



# Measuring the economic benefits of arts and culture



Practical guidance on research methodologies for arts and cultural organisations

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# 1 Introduction

There has been much debate in recent years about the economic benefits of culture. A number of tools have been developed that allow at least some of the cultural sector's value to be measured using economic valuation methods. However, choosing the right one for any given arts or cultural organisation is not straightforward. If your organisation is thinking about undertaking such a study, how should you think through the choices?

This report sets out practical guidance for any arts or cultural organisation thinking about conducting research into its economic benefits. In particular, it discusses four methods of measuring the value of a cultural organisation's activities. A series of case studies explores the relative merits of each of the four approaches.

The four approaches fall into two distinct categories: measures of spending and valuations of wider benefits. Spending-measure techniques look at actual spending by organisations, audiences and performers, and its effects on the economy. Valuation techniques, on the other hand, try to put a price on the wider benefits people gain from culture, even in cases such as museums with free entry where no money may change hands.

The two measures of spending are:

- economic impact assessment (EIA)
- economic footprint analysis (also known as size analysis or economic contribution analysis)

The two<sup>1</sup> valuation techniques are:

- contingent valuation (CV)
- social return on investment (SROI)

There are two sets of question that have to be asked before undertaking such a study. The first asks: why do it at all? The case study organisations had a variety of reasons for carrying out their research. These included desires to raise their profile, to influence funders, and to help with their strategic thinking. The case study organisations agree that there is a need to

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<sup>1</sup> There are other methods for measuring the wider benefits of arts and culture. This guide focuses on these two because they both try to assess benefits in ways that can be converted into monetary values.

identify the audience for the research early on: who are you trying to reach? The second set of questions help an organisation select an appropriate method. In this report these questions have been summarised in a 'decision tree' diagram.

This report is not intended to be a comprehensive guide to conducting such research. Rather, it is intended to introduce the debate and explain key ideas. If you wish to explore the concepts further, there is a series of links to useful documents and resources, as well as a glossary of terms, at the end of this report.

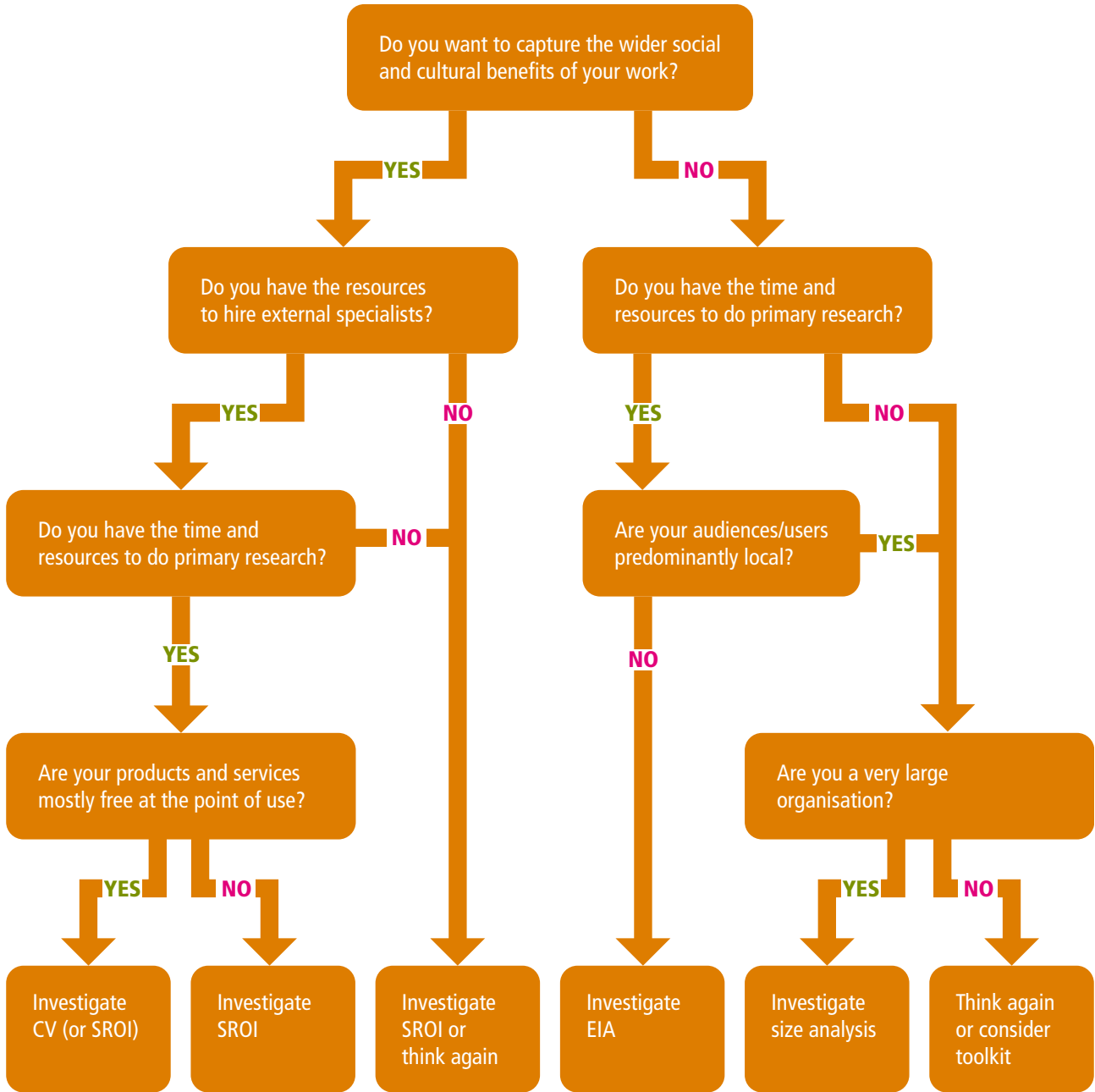
As it happens, all the cultural organisations reviewed here commissioned external consultants to help them conduct their research. This is, of course, not the only option. While many arts and cultural organisations will prefer to outsource such work (for a range of reasons), it is perfectly possible that they will have the expertise and resources to be able to conduct such work in-house or as part of a consortium of organisations. Alternatively, an organisation might consider using an online toolkit to produce an estimate of its economic impact. This report discusses some of the better-known toolkits for the sector, and offers an opinion on their usefulness.

