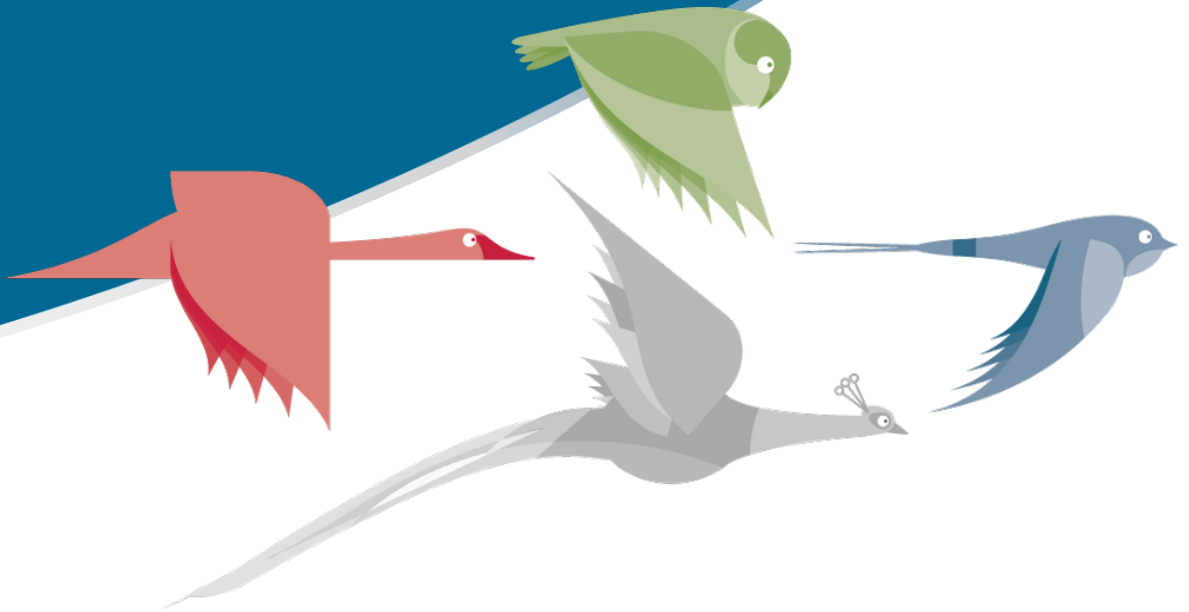




# Social Value Today: Current public and private thinking on Social Value



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Cohesia

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## Foreword

It might seem untimely to produce a report on emerging thinking on Social Value at a time when the rhetoric and budget of the new UK government is focused on new build, home ownership and reducing the housing benefit.

There is a clear sense that the new government has no commitment to social housing and wants housing providers to reduce operating costs and draw back from community investment.

However, and in marked contrast, momentum is building across the European Union for increased legislative and regulatory requirements in respect of social value and for greater clarity and purpose in terms of social value measurement.

Even in the UK, the Young Review of the Social Value Act and the new Cabinet Office-supported *Inspiring Impact* initiative reflect increased government focus on social value.

This momentum is paralleled in the private commercial sector where leading companies across the world are moving away from 'corporate social responsibility' towards 'social value impact measurement' as a means of building or maintaining competitive advantage in terms of public opinion and customer demand. Much of the new thinking on social value is coming from the global private sector.

So, notwithstanding contrary noise, housing providers need to maintain their focus on social value – not least in terms of procurement.

This report, written by a leading authority on social value, brings the housing sector up-to-date in terms of UK, European and global trends in thinking on social value and its measurement. It consciously avoids commentary on the plethora of products being offered to the sector, focusing instead on the bigger picture which will over time impact on the value of these products.

We believe that, notwithstanding the daunting fiscal pressures on housing providers, social value remains as important as it was before the May election and the July emergency budget. It would appear that many other governmental, regulatory and commercial organisations think so too.

**Ross Fraser**  
**Chief Executive**  
**HouseMark**

## Section 1: Introduction

### What is 'social value' and why does it matter?

“Social value encompasses a broad concept of value by incorporating social, environmental and economic costs and benefits. This means that as well as taking into account the direct effects of interventions, the wider effects on other areas of the economy should also be considered.”

*The Compact*, HM Government Cabinet Office<sup>1</sup>

The government's *Compact* with the voluntary and community sector, first published in 2010, provides a useful definition of social value, focusing on organisations' activities 'beyond bricks and mortar' and the broader costs and benefits of what they do. (For simplicity, this report uses 'social value' as the generic term for social impact and social value, given that this is the terminology captured in the Public Services (Social Value) Act 2012.)

This is an approach that HouseMark has previously adopted (see, for example, *Social hearts, business heads: new thinking on VFM for housing associations*, Smedley 2012), arguing that social value is not simply 'added value' but the 'whole circle'.<sup>2</sup>

The housing sector in general is actively reviewing its approaches to social value, and there is ongoing discussion about how best to measure it and compare social value outcomes between different organisations. This interest is mirrored in related sectors, for example social enterprises. The discussion among social enterprises is particularly vibrant at a time when their combination of values and commercial resourcefulness is of increasing interest to a diversifying sector.

The current interest goes well beyond the housing sector, however. The government's renewed emphasis on financial austerity means that the public and voluntary sectors will continue to be charged with 'doing more with less'. In this context, they will be under increasing pressure to demonstrate the social value of their activities.

The private sector is also facing increasing scrutiny over the way it does business, and is seeking to justify its activities in terms of social as well as economic value.

### Key social value initiatives

Social value is central to a number of key initiatives, both domestically and internationally:

**The G8's Social Impact Investment Taskforce**, established during the UK's G8 presidency in 2013, is seeking nothing less than a "paradigm shift in capital market

thinking... to ensure that finance helps build a healthy society rather than endanger it". In addition to the traditional capital priorities of risk and return, it seeks to bring a third dimension, impact, to investment decision making.

**The European Commission** is developing a methodology to measure the socio-economic benefits created by social enterprises.

In **the UK**, there has been significant support for the use of **public procurement policy** to secure social goals – for example, through the use of small and medium-sized enterprises (SMEs). Further momentum is promised by the new government, with the Conservative Manifesto containing an aspiration to scale up **social impact bonds** and **payment by results**, particularly around youth unemployment, mental health and homelessness.

**The Cabinet Office** is working with Inspiring Impact, a UK-wide collaborative programme with the voluntary sector on impact measurement, to see whether an agreed social value measurement framework can be established for England and Wales. This follows earlier social investment initiatives from HM Treasury, the DWP, the Ministry of Justice and the Cabinet Office itself.

The Cabinet Office is also facilitating a series of grants through Social Investment Business and other bodies targeted at organisations developing their social impact and its measurement.

