be willing to pay for an economic evaluation if they think it will help funded organisations make the case for securing future funding from other funders. But you'd need to be clear – in theory – that it would and back it up with some evidence.

Time to talk

Make sure you are on the same page

Most funders have knowledge about economic evaluation at some level; however, to avoid misunderstandings from the outset it's a good idea to **start the conversation by exploring** what each of you understand by 'economic evaluation'.

Some funders, particularly independent funders, told us that they don't like the term 'economic evaluation'; they find it 'jargonistic' - so **avoid using jargon** as much as possible.

It is worth noting that 'economic impact' and 'social impact' are two different things. According to NPC's report:

- **Social impact** is the effect of an activity on the social fabric of the community and wellbeing of the individuals and families.
- **Economic impact** is the effect of an activity on type and level of economic activity, usually measured in terms of economic transactions like changes in employment, income and spending.

Nowadays economic approaches allow us to put monetary values on some social activities and outcomes, blurring the line between the two.

Clarify the purpose of the economic evaluation

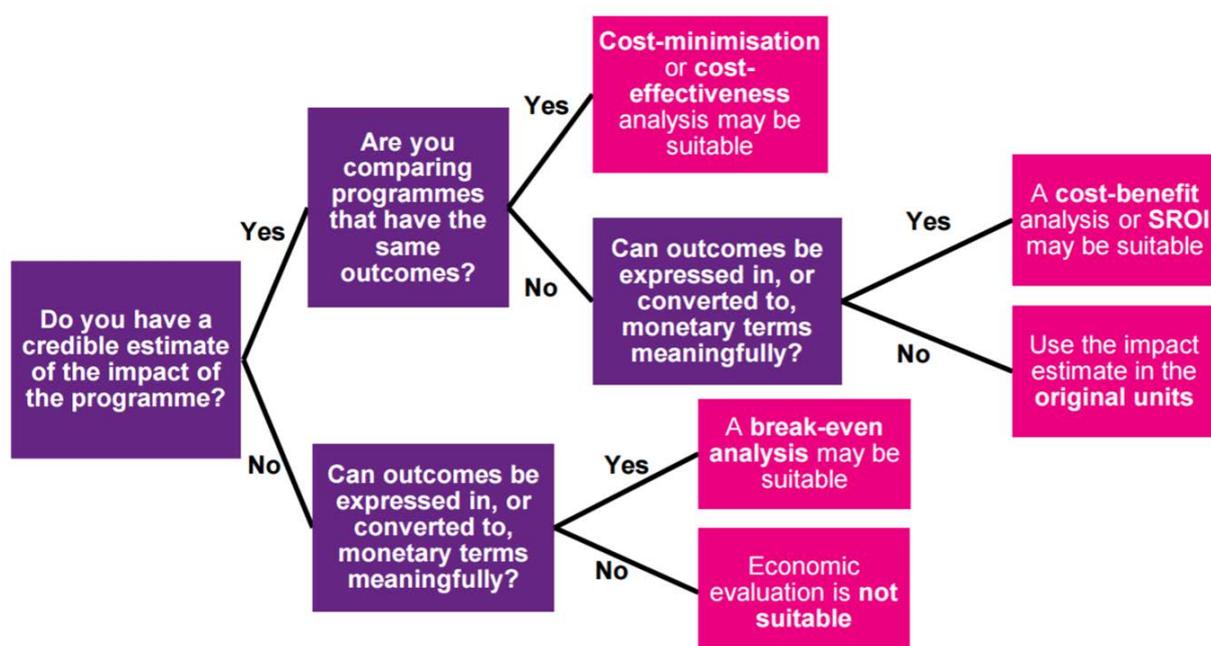
It's helpful to know **what kind of information your funder wants/needs** and how they will use the results and learning from the economic evaluation.

From our research we know that most, if not all, funders currently ask for some economic information; the majority asking for costs of inputs as opposed to cost per intervention, savings or outcomes expressed in monetary terms. However, in the future funders may ask for more economic information.

Your funder might be interested to know:

- The cost of inputs (i.e. running/delivery costs)
- Whether your intervention is feasible (from an economic perspective)
- The cost per outcome (i.e. cost-effectiveness)
- The outcome(s) expressed in monetary terms
- Cost of intervention beneficiary
- What impact is needed to make your intervention economically worthwhile
- The amount of money saved in the longer term
- The value for money of your intervention (i.e. for every £1 spent, the intervention creates £X in value).

The following flowchart, extracted from NPC's report, can help you and your funder explore what **type of economic evaluation** might provide you with the information you both want/need:



Don't second-guess economic evaluation benefits

If you are considering economic evaluation as a means to increase your chances of funding make sure you **sense-check this with your funder**. Economic evaluation requires considerable investment of time, energy and resources so you want to ensure it's worth it.

Also, if you claim in your funding application that your intervention or project will save money, make sure to plan and follow through your evaluation accordingly.

Our research told us that when making decisions about funding an intervention the majority of funders thought that economic evaluation was equally or less important as these and other factors they take into consideration, such as:

- The track record of organisation
- Evidence of need
- Quality of application
- Outcomes expressed in non-monetary terms.



However, funders also told us that there are some times when economic evaluation could be an important decision factor; for example, when deciding to fund an intervention or when they awarded funding to an intervention that claims to save money. Funders will likely look for the evaluation evidence to back that up.

Turn the page for '**talking points**' to help you plan conversations with funders.