## 2 Questions to think about and decision tree

So, why undertake a study of your economic value? There are a number of issues to consider. Is the work being commissioned for internal purposes, to help you understand more about your own organisation, or for external ones: to help outsiders, such as your funders, see the value of your work more clearly? And are you interested simply in measuring the economic effects resulting from your organisation's spending, or do you want social or cultural benefits stemming from your work to be considered as well? For some purposes, a mixture of these approaches may be appropriate.

Once the decision has been made in principle, there are a number of more practical questions to be asked to identify an appropriate method. This second set of questions is shown in the decision tree diagram below. This guides you through a series of steps to suggest either the method that is likely to work best for you or that you think again about doing such a study.

Figure 1: Decision tree diagram



The report will now review each of the four methods in turn, followed by a discussion of the merits of toolkits.

# 3 Economic impact assessment (EIA)

Of the four methods, economic impact assessment has been the most commonly used in the arts and cultural sector to date.

An EIA starts from the premise that an arts or cultural organisation attracts visitors, who do not simply spend money on their ticket or entrance fee but also buy meals in local restaurants, go to local shops, or perhaps stay in local hotels as part of their trip. These people might never have visited that location without the draw of that cultural organisation. What is the economic value to the local area of this 'pulling power'? The organisation may also buy some of its supplies from local firms, and its staff may spend their wages in the local area. This spending too benefits the local economy.

The effects of this spending go beyond the first round of purchases, however. Some of the money that visitors spend in local shops, for instance, finds its way into the wage packets of local shop staff. They in their turn spend some of their wages locally. Thus the effects of the initial spending are 'multiplied' as the money passes through each pair of hands. This is known in economic theory as a multiplier effect. Government bodies such as BIS (Department for Business, Innovation and Skills) produce estimates of multiplier values derived from official economic data.

There are therefore three types of impact stemming from the spending of arts organisations: direct impacts, such as spending on goods from local suppliers; indirect impacts, such as spending by audience members in local restaurants; and induced impacts – the 'multiplied' effects of this spending within the local economy.

Measuring the net benefits of these effects is not a straightforward process, however. Money spent in a theatre or museum is money that cannot be spent on something else. Are visitors being attracted from outside the area to spend their money, or are they locals who would otherwise visit another attraction in the same area? In the jargon of economics, is the spending genuinely 'additional' to the local economy? There are a number of these effects which may come into play:

- **displacement and substitution effects:** these are closely related terms and ask whether spending at a new theatre means less money is spent at the local cinema or older theatres
- **leakage:** some spending will 'leak' out of your area – do your staff all live locally or do they spend their wages in other towns?
- **deadweight:** some spending would have happened in the local area anyway, irrespective of the presence of the arts or cultural organisation. This mostly applies to spending by local residents

To be considered robust, an EIA must take account of all these effects. Indeed, the major criticism of the Shellard method<sup>2</sup> of economic impact assessment, which has been used by a number of theatres in particular, is that it ignores such additionality effects. It is also important to be clear on the geographic scale of the project – is it local, regional or national? What counts as 'additional' will differ depending on which of these it is.

The multipliers, too, need to be chosen with care. If it is decided that it is appropriate to use a multiplier, then it is most usual to source it from official government data.

To make an EIA calculation, information is gathered from the management accounts and other financial data of the organisation and combined with information from a survey of visitors. Adjustments are then made for the additionality and multiplier effects, usually by adopting standardised benchmarks produced by the likes of BIS.

Figure 2 Economic impact assessment

|                   |   |
|-------------------|---|
| What it does      | It accounts for direct, indirect and induced impacts of an organisation or specific event/activity in the local economy.  |
| What you need     | Visitor research (profile and expenditure patterns), organisation's expenditure, a robust and conservative multiplier.  |
| What it tells you | It allows you to measure the economic impact of an organisation to a local and regional economy. This is typically expressed through additional visitor spend that the specific organisation is attracting to a city or region. Other economic measures include the use of local suppliers and the employment levels secured by the organisation. |

Source: Arts Council England (2012)

The first case study looks at Anvil Arts.

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<sup>2</sup> The economic impact method described by Dominic Shellard, then of Sheffield University, in his 2004 report *Economic impact study of UK theatre* for the Arts Council



## Anvil Arts: Economic Impact Assessment, 2010

### ***The organisation***

Anvil Arts is a Basingstoke-based arts organisation that runs The Anvil concert hall, a renowned music venue, and the Haymarket theatre in the centre of Basingstoke, which primarily serves a local audience.

### ***The commissioning decision***

Anvil Arts felt that, while their cultural value to Basingstoke was widely recognised, there was a gap in people's understanding of the organisation's economic value.

In 2010 Anvil therefore commissioned an economic impact assessment of their activities from external consultants. Anvil had already been using an off-the-peg online tool to estimate their impact, but felt that the figures produced this way lacked credibility and would not have stood up to serious scrutiny.

Initially, there had been discussions about doing an EIA as part of a wider study on Hampshire arts organisations to be funded by Hampshire County Council, but in the end this did not materialise, and Anvil Arts chose to commission its own research. The study, which included some additional work as well as the economic impact assessment, cost in the region of £11,000.