**The Scottish Government** is consulting on the implementation of more rigorous social value requirements as part of public bodies' commissioning processes.

In the **private sector**, some commentators have described a shift from an analogue age of 'profit and social good' to a digital age of 'collaboration and alignment' of profit with purpose.<sup>3</sup> There is a growth in **social value metrics** as part of increasing **social investment markets** with the social impact bond market continuing to mature, albeit slowly. This is investment that goes beyond ethical investments and is more specifically targeted at the use of finance to tackle entrenched social issues.

### Key point

Social value is becoming a mainstream organisational issue with five key groups interested in its measurement, according to the G8<sup>4</sup>: government, foundations, social sector organisations, impact-driven businesses and impact investors – to which we should add customers and service users.

However, social value measurement is currently diverse<sup>5</sup>, 'fragmented'<sup>6</sup>, 'not yet fully developed'<sup>7</sup> and requiring an industry standard.<sup>8</sup>

The following sections of this report explore the practical implications of this wider process for change by looking in turn at:

- the business imperatives for organisational engagement with social value
- the legislative and regulatory requirements for social value in the context of the UK government and the devolved administrations
- good practice in social value measurement and benchmarking as it is evolving within different areas.

## Section 2: The growing interest in social value

“Our gross national product now is over \$800 billion a year, but that gross national product – if we judge the United States of America by that ... counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl. It counts napalm and counts nuclear warheads and armoured cars for the police to fight the riots in our cities ... Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages ... It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion ... It measures everything in short, except that which makes life worthwhile.”<sup>9</sup>

*Robert Kennedy, presidential candidate address at the University of Kansas, 18 March 1968*

There is nothing new about an interest in social value, as is indicated by Robert Kennedy’s speech during his presidential election campaign half a century ago. The continuing relevance of his remarks should reassure us that the current attention to social value is not a passing social policy fad.

The past few years have seen significant growth in institutional interest in new approaches to the measurement of economic activity as the business benefits of delivering and accounting for social value have become more widely accepted. This builds on the development of triple bottom line (TBL) accounting – social and environmental, as well as financial – in the mid-1990s as a key driver for measuring impact.

The G8 has quantified the current cost of environmental damage due to economic activity worldwide at the equivalent of 11% of global GDP. The sums involved are clearly enormous even before beginning to financially quantify the positive benefits of social value.<sup>10</sup>

There has also been some shift away from the absolute importance of GDP and strictly monetary indices to more holistic life-evaluation measures, such as people’s subjective wellbeing.<sup>11</sup> The OECD has identified 11 dimensions as essential to wellbeing as part of its work to develop more consistency in its measurement.<sup>12</sup>

### Key point

Triple bottom line (TBL) accounting has three parts: social and environmental as well as financial. These three Ps – people, planet and profit – are often referred to as the ‘three pillars of sustainability’.

### Global interest in social value

As part of the UK presidency of **the G8** in 2013, the Prime Minister hosted a Social Impact Investment Forum in London and launched the Social Impact Investment Task Force to drive forward social investment. It identified several key issues:

- how to move the social impact investment market towards global scale and sustainability
- the need for increased standardisation in impact measurement, supported by an OECD report on global developments in social impact investment and a working group of experts on impact measurement
- the need to develop and share best practice, both in governmental policy and more broadly among market actors.

The G8 put in place a structure of supporting forums engaging with social investment and hence the production of social value and its measurement:

- The **Social Impact Investment Taskforce** presented its report in autumn 2014 on the potential of impact investment to improve society and the environment. Now in its second year, it is driving the take-up and implementation of its recommendations.<sup>13</sup>
- The **Working Group on Impact Measurement** (see section 4) was set up to ensure existing impact measurement terms and frameworks are complementary, with a view to moving towards consistency and consensus.
- The **Global Learning Exchange** was developed to build a global network for the exchange of ideas, resources and best practice.

The G8 sees social investment as source of growth, innovation and finance to tackle deep social problems. It commissioned the OECD to produce a detailed report on global developments in order to evaluate the size and scope of the market. This report highlights the need for further work to develop global standards on definitions, data collection, impact measurement and policy evaluation.<sup>14</sup>

The G8's interest in social value goes beyond investment and involves active discussion around social innovation and procurement. This includes proposals for greater governmental sharing of good practice and the establishment of a pilot budget for the purpose of investing in social innovation and demonstrating long-term taxpayer value.<sup>15</sup>



The importance of social business has also been a key part of the **European Union** drive on social value. €85 million in grants has been made available since 2014 to social enterprises that can demonstrate they have a ‘measurable social impact’ through the Programme for Employment and Social Innovation.<sup>16</sup>

These global trends provide the context for the growth in perception of the business benefits of social value by firms across the private, public and voluntary sectors in the UK.

### The UK social investment market

The UK social investment market spans the private, public and voluntary sectors (see diagram). The potential appetite for social investment was estimated at up to £1 billion in 2014.<sup>17</sup>

#### Segmentation of UK social impact investment market

		Market Elements		
		Demand	Intermediary	Supply
Market sub-segments	Cooperatives*		Social banks	Individual investors
	Charities*		Fund managers	Institutional investors
	Social enterprises*		CDFIs	Government investment
	Mainstream business		Infrastructure	Charitable foundations
	Government		Instruments	Philanthropists
				Corporates

\* Social organisations

The Conservative Manifesto promised an expansion in the **social investment and social impact bond (SIB) market**, particularly around homelessness, youth unemployment and mental illness.<sup>18</sup> This is likely to be of particular interest to organisations such as St Mungo’s, which has already participated in the growing SIB market<sup>19</sup> and recently raised £56.8 million for its Broadway lettings arm.<sup>20</sup>

**Charity bonds** are already providing a way for the public to invest in social housing. For example, Golden Lane Housing raised £11 million to provide supported housing for tenants with learning disabilities and Hightown Praetorian and Churches Housing Association’s retail charity bond raised £27.5 million.

From a different perspective, the OECD identifies Tesco as an example of social impact investing by unlocking its land banks for housing projects (reportedly including its own £1 billion house-building scheme).<sup>21</sup>

Some financial advisors are also close to bringing **social investment to the retail financial market**. They see the potential to markedly expand the scope and volume

of the territory outlined above, a development that has also been identified by Triodos for the G8.<sup>22</sup>

There are challenges, however, with some critics arguing that UK social investment will reach a plateau unless social investment organisations:

- move beyond a west and central London ‘clique’<sup>23</sup>
- reduce the cost of finance (perhaps by cutting out the middle man)<sup>24</sup>
- find ways of delivering profitable loans for sums less than £250,000
- develop financial products that blend grant and finance<sup>25</sup>
- facilitate small-scale involvement, including direct investment, community shares and crowdfunding platforms.<sup>26</sup>

### **The private sector**

In the UK, social value is increasingly regarded as reflecting good business sense as well as social purpose, notwithstanding accounting requirements (see section 3).