Some final considerations

If by this point you **STILL** want to do an economic evaluation, check out the **Resources** section for further guidance and advice. If you don't have the expertise or capacity in-house there are a number of research consultancies which specialise in economic evaluation. Our [consultants database](#) can help you identify and choose external evaluation support. Also:

- [ESS Support Guide 5.1: Getting the best from an external evaluation](#) has simple guidance on how to commission and manage external evaluations.
- [Getting the best from external evaluation: Principles for funders](#), although this guidance is aimed at funders, most of the content is also relevant for anyone commissioning an evaluation including third sector organisations and public sector commissioners.

If you decide that an economic evaluation is **NOT** for you, you will still need a good non-economic evaluation to evidence and report on the difference your work makes to the people you work with so check out our **free evaluation resources section** on our [website](#). We also offer tailored support and workshops on evaluation related issues.

Talking points

The following questions aim to help you structure your conversation with your funder. Pick those that are most relevant to your situation. This is not an exhaustive list – you and your funder might have questions of your own.



It's advisable to explore these questions **with** your funder, even if you think you know the answers, to avoid future misunderstandings. Please note that by 'I' we mean a member of staff or volunteer working in the third sector.

Questions about the value of economic evaluation:

1. Do we, the funder and I, mean the same by 'economic evaluation'?
2. Does the funder value/need economic evaluation?
3. At what point of the project would an economic evaluation be helpful? What value would it add?
4. How would it fit in with other evaluation work: What do I want to evaluate, learn or discover that's different from what I get through other evaluations?
5. What would we, the funder and I, do with the learning? (e.g. service improvement, decision-making, service design)
6. What kind of information do the funder and I need? (e.g. cost per outcome, cost per input, savings per outcome)
7. Are we, the funder and I, sure the information already exists? Have I (and/or the funder) done background research and looked at existing evidence before considering an economic evaluation?
8. What type(s) of economic evaluation would give us, the funder and me, the information we need?
9. What other competing information might the results be up against?
10. Do we, the funder or I, know of other (funded) organisations that have done/are doing economic evaluation in this area?
11. Would the funder like to be involved, and if so, how?

Questions about resourcing economic evaluation:

12. Do I/my organisation have the capacity, skills and resources to do the economic evaluation well, or do we need external support?
13. What would be the funding implications?
14. How can the costs be built in the general evaluation costs?
15. Would the funder be willing to pay for the economic evaluation?

Resources

The resources below offer further guidance on economic evaluation.

Arvidson, M.; Lyon, F.; McKay, S.; Moro, M. (2010) [*The ambitions and challenges of SROI*](#), Third Sector Research Centre.

Big Lottery Fund (2013) [*A Guide to Cost Benefit Analysis*](#).

Heady, L. (2010) [*SROI Position Paper*](#), New Philanthropy Capital.

HM Treasury (2011) [*Magenta Book: Guidance for evaluation*](#).

HM Treasury (2013) [*The Green Book: Appraisal and Evaluation in Central Government*](#).

Inspiring Scotland Knowledge Hub [*How to approach Cost Benefit Analysis*](#).

Life Changes Trust Evaluation Toolkit (online)
<http://www.lctevaluationtoolkit.com/economic-evaluation/>

Mental Health Foundation (2016) [*Demonstrating the value of the voluntary and community sectors*](#) (see also this related [blog](#)).

Social Value UK [*A Guide to Social Return on Investment*](#).

Ravenscroft, C. (2013) [*The secrets of success? How charitable funders use and share evidence in practice*](#), The Alliance for Useful Evidence.

Scotland Funders' Forum (2010) [*Harmonising Reporting Working Group: Report to the Scotland Funders' Forum*](#)

Svistak, M. and Pritchard, D. (2014) [*Economic Evaluation: What is it good for?*](#), New Philanthropy Capital.

Health and Social Care Alliance Scotland (2014) [*Building mutually beneficial relationships between Funders and Funded: top tips for funded organisations*](#), Self-Management IMPACT Fund.

[Global Value Exchange](#), a free platform for sharing information, enabling greater consistency and transparency in measuring social and environmental values.

[Social Value Bank](#) is a bank of robust social values that provides a basic assessment of social impact and evidence of value for money.

[ProBono Economics](#) offer a matching service between charities and volunteer economists, as well as case studies and other resources.

[Social Impact Scotland](#) is a portal offering access to information, resources (including case studies) and support for third sector organisations and funders interested in finding out more about social impact measurement.

MESSAGES ABOUT ECONOMIC EVALUATION FROM FUNDERS FOR THE THIRD SECTOR



In 2015 ESS conducted a survey of funders' views about economic evaluation: that is evaluating impact in financial terms or 'value for money'. The following messages come from our research findings and feedback from funders at FunderFest2016.

1 NOT TOP PRIORITY FOR FUNDERS

Economic evaluation is not something that funders want all of the time and some do **not want** it at all.



2 MAY NOT MEAN MORE FUNDING

Having an economic evaluation **alone** will not usually increase an organisation's chances of funding.



3 OUTCOMES ARE IMPORTANT

Funders want to know what **difference** has been made. Monetary value is only part of the picture. Outcomes and learning are important.



4 RELEVANT AND PROPORTIONATE

All evaluation should be relevant and proportionate to the size of grant and funded organisation.



5 NO BEST METHOD

Funders might **not** always know the best method to use for your project.



6 FUNDERS KNOW THE CHALLENGES

Funders are **aware** of the challenges that economic evaluations brings especially to smaller organisations.



7 TALK TO YOUR FUNDER

Funders want third sector organisations to talk to them before doing an economic evaluation. Public and independent funders may have different priorities. **So talk!**