### ***The practicalities***

The consultants looked for information on three strands of activity:

- first, the goods and services bought by Anvil Arts from suppliers within the local economy and from Anvil's employees (in the form of wages)
- second, the spending of Anvil Arts' audiences at other establishments in Basingstoke and Deane. This might be a pre-theatre meal or drink, shopping in the town or, in some cases, overnight stays at local hotels
- third, a sizeable number of performers and stage technicians stay in Basingstoke and Deane for the duration of the shows with which they are associated, and hence spend a proportion of their salaries in the borough

The data for the assessment was gathered from financial data and management accounts supplied by Anvil Arts, informed by interviews with senior managers at Anvil Arts, and information collected from an online survey sent to all those people who were on the Anvil Arts customer database. The survey asked questions about spend in the local area (other than the purchase of tickets), such as spending in restaurants or bars, shopping or hotel stays, as

well as including some general demographic information. In all, more than 2,000 people responded.

Performers, too, spend significant amounts locally. Although these people could not be contacted through the online survey, estimates for their spending were also included, based on a combination of the number of performers (which Anvil kept records of) and standard Equity subsistence rates.

Pulling together the data for the project was quite time consuming – it involved three of Anvil's senior staff, including the finance director – but was not unduly so. It did not disrupt the day-to-day running of Anvil Arts, and in the organisation's view involved less effort than, for instance, putting a funding application together.

The consultants then performed their calculations on these figures. Summing the three strands of activity gives the gross economic output of Anvil Arts. However, this does not demonstrate the 'additionality' of Anvil Arts, or allow for multiplier effects. The consultants therefore multiplied the gross figures by a series of coefficients, derived from a mix of the survey findings and standard benchmarks published by BIS. However, these benchmarks are not produced for single local authority areas such as Basingstoke borough, so sub-regional multipliers had to be used.

### ***The findings***

The economic impact assessment suggested that Anvil Arts generated a gross economic output of £6.2m. The net economic impact on the borough (after taking account of the additionality and multiplier effects) was £5.0m.

### ***The reaction***

The report received wide coverage in the local and regional press, and, according to Anvil Arts, impressed funding bodies such as the local authority and the regional Arts Council.

The size of the economic value of Anvil Arts to Basingstoke surprised many, and has changed perceptions of the organisation; it made people aware of Anvil's economic value to the town, as well as its cultural one. Anvil Arts gets most of its funding from the local authority, so the positive response from councillors was particularly heartening: in Anvil Arts' opinion, some councillors had not really thought of the organisation as a sizeable economic entity in that sense before.

In the current climate in which further spending cuts are being considered, the report still has considerable value – it demonstrates to funders that Anvil Arts is ‘paying its way’ (and more) in Basingstoke.

Economic impact assessments are the most commonly used form of measuring the economic benefits of cultural sector organisations, so a second case study that used this method has been reviewed: AV Festival. Many of Britain’s more successful festivals attract high percentages of visitors from outside their local area or region, and can thus be expected to have a significant economic impact relative to their budget.

## AV Festival, Economic Impact Assessment, 2010

### ***The organisation***

AV Festival is held every two years in the North East of England, principally in Newcastle-Gateshead. The primary focus of the festival has been electronic and digital arts, though it has now broadened out to include other contemporary artforms too.

### ***The commissioning decision***

AV Festival’s decision to opt for an EIA arose in 2009 out of discussions between the director and the board. While the Festival had done various audience profiling and development studies in the past they did not have evidence of their economic impact.

Culture10 and other Newcastle-Gateshead cultural institutions had already done economic impact studies, and this influenced AV’s choice of method. It was a collective decision of the board and staff that some kind of economic analysis would be useful, and two ‘champions’ of the idea on the board helped make the case for the project.

In 2009, consultants were commissioned to carry out an economic impact assessment of the 2010 Festival (AV10). It cost around £7,000. In an ideal world AV would have combined the EIA with, say, an assessment of their social impact, but the economic impact was the most important for them to measure at the time, given the financial constraints under which AV was operating.

### ***The practicalities***

The EIA was conducted along broadly similar lines to the Anvil Arts assessment. The data collection combined management accounts information and interviews with AV’s director with a paper-based survey. To help reduce costs, the survey was designed by the consultants

but administered by AV10 volunteers, who then inputted the answers into an online survey tool. This survey gathered a wide range of information about the audience's response to the festival, including a number of questions to estimate spending by visitors, and to ascertain the role of AV10 in bringing them to the North East. Almost 500 responses were gathered.

The strands of activity were then subjected to an analysis similar to that of Anvil Arts, to adjust for additionality and multiplier effects (sourced from the Culture10 research). There were two major differences between the approach taken with AV10 and Anvil Arts. The AV10 report looked at its region – the North East – rather than its local authority area (as in Basingstoke); and AV benefits from significant 'in-kind' support, such as design and marketing and event organisation help from the venues, which had to be factored into the calculations.

The process imposed fairly substantial demands on AV Festival staff, partly because the decision to commission the assessment was made close to the festival's opening. Conducting the survey required significant time from volunteers. It was also quite demanding of management time after the festival – collating financial, box office and management data, and collecting information on in-kind spending. The director estimates she herself spent two weeks of time on it.

### ***The findings***

AV10's gross economic output was estimated to be £1.7m. Its net economic impact on the North East – in other words, after adjusting for additionality and multiplier effects – was calculated at £840,000.

### ***The reaction***

AV Festival expected that as a festival there would be quite a sizeable economic impact – they already knew that a significant proportion of their audience came from outside the North East – but they were still surprised by the economic spend of incomers. AV Festival distributed the report to its board members, funders, stakeholders, and partners such as Sage Gateshead and mima (Middlesbrough Institute of Modern Art). It was well-received by funders: the leader of Newcastle City Council said, 'The evaluation report makes it clear that the events have reached out to both existing and new audiences and that there has been a real economic impact across the region.'