As Carillion chairman Philip Green notes:

“Pressure is increasing from government, the public, the media, regulators and customers for business to behave responsibly ... Consumer scrutiny of business behaviour is growing. Ignoring these pressures is commercially destructive.”<sup>27</sup>

Peter Bakker, president of the World Business Council for Sustainable Development, representing 200 of the largest companies globally, argues that leading companies are already going well beyond basic corporate social responsibility (CSR). He says that they are integrating sustainability – social value – in everything they do to ensure their viability. Indeed, Unilever, for example, has effectively closed down its CSR department to integrate sustainability responsibilities within all staff roles.<sup>28</sup>

KPMG International has shown the same recognition of the commercial imperative to move to a focus on social value:

“To do well in today’s business environment, you increasingly have to measure, understand and proactively manage the value you create, or reduce, for society and the environment as well as for shareholders.”<sup>29</sup>

Veolia is continuing to develop a full social value strategy. Fujitsu measures the ‘social value’ produced by its SME suppliers and is part of the Trading for Good social value programme for business, although its measurement remains rooted in CSR outputs such as donations rather than social value outcomes such as ‘the difference made’.

Additional momentum has been provided by the outsourcing of public services to the **community and voluntary sector**, including an increasing use of results-based commissioning. The reform of the Ministry of Justice (MOJ) probation services, for example, is a £1 billion programme to improve social outcomes and reduce costs.<sup>30</sup>

Where these trends involve holistic services from more than one organisation there is also pressure for shared measurement systems to ensure transparency, service alignment and good practice across service delivery.<sup>31</sup>

### Key point

The private sector increasingly regards social value as providing business benefits by establishing public and government trust, as well as having a direct effect on profits and financial sustainability through an enhanced brand and 'feelgood' factor.

A challenge for housing providers will be to harness the social value being offered by the private sector without locking out smaller firms that may already be providing it as part of their everyday offer through their use of local labour and connections with the local community, but may not have learnt the 'social value language'.

The Young Review<sup>32</sup> outlines how the London Borough of Lambeth and Durham Council have increased their use of local firms and by implication smaller providers.

### The public sector

The **Young Review<sup>33</sup> of the Public Services (Social Value) Act 2012**, commonly known as the Social Value Act (see section 3) identifies social value as a means of delivering Best Value in public services, reducing costs and achieving more coherent service design. It argues that the greatest public sector engagement with social value is currently coming from local authorities and housing associations, with central government and health commissioners trailing.

A Social Enterprise UK (SEUK) survey found that 37% of its local authority and housing association respondents had a written social value policy, with a further 48% working towards one in some way.<sup>34</sup> Two-thirds of local authorities and housing associations stated that they were considering social value as part of all of the services procured. The Young Review reported lower numbers, however, with only 27% of service providers in its sample saying that social value was visible in the commissioning process.

All public agencies are charged by the Young Review to make greater progress in moving from considering social value to establishing it as a strategic driver in their activities.

## HouseMark survey

A survey carried out by HouseMark as part of this study (based on 53 completed social value questionnaires from English and Welsh housing associations and ALMOs) shows a positive trajectory in the aspirations for social value measurement. The reported areas of focus are:

- procurement (78%)
- community regeneration (73%)
- resident involvement (73%)
- social inclusion, community cohesion, crime and ASB (71%)
- human resources – for example, employment, education, training and volunteering (64%)
- asset management (60%)
- environment (58%)
- care and support (56%)
- health (51%)
- performance and financial management (44%).

## Objectives of social value measurements

Housing providers will have a number of specific objectives for social value measurements. Interviewees and questionnaire respondents for this study identified that social value analysis would help them to:

- achieve service delivery improvements and cost savings
- encourage community participation
- audit and track outcomes for project work
- sustain long-term investment in communities, achieving economic, environmental and social improvements, including employment and training gains
- drive additional value from their commissioning and procurement and comply with the Public Services (Social Value) Act 2012 (see section 3)
- be in a position to engage with external commissioning bodies and identify their service outcomes
- inform revenue and capital investment decisions
- engage with their risk maps
- engage more widely with providers' localities as part of the ongoing devolution agenda
- account for their impact to internal and external stakeholders, including regulators and more widely for the use of rent money for "non-bricks and mortar" activities
- ultimately provide comparative and competitive advantage, including with other sectors.

Much of this agenda involves engaging with external stakeholders. Consequently the sector will need a **common language to communicate notions of social value** from global to local organisations, private to community and voluntary sectors, and within emerging private social investment and grant-making areas if its social value messages are to be heard.

### Key point

The Cabinet Office's acceptance of the Young Review's message that more must be done to drive social value across government will shape housing providers' engagement with social value and, critically, its measurement, as explained in section 4.

### The community and voluntary sectors

Given their purpose, we would expect the community and voluntary sectors to be engaging with social value issues.

The HCA, the English social housing regulator interviewed as part of this study, stated that:

“There are clear benefits for stakeholders if housing associations learn the language of social value, particularly as charities (outside the sector) seem much more articulate and experienced in social value issues. This is increasing stakeholder expectations of associations on social value.”

Social enterprise UK (SEUK) has argued that social enterprises and co-operatives are outperforming just-for-profit businesses, while alternative banks are providing better asset return and less volatility than traditional lenders.<sup>35</sup>

The Young Review seeks to accelerate the process of public sector commissioning to the voluntary and community sector, so the business benefits of social value engagement for this sector will increase.<sup>36</sup>

The social footprint of social enterprises with a local supply chain and spending footprint through local labour also provides a benefit for local authority commissioners seeking to ensure local economic multipliers.<sup>37</sup>

The Social Investment Business organisation, which is closely associated with the Cabinet Office and providing grants to develop capacity in the voluntary and community sector, has a significant focus on social impact and its measurement. Similarly, Access – the Foundation for Social Investment has recently been created in collaboration with the Cabinet Office with three funding strands to develop social investment. Access has signed up to the Cabinet Office approach of identifying ‘total impact’ – for example, by furthering charitable objectives.<sup>38</sup>

The social impact investing organisation ClearlySo argues that pure grant funding will continue to be withdrawn, leading to a more diverse and sophisticated capital funding structure for social service provision. This will in turn require a greater degree of disclosure and quantification of social value.<sup>39</sup>

SEUK also identifies the way in which social enterprises are becoming part of the mainstream territory of housing providers with 41% of respondents to its recent survey of housing associations and local authorities having been involved in social enterprise development schemes.<sup>40</sup> Once an organisation had set up one social enterprise, moreover, it was almost as likely to have set up five or more.

