Total impact tool

What is the tool?
This tool aims to help someone decide what the best use of money is when the options available are projected to generate both financial returns and social impact.

Who could it be useful for?
The tool could be useful to anyone involved in formulating an impact strategy for a charitable foundation, by acting as a lens through which to think about maximising social impact.

The lens might also be useful for other investor organisations (such as those involved in managing pension funds or university endowments) who are considering the social impact of their decisions in addition to the financial ones.

Why has Cabinet Office made this tool?
The tool emerged from our recent work looking at foundations that are following "Total Impact approaches" for meeting the needs of their beneficiaries. A Total Impact approach is one where a foundation considers the social impact of all of all its activity before deciding which strategy for managing its resources will maximise its social impact.

Through this research, it became clear that deciding which investment option will generate the most social impact is difficult. One investment option, for example, may be projected to achieve a high financial return than another, but a lower level of social impact. Is a foundation better off making the investment that maximizes the size of the grant programme, or the one that leads to a smaller grant programme but creates social impact itself?

Our research did not uncover a tool which provides guidance for questions like this, so - working with experts in the field - we decided to see if we could create something ourselves. We hope you will take this in the spirit it is intended: we are not ourselves experts in this area and we appreciate that the tool simplifies complex questions. We hope that what we have created could, however, be useful in helping to frame conversations around which strategies create the most social impact.

How do I use the tool?
The tool requires the user to insert the following inputs:

1. Investment name
2. Investment type
3. Amount
4. The projected financial return per annum (%)
5. The estimates cost per annum of investment (%)
6. The period over which the investment will be made
7. The number of years per grant – i.e. the length of time the investment return will be rolled up before it is granted away.

8. The projected social impact “SIMP" value of the investment. We have developed the following process for projecting SIMP (social impact):
    a. Decide a social impact to target – e.g. reducing the rate of reoffending.
    b. Establish how much it costs through a grant programme to achieve one unit of the social impact being targeted. e.g. to prevent one person from re-offending it costs £5,000.
    c. Work out how many units of SIMP would be achieved with the given amount of money available. e.g. £100,000 will prevent 20 people from reoffending.
    d. Project the equivalent unit of SIMP (e.g. how many people might be prevented from re-offending) through an investment. E.g. if the investment is made in a social enterprise that employs former prisoners, a £100,000 might enable it to prevent 10 people from reoffending.

The SIMP value of this investment will therefore be 0.5 (20/10). This means the SIMP efficiency of the social investment versus the grant programme is 50%.

If, on the other hand, the investment is made in a UK Equity Fund with no discernable impact on reoffending, the investment would have a SIMP value of 0.

What happens then?
Once these values have been inserted, the calculator will establish which investment option will create the greatest social impact. It assumes that any investment return generated is granted away periodically, and that the total amount of the original investment is also granted away at the end of the investment period.

What does the tool appear to show so far?

We have published some results from the calculator alongside this paper. For the purposes of simplicity, these assume that an investment will never be more efficient at achieving social impact than a grant (i.e. the SIMP value of an investment will never be greater than 1). Some may wish to challenge this assumption.

Based on these results, there are three findings that we found to be of particular interest:

1. If an investment has a neutral, or low level SIMP rating, it will only tend to generate more social impact overall than a social investment if its net financial return is over 5% p.a. **An investment with a neutral SIMP value will create more social impact overall than a social investment if it returns more than 8% net p.a.**

2. Once the net financial return of an investment creating low levels of social impact falls below 5% p.a., a socially impactful investment does not have to generate significant investment returns for it to create the most social

impact. **A social investment with a SIMP value of 0.55 will create more social impact with a 1% p.a. investment return than an investment which yields 5% net p.a. but has a SIMP value of 0.**

3. When an investment creates a negative social value (i.e. it directly detracts from the social impact the organisation is trying to achieve) this can have a significant impact on the overall social impact being generated. **An investment with a SIMP value of -0.5 returning 5% p.a. will generate less than half the total social impact of an investment yielding the same return but with a neutral SIMP value.**

Where can I leave comments about this tool?
We would welcome comments on how you are using this tool and how it could be improved. If you would like to leave us comments, or discuss the tool further, please contact us at socialinvestmentandfinance@cabinetoffice.gov.uk.

I think I can improve this tool – how do I go about doing it?
This is a basic tool that could be improved in all sorts of ways. As such, we would welcome anyone to think about how to develop it.