The EIA has also affected AV's internal thinking. The director pointed out that organisations need to be able to tell a continuous 'story' about themselves (especially true for a biennial festival like AV, which can seem to have to start again with each revival, and whose artistic

focus has shifted over time). The economic impact has become part of AV's story, helping to explain the value of the festival to the region. The report has also affected AV's strategic thinking – the information it gathered about audiences was one factor in the decision to extend the festival's length to a full month in 2012.

Every method of measuring the value of an organisation has its benefits, risks and applications. We have summarised these for each method.

***Benefits of economic impact assessment:***

- economic impact assessment is the tool that has been most widely used in the arts and cultural sector, and is arguably the best understood
- it is one of the more straightforward approaches and, if externally commissioned, can be carried out for relatively modest sums of money
- there are a number of standardised benchmarks available for adoption, such as multipliers produced by BIS or the Office for National Statistics (ONS)

***Risks and limitations:***

- there is no standard approach to conducting an EIA. Decisions about the choice of multiplier or the way in which questions are asked in primary surveys can make a significant difference to the size of the impact being recorded. Therefore, it is important that all EIA reports clearly explain how the calculations were done and the different elements that make up the final figure
- adjusting for 'additionality' is necessary for robust and credible results, but is often overlooked, and can be hard to explain clearly
- EIA does not measure the social or cultural benefits of an organisation's activities
- the approach is likely to work best for organisations which draw a significant share of their audience from outside their local area/region

## 4 Economic footprint analysis (also known as size analysis, or economic contribution analysis)

The second method, economic footprint analysis, focuses on measuring the size of an organisation's activities, and comparing it with the national economy as a whole. Although this method has considerable overlaps with the EIA approach, it is only rarely used in the cultural sector, at least for assessing the contribution of a single organisation – it is more commonly used to look at the contribution of an industry or sector. The Department for Culture, Media and Sport (DCMS) uses this approach to measure the size of the creative industries.

Two standard measures are looked at, typically: employment and Gross Value Added (GVA). Employment is simple to understand, and relatively easy to count – the number of people who work for that organisation. For this reason, it will not be discussed further in this section. The second measure, GVA, is more complex.<sup>3</sup> GVA is an estimate of the value generated for the UK economy as a whole by the organisation's activities. It thus differs from EIA, which focuses on a locality or region. In essence, GVA measures the value an organisation 'adds' to its inputs in the course of making its outputs. Some reports identify three types of GVA, although many analyses report only the first of these:

Direct value added is defined as the value of an organisation's total sales or revenue less its expenditure on goods or services purchased from other organisations. To give a simplified example: a theatre takes inputs such as the cost of making sets, the hiring of performers and directors, and its electricity, gas, water and repairs (and other) costs, and uses them to make

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<sup>3</sup> GVA as a concept is closely related to the better-known term Gross Domestic Product (GDP). GDP, though, applies to the economy as a whole, rather than the activities of individual organisations.

its outputs: theatrical productions for which tickets can be sold.<sup>4</sup> These inputs and outputs can be converted relatively easily into monetary values, so enabling an estimate of GVA to be made.

In some analyses two further measures are estimated:

- indirect impact on the GVA of firms directly supplying the organisation
- induced impacts on the GVA of firms outside the supply chain, as a result of the expenditure by the organisation’s employees and those in its supplier firms

The DCMS argues that these two measures are not strictly speaking GVA analyses, and are incompatible with national accounts. The DCMS’s creative industries economic estimates do not include them, for example. If they are included, though, the impact of these ‘ripple’ effects through the economy would be estimated by applying multipliers.

Figure 3 Economic footprint analysis

|                   |   |
|-------------------|---|
| What it does      | It assesses the economic output and productivity of a specific arts and cultural organisation |
| What you need     | Expenditure and gross output (output value) of the organisation                               |
| What it tells you | GVA indicates the contribution of an organisation or activity to the economy as a whole       |

Source: Arts Council England (2012)

Few of these studies have been carried out by single organisations in the cultural sector. The following example reviews a GVA analysis commissioned by the BBC.

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<sup>4</sup> Money received from public funding, such as grants or subsidies counts as an input, and therefore has to be subtracted from the outputs to arrive at final GVA.

## BBC, Economic footprint analysis, 2008/09

### ***The organisation***

The BBC is Britain's (and the world's) largest broadcaster, with around 23,000 staff.

### ***The commissioning decision***

The BBC produced a study of its economic footprint in 2008/09 (with an update in 2009/10). The decisions to commission these reports were influenced by the debate around the BBC's charter (which was laid before Parliament in 2006) and the growing awareness of the economic importance of Britain's creative industries, of which the BBC is a significant part.

The BBC did not have the internal resources to conduct the first report itself, so it put the project out to tender. In the BBC's opinion, having external consultants also had the benefit of placing the consultants' reputation behind the data analysis. The cost of this commission is commercially confidential.

### ***The practicalities***

The 2008/09 report attempted to measure all the main economic activities of the BBC. In practice, this took the form of a detailed calculation of the BBC's GVA, looking at direct, indirect and induced impacts.

The GVA method was preferred over other options, partly because it produces a single 'big number' at the end of the process, and is a fairly mechanical approach, based on hard evidence. The figures used in the report relate to actual spending, and can be tied up with the figures reported in the BBC's annual report.

The consultants began by estimating the BBC's direct value added, which they calculated by adding wages and employee benefits, and taxes (including taxes paid by and on behalf of employees). They then estimated the indirect and induced value added generated by the BBC through its payments to others for programming, distribution, publishing, and sales and marketing of BBC content.

Once these figures were produced, the consultants then applied a series of multipliers to account for the effect of this value added in the wider economy. Different multipliers were used for different types of activity (eg TV) and different types of expenditure, and for different regions of the UK. The multipliers were sourced from three places: a report into the UK screen



industries conducted by Cambridge Econometrics, and ONS and Scottish Government statistics.