**Key point**

The growth of cross-sector interest in social value, added to government pressure to commission for social value and with social enterprises, creates a perfect opportunity for housing providers to focus on the development of social enterprises as part of their social value offer.

## Section 3: Legislation, regulation and social value

“Public sector organisations can achieve both value for money and social benefits through early and effective inclusion of social considerations in project development.”<sup>41</sup> Jonathan Bell MLA, junior minister at the launch of the North Ireland Executive’s ‘Buy Social’ Toolkit, 29 January 2015

The four nations within the UK currently have differing key domestic legislative and regulatory drivers for the social value agenda. However, they all sit within a **European Union framework** that is increasingly concerned with social value, as demonstrated by the **New Public Contracts Regulations** governing public procurement, which came into effect from 26 February 2015 in England, Wales and Northern Ireland.<sup>42</sup>

The **EU’s Single Market Act II**<sup>43</sup> shapes much of its approach to social value, emphasising the importance of the social economy and social enterprises as key actors in delivering social innovation, inclusiveness and trust. Alongside this, the **European Procurement Directive 2014/24/EU** is increasingly shaping the social value content of UK public body commissioning, as outlined below.

The Regulations have been introduced following new European rules to ensure EU member states can obtain high quality goods and services, while also delivering Value for Money (VFM) for the public purse. Notably they provide additional clarity that social aspects can be taken into account in certain circumstances in procurement.

In addition, the European Commission’s **Directive on Non-financial Reporting**, adopted in April 2014, requires nearly 6,000 public bodies to report on environmental, social, employee and human rights issues.<sup>44</sup>

The Directive applies to large public-interest companies with more than 500 employees. These include listed companies, as well as some unlisted organisations, such as banks, insurance companies and other companies designated by member states because of their activities, size or number of employees.

Companies will need to disclose in their management reports relevant and material information on policies, outcomes and risks. This includes due diligence of their implementation. It also requires the identification of relevant non-financial key performance indicators concerning environmental aspects, social and employee-related matters, respect for human rights, anti-corruption and bribery issues, and diversity on the boards of directors.<sup>45</sup>

### **Key point**

There is momentum and consistency of purpose behind the EU's legislative promotion of social value as a key social and economic driver. This is rooted in the Single Market Act II and implemented through commissioning and accounting regulations.

There is a clear message from the European Commission that voluntary approaches to accounting for social value have not had significant success and housing providers should expect further legislation if its appetite for the generation of social value is not satisfied.

### **Key UK themes**

The **key legislative and regulatory themes** on social value in the UK have been:

- financial accounting
- commissioning and procurement
- Best Value and Value for Money (VFM)

### **Financial accounting**

Section 417 of the Companies Act 2006 stated that directors should have regard to the impact of the company's operations on the community and the environment. In October 2013, this was updated with regulations requiring all quoted companies (those whose shares are listed on the Stock Exchange) to produce a strategic report as part of their annual report including social, community and human rights issues.<sup>46</sup>

**Social Investment Tax Relief** set in the 2014 Budget captures the government's encouragement for personal investment in social impact finance.<sup>47</sup>

### **Key point**

Housing providers should see the interest in social value accounting as part of a general international corporate trend, not a peculiarity of a particular national regulator, nor an additional burden that they experience as public sector or social providers.

### **Commissioning and procurement**

Commissioning is the dominant theme in UK and devolved authority social value legislation. This is driven in part by the EU procurement regulations, and more significantly through government's desire to secure social value and community benefits from public procurement.



In England and Wales, the **Public Services (Social Value) Act 2012** is the key driver,<sup>48</sup> with the Young Review having recently reflected for the government on its implementation and possible extension.<sup>49</sup>

Commonly referred to as the Social Value Act and implemented on 31 January 2013, the Act requires all public commissioning bodies<sup>50</sup> in England and Wales to consider how the services they commission and procure might improve the economic, social and environmental well-being of the area when the value of the services to be let are greater than European procurement thresholds.<sup>51</sup>

**Economic considerations** can include contributions to the local economy, including retaining, re-circulating and leveraging funds in a local area. It also takes into consideration the wider contribution to skills and tackling worklessness.

**Social considerations** might include the contribution to a vibrant community and achieving community-based actions, equalities, diversity, inclusion and cohesion. It also looks at local relationships, partnerships and people from seldom-heard groups.

**Environmental considerations** can include improving the local environment.

Whilst the Act applies to services, it does not apply to contracts purchasing works or goods, although it does apply to services where an element of works or goods is procured alongside services.

Commissioners also have to consider whether they should consult on social, economic and environmental issues (for example, with potential users or suppliers of the service in question).

**Lord Young's review of the Act**, published in February 2015,<sup>52</sup> recognised the role of social value in improving VFM in commissioning. It also emphasised the need for improved measurement of social value.

Young recommended a further review of the Act by 2017, again focusing on the possibility of its extension throughout the commissioning process and its potential application to goods and works contracts. In the meantime, the Cabinet Office is tasked with driving forward its implementation across public bodies and business, addressing their current inconsistent application of the Act.

### **Key point**

Housing providers in England and Wales should expect greater pressure to include social value in their own commissioning, which will increase the importance of its measurement. In tandem, their own social value performance will come under greater scrutiny from commissioners as they seek public contracts.

Young makes no recommendations specifically for UK devolved administrations. However, the **Welsh Assembly** has been pursuing its **community benefits approach** in public sector procurement. This is targeted at changing commissioning processes throughout the supply chain to help deliver wider employment and housing benefits.

'Community benefits' build social clauses into contracts and have tended to focus on recruitment and training opportunities. The **Welsh Government's 2010 McLelland Procurement Review** championed their use, although similarly to the Young Review it found inconsistencies in their implementation.<sup>53</sup>

This led to the development of the **Wales Procurement Policy**, which notes that the Welsh public sector can provide a crucial springboard to support economic growth through commissioning and procurement.<sup>54</sup>

The **Scottish Government** adopts a similar line, seeing the **Scottish Model of Procurement** as a tool for providing benefits to society, social policy and service delivery.<sup>55</sup> One interviewee for this report talked about Scottish public sector procurement being a social reform agenda rather than being constrained by a more narrow technical concern with 'better' purchasing

Specific aspects of the Scottish Model of Procurement's implementation include community benefit clauses in contracts, a good practice guide and a toolkit for contracting and extensive training on sustainable procurement.<sup>56</sup>

"The first question that we should ask when developing any contract specification should be: Can we include a community benefit clause?"<sup>57</sup>

In May 2014, the Scottish Parliament passed the **Procurement Reform (Scotland) Act 2014** to develop the model further, through a general duty requiring a public body to think about how it can improve the economic, social and environmental wellbeing of its area through its spending.<sup>58</sup>

Public bodies include housing associations as well as the devolved authority, local authorities and the Scottish Regulator.

There are **additional specific duties for Scottish public bodies**

- requiring them to consciously 'opt out' of community benefit clauses. This gives them flexibility to be proportionate in their use while making clear an expectation that they are part of 'standard' commissioning. It also places an organisation under threat of legal review if the opt out is challenged.
- if they spend £5 million or more in any financial year, to set out how they intend to carry out procurements regulated by the Act, to prepare an annual report on how their procurement activity has complied with its strategy and how they will comply with expected future regulated procurements.

There will be statutory guidance to outline the stakeholder engagement required to identify community benefits and any circumstance when they would not be relevant or proportionate.

The work of the Scottish Regulator and individual social housing providers will be influenced by the Act, not least in the clear expectation that compliance with the general and specific duties will be audited. For example, **Procurement Capability Assessments (PCAs)** have been required since 2009 for public bodies to identify areas for improvement in procurement activities and PCAs will be updated to take account of the new Act.

Audit Scotland's overview of PCAs has found that councils have been systematically using procurement spending to support local economic development, including increased spending with SMEs. However, it continues to identify the need for a more systematic approach to collecting information on non-financial benefits and a more rigorous implementation of community benefits.<sup>59</sup>

The **Northern Ireland Executive** is increasing the profile of its work around social value, declaring that its procurement policy should more closely integrate the wider economic, social and environmental strategies and initiatives of the Executive, including statutory equality of opportunity requirements.<sup>60</sup>

Its **Programme for Government 2011-15** contains commitments to include social clauses in public services contracts and promote the work and growth of social enterprises.

These are supported by the Executive's launch of a 'Buy Social' toolkit in 2014 to maximise the benefit from all public investment, including advice on social value clauses within public commissioning. This emphasises their role in ensuring purchasers and suppliers protect the vulnerable, support the disadvantaged, develop the social economy, protect the environment and promote and benefit the local community.<sup>61</sup>

There is encouragement for other public sector agencies to use the toolkit, although it is not clear at this early stage the impact that it will have on the regulator and housing providers.<sup>62</sup>

### **Key point**

Social value legislation may not have yet arrived in Northern Ireland but housing providers should be clear that the trajectory is similar to the rest of the UK and Scotland and Wales.

## Best Value

The Government's **consultation on revised Best Value statutory guidance for England** focuses exclusively on social value and equalities.<sup>63</sup> It includes an explicit note about the scope for Best Value authorities to consider social value in their functions, as required by the Public Services (Social Value) Act 2012, and an encouragement to consider social value wherever relevant beyond the requirements of the Act. (Note that Best Value legislation does not apply to housing associations, charities or social enterprises – only public bodies.)

However, the consultation suggested that authorities should avoid 'gold-plating' the Equality Act 2010, one of the other possible drivers for social value, by imposing equalities' requirements on contractors beyond those required by the legislation.

The **Welsh government's interpretation of Best Value** is found within the Wales Programme for Improvement (WPI). It encourages authorities to set their own improvement objectives, including equality and social inclusion, and sustainability – all part of the social value agenda in delivering the authority's community strategy.

In **Scotland**, Best Value also contains social value elements through a focus on equality of opportunity and sustainable development.<sup>64</sup>

In **Northern Ireland** the Department of the Environment has shifted its approach to Best Value to ensure that it provides a framework for the use of social clauses and similarly to Scotland there is an emphasis on equal opportunities.<sup>65</sup>

### Key point

Best Value guidance emphasises the importance to local authority and ALMO housing providers of recognising social value as a mainstream concept with which they must engage.

## Regulation

The regulatory standard for England sets out the requirement on social value as part of the VFM Standard:

“Boards must maintain a robust assessment of the performance of all their assets and resources (including, for example, financial, social and environmental returns). This will take into account the interests of, and commitments to, stakeholders, and be available to them in a way that is transparent and accessible.”

While there is little explicit engagement with social value by the Welsh and Northern Irish regulators, the Scottish regulator will be reviewing its framework for VFM, including social value, over the next 12 months.

The weighting of social value within the regulator's view of VFM is still to be decided but there is a desire to reach a consensus and to avoid adopting a position that has to be unpicked at a later date.<sup>66</sup>

### **Key points**

The English housing regulatory approach remains focused on return on investment, whether financial or social, in contrast with Scotland's tenant-focused approach.

There is little apparent attention from the Northern Irish and Welsh regulators, but this is unlikely to continue given the interest of their governments in social value.

## Section 4: The importance of good social value measurement

There is no single accepted measure of social value.

The European Commission recognises this in its call for an annual review of the ‘fast developing’ area of social value.<sup>67</sup> So too do the Cabinet Office<sup>68</sup>, the academic literature<sup>69</sup> and leading accountancy firms<sup>70</sup>.

The recently launched Social Value Portal<sup>71</sup> suggests that there are currently over 1,150 social and environmental impact metrics in use across the world. These include specific metrics such as ‘carbon emissions’ and ‘jobs created’, the happiness index, through to sentiment analysis.<sup>72</sup>

PWC notes that all credit rating agencies now factor ‘non-financial’ elements into their models for assessing business performance<sup>73</sup> and articulating this is crucial in the social investment market. As the Global Impact Investing Network (GIIN) notes:

“Just as a financial report that simply states ‘things are going well’ or ‘it was a good year’ would not provide enough information for you to be comfortable with the financial performance of an investment, the same rigour should apply when you consider the non-financial results of an investment.”<sup>74</sup>

**The key question is *how* to measure, not whether to do so.**

The measurement of housing providers’ social value will be shaped by global initiatives and trends and the development of conventions that will shape those providers’ relations with their external stakeholders.

### Global trends

**The G8’s interest in social value measurement** is most explicitly driven through its belief that effective measurement is critical to the expansion of the social investment market to meet social policy needs through better:

- performance management
- organisational learning
- outcomes and
- accountability.<sup>75</sup>

The G8 is promoting a seven-stage creative process for social value under a plan/do/assess/review framework. This is a standard model, which is widely found throughout the business management literature and shares common ground with the European Commission approach set out below:

- set goals (plan)
- develop framework and select metrics (plan)
- collect and store data (do)
- validate data (do)
- analyse data (assess)
- report data (review)
- make data-driven investment management decisions (review).

The ideal for the G8 is to achieve material, reliable, comparable, additional and universal impact data and in the short term to drive consistency of measurement<sup>76</sup>, although the OECD emphasises that standardisation of approaches must allow freedom for innovation.

Underpinning this approach is a focus on overarching principles that flows through to an acceptance of the **SROI Network's seven principles**.<sup>77</sup> Their wide base in 'generally accepted social accounting principles'<sup>78</sup> provides a breadth of stakeholder 'buy in'.