It took a lot of time to gather and standardise data from across the BBC's regions and departments for the first report, though it was easier for the update, as templates had been set up the first time around. Even so, our interviewee thought that it took a month of the chief economist's time, and two months of the financial team's, to collate the data for the second report.

### ***The findings***

The 2008/09 report estimated the BBC's GVA at £7.7bn. While this aggregate figure was clear enough, the other figures included in the report nevertheless had to be explained carefully. For example, variations in GVA across the regions arose due to factors like the regional differences in multipliers and spending patterns.

### ***The reaction***

The report was aimed at the full range of BBC stakeholders, including the DCMS, Ofcom, politicians and BBC staff. The BBC was pleased by the findings, but not surprised – it had the BBC Trust figures from a year earlier, and the figures were not hugely different (the Trust's estimate of the BBC's GVA was £6.5bn).

The report has had an external value for the BBC. The BBC's status – the level of its licence fee; the range and scope of its activities; and its role in the creative sector – is always a matter for public debate. The report has provided a robust piece of evidence to contribute to this debate. Our interviewee felt that having such a report was particularly valuable in the current political climate, when value for money is being stressed.

The report has also had value to the BBC internally. Its current strategy involves the relocation of departments and programmes to Salford, Glasgow and Cardiff. The GVA analysis is one means of tracking whether these strategic decisions bear fruit. It forms part of a wider evidence base of research techniques and information that try to capture the full value of the BBC's activities in a systematic way.

***Benefits of economic footprint analysis:***

- produces a single 'big number'
- while the process can be time consuming, it is fairly mechanical – there is less scope for arguments over interpretation than with some other methods
- approach does not require primary research

***Risks and limitations:***

- does not always measure wider economic effects stemming from the organisation's spending
- does not measure any social or cultural benefits
- approach is better suited to large organisations

# 5 Contingent valuation (stated preference model)

The third and fourth methods under review are valuation techniques. Rather than look at things for which a monetary value already exists, even if it may be hard to measure precisely (the wages of your staff, the spending of your visitors in local shops), these two approaches try to measure the wider benefits people derive from arts and culture, and 'translate' this into a monetary value.

Contingent valuation is one of these approaches. It aims to estimate the extent to which consumers benefit from a product or service, over and above the price they pay for it.<sup>5</sup> This method thus allows for a value to be put on things or activities that do not have a conventional market price, such as visiting a free museum.

This approach tries to estimate three types of value:

- use value: the value people derive from their direct use of a product or service
- option value: the value they derive from the service being available for them to use at some point in the future
- existence value: the value derived from the service's existence, even if they do not actually use the service themselves. For instance, they may appreciate and value the presence of a library in their neighbourhood, though they themselves are not library users

One important reason for considering contingent valuation (or another stated preference method) is that it is favoured by the Treasury for measuring the value of 'non-monetary' goods. It is well established within environmental and transport economics, and is recommended by the Treasury's *Green Book*. The DCMS published a report in 2011 by David O'Brien<sup>6</sup> which argued that the cultural sector should consider taking up this method. However, it is a technically demanding approach, requiring skilled researchers and considerable primary research to reach its findings. To date, only two major contingent

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<sup>5</sup> In the jargon of economics, this is their 'stated preference'. It contrasts with their actual purchases of goods and services, which are known as their 'revealed preferences'.

<sup>6</sup> O'Brien, D (2011) *Measuring the value of culture*, DCMS, London

valuation studies have been carried out in the cultural sector in this country:<sup>7</sup> by the British Library<sup>8</sup> and Bolton Museums, Libraries and Archives service.

Figure 4 Contingent valuation

|                   |  |
|-------------------|--|
| What it does      | Contingent valuation measures the value that parts of the population put on an arts or cultural organisation |
| What you need     | Extensive primary research with those attending/ visiting and not attending/ visiting                        |
| What it tells you | It reveals a monetary value that people place on a particular organisation or service                        |

Source: Arts Council England (2012)

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<sup>7</sup> Contingent valuation studies have been conducted more frequently in the United States, especially among library services.

<sup>8</sup> British Library (2003) *Measuring Our Value*, London

## Bolton museums, libraries and archives, Contingent valuation, 2005

### ***The organisation***

At the time of the survey, Bolton museums, libraries and archives service ran three museums, 15 libraries and a central archive.

### ***The commissioning decision***

Bolton decided to carry out a contingent valuation study after hearing from the British Library's Lynne Bradley about their contingent valuation study – in particular, that it was seen as helping the British Library make their case for their economic value with the Treasury. The methodology Bolton used was adapted from the British Library report. Bolton hoped to raise the profile of their service with key decision-makers, and also saw the study as a way of complying with national strategies of the time such as the Museums, Libraries and Archives (MLA) Council's Framework for the Future and Renaissance in the Regions.

Bolton received support from MLA North West, which thought the model could potentially be rolled out across the region. Bolton and the MLA each put in £10,000, making a total budget of £20,000, and consultants were commissioned to carry out the work. Bolton could not have conducted the research itself, and in any case would not have wanted to – there was a value to them in having a report that was seen to be independent of their service.

### ***The practicalities***

The project looked at the value of the three branches of the service. The consultants therefore surveyed four distinct groups: users of the museums, the libraries, and the archives, and non-users of all three services.

The primary research was carried out in July 2005 using a questionnaire devised by the consultants. Pilot interviews were conducted by telephone, but after consideration, the bulk of the interviews were carried out face to face on the street in Bolton town centre. As the service draws on an almost entirely local customer base, this was felt to be an appropriate method of surveying users and non-users alike (in other words, there were assumed to be very few potential users or tourist visitors from outside the borough boundaries). In all, 325 of these interviews were done. A number of focus groups were also held – the libraries service helped organise these, which proved time consuming.