The seven principles are:

1. Involve stakeholders
2. Understand what changes
3. Value the things that matter
4. Only include what is material
5. Do not over-claim
6. Be transparent
7. Verify the result

Where they are built into metrics, these offer key assurances of materiality, reliability, additionality, universality and the basis for comparability.

### **Key point**

The SROI Network believes that the lack of a standard approach to measurement is in itself not important and that the key to being able to compare different values is consistency in the principles. This, rather than indicators or values can also be flexed for different levels of rigour depending on the organisation's purpose.<sup>79</sup>

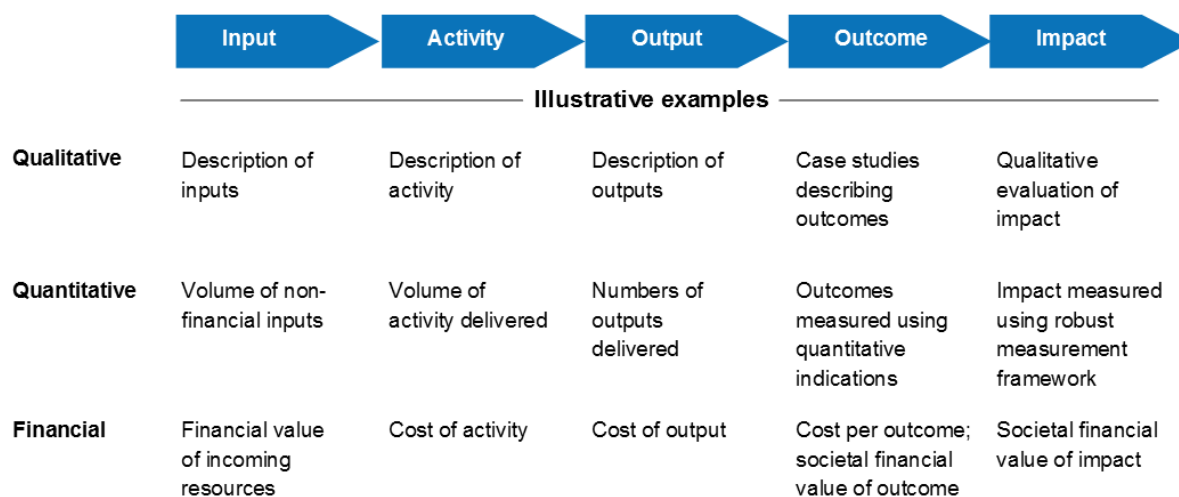
The **Group of Experts of the Commission on Social Entrepreneurship (GECES) for the European Commission** argues that a focus on principles aligns with financial reporting, which uses common processes and disclosures without necessarily prescribing the calculations that are used in specific cases.<sup>80</sup>

**Thought leadership in social value** has also been emerging from the **private sector**.

The **Global Impact Investing Network (GIIN)**, a group of 40 investors from around the world, has been active in developing a standardised framework for assessing social and environmental impact to increase the scale and effectiveness of impact investing. Members of GIIN have contributed to the G8 and OECD processes and acted as part of the secretariat for the G8.

In the US, the non-profit **Sustainability Accounting Standards Board (SASB)** is promoting a **standardised language** around the corporate impacts of sustainability issues within each industry as well as industry-specific performance metrics.

The G8 notes a growing trend towards **financial quantification** – the growing desire to quantify the financial value of the social and/or environmental impact of an investment (see figure below). This will depend on the effective capture of outcomes, but the potential clarity of financial quantification is crucial to the growth of social investment.



The **European Commission** has taken forward the commitment within the Single Market Act II to develop a methodology to measure the socio-economic benefits created by social enterprises through the work of the GECES sub-group.<sup>81</sup> GECES work is aligned with the G8 roadmap of common process rather than a single measurement tool or methodology.

Specification of particular social value criteria within these principles is seen as becoming purely ‘bureaucratic’, generating perverse incentives and ‘gaming the system’.<sup>82</sup>



GECES' view is that it is not currently practical to adopt a rigid set of top-down agreed indicators because of:

- the variety of social value
- the danger of quantitative indicators not capturing some essential qualitative data
- the key need for proportionality in the time spent in any measurement exercise
- the trade-off between achieving comparability between activities through using common indicators against identifying indicators that are best suited to the process being measured
- the pace of development of social value measurement making it impractical to currently identify a long-term standard.

### **Key point**

The coming together of G8, OECD and European Commission approaches around the seven SROI Network principles offers the best opportunity for standardisation of social value measurement.

The focus on shared principles rather than shared detailed metrics seems a way of progressing the social value measurement debate through a common value base that provides a framework for bespoke application to different circumstance.

The recommended next steps for GECES are restricted to developing a Europe-wide measurement framework of outcomes and indicators per social sector and developing reporting formats rather than detailed method. They will also include a knowledge centre to promote the importance of social value measurement to drive learning and improvement as an antidote to PR exercises to demonstrate impact.

One other critical factor flagged by Tris Lumley of New Philanthropy Capital, part of the GECES project and the UK Inspiring Impact initiative, is the need to embed impact measurement in everyday practice. This is to avoid it being seen as bureaucratic and burdensome. In addition, he argues that, in order to support learning, data capture and measurement should be as close as possible to front line service delivery.

### **UK trends**

Key institutions and individuals in the UK have been significant participants in the G8 and GECES measurement initiatives.

In terms of the UK itself, the work of the Cabinet Office and the Inspiring Impact programme seems set to be most influential, although a watching brief should be maintained to see how the Scottish and Northern Irish governments in particular take forward their initiatives outlined in section 3.

**The importance of social value accounting is captured in the Treasury Green Book.** This underlines the government's expectation that non-market impacts should be evaluated before significant funds are committed and that this should be done as part of the evaluation of past and present activities, and that the full value of goods such as health, educational success, family and community stability, and environmental assets cannot simply be inferred from market prices.

In effect, it provides a framework for the consideration of social value, although it falls short of endorsing any particular approach, such as subjective well-being evaluation:

“At the moment, subjective well-being measurement remains an evolving methodology and existing valuations are not sufficiently accepted as robust enough for direct [original emphasis] use in Social Cost Benefit Analysis.”<sup>83</sup>

Government also remains interested in SROI as a methodology – for example, in defining land value. This is not least because the UK housing sector's development capacity is influenced by the Green Book methodology for measuring and maximising land receipts. This includes the extent to which social value is recognised by HM Treasury as a legitimate part of overall land value.<sup>84</sup>

The **Inspiring Impact programme**, supported by the Cabinet Office and Deutsche Bank amongst others, seeks to mainstream high-quality social value measurement as the norm for charities and social enterprises by 2022. (To get involved join its mailing list <http://ctt-news.org/InspiringImpact/UL9-H6X/Network.aspx> or join its group on <https://www.linkedin.com/grp/home?gid=4510159>.)