The questionnaires asked a mix of 'willingness to pay' questions – how much would a person be prepared to pay for a service – and 'willingness to accept' questions: how much would someone accept to forego access to a service. The answers were then averaged, and 'grossed up' to reflect existing data on user and visitor numbers and profiles already held by Bolton's museums, libraries and archives service, and (in the case of non-users) the adult population of the borough.

### ***The findings***

The results of the study suggested a cost:benefit ratio of 1:1.6 – in other words, for every £10 Bolton spent, £16 of value was generated. In absolute terms, this meant that the service was valued at £10.4m, but cost £6.5m. Of the £10.4m of value, £7.4m was generated from users, and £3m from non-users. One particularly interesting finding was that the poorest parts of the community valued the service the most.

### ***The reaction***

Bolton Council reacted positively to these findings. Having a monetary value put on the museums, libraries and archives service helped explain its value – it 'translates' research into a language everyone can understand. The museums, libraries and archives service feels that the study demonstrated the value of investment in culture (in libraries in particular), and helped people understand the importance of culture to the borough as a whole.

This effect on opinion was particularly strong from 2005 to 2009. Political priorities have changed in Bolton since the credit crunch and related spending cuts – the focus is now on vulnerable people – but the service still finds the study useful. It has provided a structure for thinking about the decisions they have to make in the tougher economic climate: the value the public derives from projects is taken into account. For example, Bolton is building a new storage space for some of its museum objects, which will be fully accessible to the public in order to enhance its value to them. In a similar vein, the discovery that the poorest valued the library service the most has led to a focus on such facilities as free ICT and the purchase of library materials for the most vulnerable: the elderly, the disabled and children, specifically the under-fives.

Bolton, the MLA and their consultants also produced a toolkit to go along with the report, as part of a commitment to sharing knowledge, and to 'demystify' the technique: 'If Bolton can do it, anyone can.' However, Bolton was not aware of it being used in by other cultural sector bodies.

***Benefits of contingent valuation:***

- it is an increasingly established technique which is especially useful if the service or product does not have a market value
- results can be 'translated' into monetary values that are easier to understand
- it is an approach that is favoured by the Treasury, so it may suit bodies that deal directly with central government

***Risks and limitations:***

- it requires significant primary research through surveys, which may be complicated to carry out if users and non-users are widely dispersed beyond the local area
- many cultural organisations charge for their goods and services. In these cases, there may be little need for a contingent valuation approach – it is already clear what consumers are willing to pay for a cultural product or service: their preferences are already 'revealed' and do not need stating
- skilled researchers are needed, and respondents may find questions hard to understand. Respondents may also give the answer they think is 'right' rather than express their true feelings
- the analysis needs to be transparent about which groups are imputing value to the service – it may be that non-users account for a significant share of the overall reported value, for instance
- in practice, very few cultural organisations have undertaken such studies

## 6 Social return on investment

This approach is also a valuation approach, but it mixes elements of the different methods looked at so far. In theory, a cost-benefit analysis of any set of activities should take into account the full range of costs and benefits – including social, cultural or environmental ones. However, because placing a financial value on such costs and benefits is difficult, these are often excluded, as in, for instance, an EIA.

Social return on investment (SROI) has been developed as to respond to this challenge. It aims to be a type of 'social accounting' which includes non-economic costs and benefits. In this country it is strongly identified with the work of the New Economics Foundation (nef), who produced a guide to SROI for the Cabinet Office.<sup>9</sup>

There are two types of SROI:

- evaluative: conducted retrospectively and based on outcomes that have already occurred
- forecast: which predicts how much social value will be created if the activities achieve their intended outcomes

At its heart, SROI is a way of understanding the value of an organisation's activities based on their effects on the organisation's stakeholders and audiences. It begins by establishing who all the stakeholders for an organisation are, and how the organisation might have an impact on them, both positively and negatively. This forms the basis of an 'impact map'. The next stages of the process involve assessing which are the most important impacts, and whether they can be measured either quantitatively or qualitatively. Importantly, the focus on getting stakeholders to participate in defining value and impact means that SROI, as conducted according to the nef guidelines, is a non-comparable methodology.

Arguably, the most distinct (and controversial) element of SROI follows, when organisations try to establish financial 'proxies' for their positive and negative impacts. For an arts organisation, this might mean trying to find a suitable financial proxy for raised self-esteem or

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<sup>9</sup> nef has recently updated this in *A Guide to Social Return on Investment*, The SROI Network, 2012



improved personal relationships (stemming from participation in a particular project). At the end of the process a 'gross to net conversion' is similar to that seen in economic impact assessment, to try and take account of the effects of deadweight, displacement, substitution and attribution. It is then possible to establish an SROI ratio, which illustrates the relationship between the total costs of a programme or organisation and the total benefits produced by its work.

This method, while intriguing, poses some significant challenges for the arts and cultural sector. Most arts organisations' work (with the notable exception of participatory arts companies) is not intended primarily to achieve social benefits – other elements, such as enjoyment, cultural enrichment or entertainment are stronger. Instead, the SROI method has been more often used within the voluntary and community sector, where this focus on specific kinds of social and environmental change is a good fit with many charities' activities. The method is also exacting in terms of the data collection and the establishment of robust financial proxies.

Figure 5 Social return on investment

|                   |  |
|-------------------|--|
| What it does      | It measures and monetises social outcomes of an arts or cultural project                           |
| What you need     | Primary as well as secondary data, extensive research expertise and stakeholder involvement        |
| What it tells you | The method allows you to monetise how much a public investment returns in terms of social outcomes |

Source: Arts Council England (2012)

## Tyne and Wear Museums: Culture Track, Social return on investment, 2010

### ***The project***

Culture Track was a volunteering project run by Tyne and Wear Museums (TWAM) and jointly funded by the Renaissance programme of the MLA and One North East, the local regional development agency. It aimed to use volunteering to raise employability skills among participants and hence help them to find paid work. It was one of nine schemes funded by One North East which tried to use volunteering in the cultural sector in this way.