A key driver is the search for a better understanding of what works and valuable lessons and insights from peers.<sup>85</sup>

The Inspiring Impact programme currently advocates shared measurement – the use of common measurement tools by more than one organisation to reduce duplication of effort and increase consistency of measurement. It emphasises that the process is as valuable as the product since the engagement and collaboration it requires can help build shared action in sectors.<sup>86</sup>

One consideration for housing providers is that Inspiring Impact has been adopting a thematic approach for shared measurement and comparison, without a current explicit reference to housing. For example, it reports on the progress in three sectors – disability and employment, youth citizenship, and transitions for older people – all of which are interwoven with the housing sector.

We should also be aware of the variations across the four UK nations, with concern in Northern Ireland that the majority of community and voluntary sector organisations have not measured their social or environmental impact. The need to develop an Inspiring Impact style programme is identified.<sup>87</sup>

**Geoff Mulgan**, chief executive of the **innovation charity NESTA**, has argued that measures will be needed that are primarily about:

- external accountability
- internal management
- broader assessments of social value.

He suggests that if an organisation is using the same method for all three then “its findings are almost certainly flawed.”<sup>88</sup>

**The Young Review**<sup>89</sup> reinforces the importance for housing providers in keeping a watching brief on the measurement of social value given its request for Inspiring Impact to be tasked to:

- develop a generally agreed way of measuring social value
- set standards for measurement, considering what degree of measurement might be required for different types of procurement (with echoes of Mulgan’s argument above)
- promote good measurement principles across sectors.

The Young Review argues that the measurement of social value has to be improved, particularly with regard to the consistency and rigour of how outcomes are quantified. The Cabinet Office will decide how far to follow Young’s recommendation on the Inspiring Impact route.

**Jo Meehan**, the commissioning and social value expert from **Liverpool University**, emphasises that in the rush to measure social value outcomes we should not lose sight of the importance of knowing any financial contract costs being generated as part of social value and community benefit clauses. These will be necessary to identify real commercial and social benefits.<sup>90</sup>

More widely, there is little systematic evidence of the social value of housing per se, although **RICS** is due to publish a research report shortly outlining an approach to sustainable return on investment that is largely built around the SROI Network methodology. In particular, it suggests that the benefits of development on the social fabric of surrounding communities has not evolved to the same extent as environmental impact analyses.<sup>91</sup>

A recent report for the **G15 large London housing associations** argues that:

“Quantified evidence on the directly attributable impact of affordable housing on individual outcomes is limited... it is not possible to reliably estimate the benefits of public investment in affordable housing in terms of outcomes for tenants, as the available evidence is not robust enough to support reliable estimates, while in some areas it is insufficient to quantify any impacts.”<sup>92</sup>

### **Key point**

The trend towards evolving metrics offers opportunities for housing organisations to engage with social value measurement without artificially defining a standard approach at this stage.

Considering the best fit for purpose of different social value measurement tools has the potential to make good the gaps outlined above by the G15.

### **Benchmarking**

Inspiring Impact recommends that the availability of robust benchmarking, facilitating meaningful comparisons, will be key to providing insight where appropriate:

“They can compare their results to similar organisations in their field, and begin to understand what is normal for their work, and what they should be aiming for. This is crucial for charities to understand what leads to the best outcomes for the people we work with.”<sup>93</sup>

For example, if an organisation is trying to evaluate a ROI on projects for the purpose of deciding whether to go into a new project, then the ROI of others will inform through comparison and benchmarking. If the interest in social value is to audit the effectiveness of previous investment then benchmarking may be viewed as less important because the measurement is for internal purposes. Even here, however, it is still important to have comparators in order to know what good practice looks like.

The HCA, the English social housing regulator, has suggested<sup>94</sup> that if social value measurement and reporting spreads, it will allow different organisations to communicate more effectively and share results. This could form the basis for greater understanding and for drawing together best practice across the sector. It could also equip organisations with useful information for communicating with government over planning and policy.

Inspiring Impact suggests that there has been a historic reluctance for charities to compare data for fear of being viewed unfavourably, but that this is now being overcome because of the potential for unlocking value through better information from data sharing.<sup>95</sup>

ClearlySo, the social investment advisory agency, emphasises that grant requirements are being drawn into the disclosure of outcomes data, which is ripe for comparison and benchmarking.<sup>96</sup> It also notes a growing appetite from social investors to move away from bespoke targets to shared measurement, although it may need the independence of a credible organisation to deliver a widely accepted system.

There are examples of **benchmarking products** being brought forward, although many are new to market and there is no indication of the extent of benchmarking taking place nor its impact on learning or practice.

Global private sector social value benchmarking has been developed by GIIN through GIIRS – the Global Impact Investing Rating System – through its measurement tool IRIS, which includes thematic metric sets to support benchmarking.<sup>97</sup>

Big Society Capital’s outcomes’ matrix, developed with NPC, the SROI Network and Investing for Good offers a needs’ map split between the individual and community to develop a common start point for impact assessment in the UK social sector. It covers nine outcome areas reflecting what is seen as what a person needs to have a ‘full and happy life’ and identifies scope for benchmarking and value from it, although confidence in the data will be crucial for benchmarking.<sup>98</sup>

Similarly the London Benchmarking Group<sup>99</sup>, which includes two housing associations amongst its predominantly commercial membership, provides a forum for measuring and benchmarking corporate community investment, to continually improve its effectiveness, quality and impact based around a consistent approach to measurement.

Sinzer is a new measurement and benchmarking product drawing on the SROI Network’s Global Value Exchange. It is a development of the Dutch social e-valuator tool and supports a number of frameworks for measuring impact, including the possibility to develop custom frameworks and benchmarking.

The Social Value Portal is another new virtual space for social value knowledge exchange and benchmarking with an advisory board that includes a number of members formerly connected to government.

### **Key point**

Year-on-year social value benchmarking is currently problematic due to the pace at which metrics are developing and the time required to establish and validate robust data collection.

The housing sector should wait until at least the end of the Cabinet Office’s review of social value measurement requested by the Young Review before any significant investment in benchmarking this area.

However, the consensus around the key principles of social value measurement provides a platform for initial comparison of data whilst growing interest in social investment and the need for investors and advisors to look at comparative returns seem likely to drive the development of future benchmarking.

## Conclusion

This review of current thinking on social value shows the potential for housing providers to use it as a general tool for accountability, performance improvement and business advantage.

This is particularly important given the increasing pressure for housing providers to justify their return on public investment as part of continuing austerity.