Culture Track was thus unusual in the cultural sector in being almost exclusively focused on achieving social benefits. A project co-ordinator was hired to run the scheme, and the large majority of participants remained on the scheme for at least six months. Those who took part were drawn from hard-to-reach groups such as those with health problems or the long-term unemployed. Each was offered a tailored programme of training and development.

### ***The commissioning decision***

External consultants were commissioned by the MLA to carry out a number of SROI analyses as part of a bigger evaluation of sustainability among Renaissance projects. Culture Track was one of the projects identified by MLA as being potentially a good case study to have an SROI, and TWAM were willing to take part. The cost was paid for by the MLA, but the consultants have estimated that carrying out such an SROI just for Culture Track would have cost between £8,000 and £10,000, bearing in mind that only 'hard' outcomes were evaluated.

In this particular case, the SROI analysis was carried out retrospectively, so did not involve any primary research on the part of the consultants. Before that there had been both an external evaluation of Culture Track for One North East and an internal one for TWAM. The internal evaluation used an assessment toolkit developed by the project co-ordinators of this project and one of the other pilots, with the help of a focus group. These two evaluations were onerous processes – there was a lot of information that had to be gathered and recorded.

### ***The practicalities***

TWAM was able to share the information it had already collected for the internal and external evaluations, together with some of its financial information. However, it was not able to supply some of the data the consultants were looking for, and had no way to go back to the volunteers to get it.

The SROI method seeks to put a value on the social benefits achieved by the project. A range of benefits were identified. These were classed either as 'hard' outcomes or 'soft' ones. 'Hard' outcomes were achieved by people moving into employment or onto a further education course. 'Soft' outcomes included feeling more ready for work, more confident, or more capable of overcoming barriers.

The consultants decided to translate only the 'hard' outcomes into a monetary value. (It was thought that potential proxies for the 'soft' outcomes were not robust enough.) TWAM did not have actual data on the wages of those volunteers who had subsequently moved into employment, so the consultants used estimates based on proxies such as the minimum wage. However, there are also benefits to the government that had to be factored in too, such as:

- reduction in welfare payments because of employment
- increase in tax receipts from employment
- reduction in welfare payments because of increased qualifications
- increase in tax receipts from increased qualifications

Once these figures had been estimated, further adjustments had to be made to account for deadweight, displacement and attribution effects. An adjustment also had to be made for 'drop off' – as time passes, the benefits of the programme will fade.

### ***The findings***

The initial calculation produced a cost:benefit ratio of 1:1.51 – in other words, for every £10 spent on the project, £15.10 of benefits were generated. This was felt by TWAM's evaluation officer to be rather low – TWAM believed that the assumptions the consultants made about salary levels, for instance, were too conservative. After discussion, the consultants therefore recalculated the figures using a different series of assumptions, thus giving a range of cost:benefit ratios. TWAM was happier with that approach, as it made the assumptions underpinning the model more explicit.

### ***The reaction***

While the idea to put Culture Track through an SROI analysis was originally the MLA's, TWAM believes that the SROI modelling was a helpful process for them.

The TWAM interviewee felt it is useful to have a way of monetising the value of a project, though she personally was wary of treating the volunteering experience purely in monetary

terms. SROI, though, helps to make the benefits of a programme reasonably clear to funders and stakeholders. The figures have since been quoted in funding applications and reports.

It was useful within the wider organisation too in helping them understand the benefits of volunteering programmes. (Museum sector volunteering, in TWAM's experience, is often about re-entry to job market.) That said, SROI can be quite a difficult concept to grasp initially, and, as it is a fairly new idea, it does need to be explained carefully to people.

***Benefits of SROI:***

- SROI allows the social benefits of a cultural project to be captured and 'monetised' in such a way as to make the value of the programme much clearer to stakeholders
- the process of undertaking an SROI can often bring an organisation closer to its stakeholders, thereby deepening its understanding of its value
- SROI does not always require extensive primary research – data on participant outcomes can often be gathered from stakeholders (eg pupil referral units, drug and alcohol charities)

***Risks and limitations:***

- SROI may not be a suitable tool for the bulk of the work most arts and cultural organisations carry out, which is not directly intended to have significant social benefits
- SROI tends to work best for self-contained projects
- it is potentially confusing as a technique. Outcomes are not comparable, as stakeholders define what constitutes value each time (and how this should be measured), yet they are expressed in a universal financial currency

# 7 Toolkits

The case study organisations all chose to commission bespoke research, although all the organisations had to commit time and resources of their own to help with the projects. However, in recent years an alternative has arisen for organisations which do not have the capacity to commission research. A number of bodies have created 'toolkits' to help the cultural sector measure its economic value. These generally take two forms: guides, which offer detailed instructions and advice on conducting such a study; and online calculators, which perform mathematical computations on data inputted into them.

Opinions on the merits of 'calculator' toolkits differ. As many of the case study interviewees pointed out, having a detailed and transparent methodology can help a report's credibility, and gives the organisation confidence in the findings. This would suggest that 'black box' calculators, which do not explain their calculations in depth, should be avoided.

Looking first at valuation techniques, the consensus from earlier research reports seems to be that contingent valuation is too complex a process to be able to be modelled in a calculator toolkit, and should not be attempted that way. The toolkit developed by Bolton and the MLA draws on their experience of carrying out their research, and is a useful guide to the issues that need to be thought about. It includes the questionnaire that was used in their contingent valuation study, but it is not a step-by-step guide to performing such a calculation.