The social value discussion in housing has been most tangible around commissioning. Social value requirements are an increasingly common – and important – aspect of the contracts that providers put out to tender in England and Wales and also many of those that they tender for. The Procurement Reform (Scotland) Act will add more stretching requirements in Scotland, and a commitment to legislate in Northern Ireland sits alongside its existing voluntary approach.

The momentum, including the Young Review of the legislation for England and Wales, is for organisations to increase their engagement with social value. The English regulator is also pushing for greater engagement around VFM, including social value. It notes that overall return on assets remains the element of least assurance from providers' returns. The Scottish regulator is examining the role for social value as part of its own developing approach to VFM.

The challenge for housing providers remains how to quantify social value and drive performance improvement within and across sectors. Providers will need to guard against adopting their own language of social value, which might not engage with a wider audience.

Identifying a common social value vocabulary with external stakeholders will enable housing organisations to engage with a wider process of change and better influence and contract with other private, public and community and voluntary sector organisations.

This includes engaging with the significant developments in social value measurement at G8, OECD and European Commission levels. This is driven by the strong perceived business benefits of addressing social value across the different sectors.

Housing providers will need to play an active part in these debates to strengthen their position as key recipients of public investment.

HouseMark will continue to advise members on these trends through its various forums.

## Appendix 1: Glossary of terms

**Additionality** – The extent to which a new input (action or item) adds to the existing inputs (instead of replacing any of them) and results in a greater aggregate.

**CSR** – Corporate social responsibility.

**G8** – The Group of Eight most economically powerful democracies in the world: France, Germany, Italy, Japan, UK, US, Canada and Russia. Currently the G7 due to the suspension of Russia following its annexation of Crimea.

**Impact** – The reflection of social and environmental outcomes as measurements, both long-term and short-term, adjusted for the effects achieved by others (alternative attribution), for effects that would have happened anyway (deadweight), for negative consequences displacement), and for effects declining over time (drop-off)<sup>100</sup>

**Impact investing** – Investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return.<sup>101</sup>

**EVPA** – European Venture Philanthropy Network.

**GIIN** – Global Impact Investing Network.

**GIIRS** – Global Impact Investing Ratings System.

**Materiality** – Information is material if its omission has the potential to affect the readers' or stakeholders' decisions.

**OECD** – Organisation for Economic Co-operation and Development, a forum in which governments can work together to share experiences and seek solutions to common problems. The OECD brings around its table 39 countries that account for 80% of world trade and investment, giving it a pivotal role in addressing the challenges facing the world economy.

**Outcome** – The social effect (change), both long-term and short-term, achieved for the target population as a result of the activity undertaken, taking into account both positive and negative changes.<sup>102</sup>

**Output** – The tangible products or services from the activity (of the social enterprise): effectively the points at which the services delivered enter the lives of those affected by them.<sup>103</sup>

**RSL** – Registered social landlord subject to external regulation – now commonly known in England as Registered Provider (RP).

**SME** – Small and medium enterprise.

**Social enterprise** – An organisation that pursues social objectives using business methods.

**Social impact bond (SIB)** – A SIB is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of social and/or financial interest to a commissioner.

**SII** – Social impact investment

**SROI** – Social Return on Investment analysis, the methodology ‘owned’ by the former SROI Network now Social Value UK.

**Triple Bottom Line Accounting** – Economic, environmental and social equity factors: ‘profit, planet and people’.

**Universality** – consistent application across markets, geographies, and sectors.

For further definitions and discussion of contested terms, see [www.jargonbusters.org.uk](http://www.jargonbusters.org.uk).<sup>104</sup>



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<sup>49</sup> The Cabinet Office 2015: op cit.

<sup>50</sup> This includes housing associations.

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<sup>77</sup> Now Social Value UK and Social Value International.

<sup>78</sup> (Gasr[a]p) if you like!

<sup>79</sup> SROI Network 2015: “The SROI Network response to Social Value Act Review”. (published online). <[http://www.thesroinetwork.org/blog/417-the-sroi-network-response-to-social-value-act-review?utm\\_source=Newsletter&utm\\_medium=email&utm\\_campaign=Member%20update%20](http://www.thesroinetwork.org/blog/417-the-sroi-network-response-to-social-value-act-review?utm_source=Newsletter&utm_medium=email&utm_campaign=Member%20update%20)> accessed March 4, 2015.

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<sup>88</sup> Mulgan, G. 2010: op cit.

<sup>89</sup> The Cabinet Office 2015: op cit.

<sup>90</sup> interviewed as part of this study.

<sup>91</sup> personal conversation with author.

<sup>92</sup> Frontier Economics 2014: (published online). <<http://www.frontier-economics.com/documents/2014/09/rpt-affordable-housing-report-2.pdf> > accessed March 13, 2015, p14.

<sup>93</sup> Ní Ógáin, E., Svistak, M. and de Las Casas, L. 2013: op cit, p37.

<sup>94</sup> Interview with the regulator conducted as part of this study.

<sup>95</sup> Heap, H. 2011: Measuring social value. London: Clearlyso, p2.

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<sup>98</sup> Big Society Capital 2015: “How to use the outcomes framework” (published online). <<http://www.bigsocietycapital.com/outcomes-matrix>> accessed March 16, 2015.

<sup>98</sup> Ní Ógáin, E., Svistak, M. and de Las Casas, L. 2013: op cit.

<sup>99</sup> A network of companies committed to community investment, managed by Corporate Citizenship an international corporate responsibility consultancy.

<sup>100</sup> GECES Sub-group on Impact Measurement 2014: op cit, p17.

<sup>101</sup> GECES Sub-group on Impact Measurement 2014: ibid p18.

<sup>102</sup> GECES Sub-group on Impact Measurement 2014: ibid, p18.

<sup>103</sup> GECES Sub-group on Impact Measurement 2014: ibid.

<sup>104</sup> The Jargonbusters Group is an informal partnership of funders, government departments, regulatory bodies and voluntary sector organisations. Jargonbusters aims to help UK funders, the Charity Commission and voluntary and community organisations to be more consistent in the way they use technical terms in voluntary sector management and commissioning.



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Previously Professor of Race, Diversity and Housing at Leicester De Montfort University, he is now Visiting Professor of Race and Diversity at Coventry University as well as a member of The Homes and Communities Agency's Equality and Diversity Board Advisory Group.

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Barnet Homes	RFHA
Bolton at home	Saffron Housing Trust
C&C	Selwood Housing
Cheltenham borough homes	Shepherds Bush HA
City South Manchester	Shoreline Housing Partnership
Connect Housing	Shropshire Housing Group
emh group	South Lakes Housing
First Ark	Spectrum HG
First Choice Homes Oldham	SYHA
Five Lamps	The Barnet Group
FRC Group	The Hyde Group
Hanover	Town and Country Housing Group
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