Bolton toolkit: [webarchive.nationalarchives.gov.uk/20120215211001/](http://webarchive.nationalarchives.gov.uk/20120215211001/)

Social return on investment (SROI) on the other hand has been modelled in toolkits (perhaps the best known example is the West Midlands Cultural Observatory toolkit, which also includes GVA and economic impact options). Again, though, the complexity of the SROI process and the fact that projects cannot realistically be compared with each other suggests that using a calculator toolkit for SROI would be unlikely to achieve robust results. Instead, nef's guide to SROI is perhaps the best place to start. nef also runs the SROI Network, whose members share information on the proxies they used across different studies.

nef guide: [www.thesroinetwork.org/publications/cat\\_view/29-the-sroi-guide?orderby=dmdate\\_published&ascdesc=DESC](http://www.thesroinetwork.org/publications/cat_view/29-the-sroi-guide?orderby=dmdate_published&ascdesc=DESC)

The two measures of spending, economic impact assessment and economic footprint analysis, are less complex in some respects and more amenable to toolkits. Three of them have been reviewed:

### *West Midlands Cultural Observatory*

WMCO offers two toolkits in this area, one for GVA and one for economic impact. The Sports Industry Research Centre (SIRC) at Sheffield Hallam University has tested both, and finds that the GVA calculator is an example of good practice but that it should only be used in certain circumstances. SIRC endorses the economic impact calculator without reservation, finding it to be accurate and producing reliable results.

The economic impact calculator is designed to measure the impact of time-limited events or activities rather than an organisation's impact in the round. The calculator includes direct and indirect impacts, and aims to include only additional effects. Direct impacts are based on money spent by the organiser within the local area, excluding any funding which came from funders within the local area. Indirect impacts are based on spending by visitors from outside the local area who were motivated to visit because of the event. Users can choose whether to apply a multiplier to calculate induced impacts.

The economic impact calculator offers advice, model questionnaires for surveying your audience, and a results table to input your figures into, together with a series of case studies which include advice of their own from the person who completed the analysis. It requires 23 separate figures to be collated and entered to measure the impact of events, and 17 for the impact of activities. The data is drawn from the audience survey. There are also simplified versions of these two calculators, requiring fewer figures – 18 for events and 11 for activities.

West Midlands Cultural Observatory toolkits: [www.eitoolkit.org.uk](http://www.eitoolkit.org.uk)

### *eventIMPACTS Toolkit*

eventIMPACTS is the result of a collaboration between UK Sport, Visit Britain, EventScotland and other partners. It offers a series of toolkits, one of which is an economic calculator toolkit.

The approaches discussed in eventIMPACTS are intended for events of local, national or international significance. The economic calculator toolkit is a thorough step-by-step guide to assessing the direct and indirect economic impact of an event, focusing only on additional effects. The direct impact is based on local expenditure by the organiser minus local income received. The indirect impact is based on spending by visitors from outside the local area who

were motivated to visit because of the event. It makes clear the importance of transparency in the findings and the need to use financial information from the organisers. The analysis does not provide multipliers that would allow for the direct and indirect economic impact to be converted into a measure of induced economic impact.

eventIMPACTS toolkit: [www.eventimpacts.com/project/resources/](http://www.eventimpacts.com/project/resources/)

ALMA-UK's economic impact toolkit has been designed expressly for museums and archives. It consists of both a guidance document and the toolkit itself. It was intended to provide a consistent approach across the sector, and to be easy to use. It has been endorsed by the likes of Museums Galleries Scotland. It assesses direct and indirect impact and aims to isolate additional effects only. Direct impact is calculated based on the organisation's non-salary expenditure in the local area, and the organisation's salary expenditure is calculated on staff salaries of those who live in the local area. Indirect impact is calculated based on spending by visitors from outside the local area. The ALMA-UK model automatically estimates induced impacts by applying a multiplier, and does further calculations to convert all impacts into an overall assessment for an organisation. This is expressed as a jobs-created figure, an expenditure figure and a value-added impact figure.

While some stages of the toolkit are relatively straightforward to complete (though it may take some time to compile the individual figures), other sections are more complex. Data on visitors, for example, can be entered into one of a number of tiers – filling in higher tiers makes the assessment more robust and accurate. The toolkit also has the capacity to substitute regional or national benchmark data in cases where your data lacks sufficient detail.

ALMA-UK toolkit: [www.scoarch.org.uk/projects/economicimpact](http://www.scoarch.org.uk/projects/economicimpact)

# 8 Conclusion

This report has reviewed four popular methods of converting the benefits of arts and cultural organisations into monetary values. It does not recommend any one as being better than the others, but has instead provided a decision tree to help you think about which option would work best in your circumstances. Whichever method you choose, though, the analysis needs to be credible. Partly because there have been a number of economic impact assessments in particular that have made grandiose claims, there is scepticism in some quarters towards the claims made by arts and culture representatives for the economic benefits of their work. If you are commissioning work of this kind, it is imperative that your figures be believed. An important part of this is to be clear and transparent in the reporting of results and the way the calculations were made. However, it would be naïve to think that such studies are carried out in an entirely neutral fashion, without a thought for their advocacy value. The important thing is to identify a method that produces robust and independent data while still meeting your wider needs. We hope this report will help you do that.



## 9 Links and further reading: reports discussed in case study material

BOP Consulting, *Evaluation of AV Festival 10*, AV Festival, 2010

Report published online at: [2010.avfestival.co.uk/download/31d41713333c728ee28fb0131f38363c](http://2010.avfestival.co.uk/download/31d41713333c728ee28fb0131f38363c)

BOP Consulting, *The Economic Impact of Anvil Arts*, Anvil Arts, 2010

Executive Summary published online at: [www.anvilarts.org.uk/news/anvil-arts-economic-impact](http://www.anvilarts.org.uk/news/anvil-arts-economic-impact)

Culture Track analysis published as part of:

BOP Consulting, *Capturing Outcomes of Hub Museums' Sustainability Activities*, MLA, 2011

Report published online at: [webarchive.nationalarchives.gov.uk/20120215211001/](http://webarchive.nationalarchives.gov.uk/20120215211001/)

Deloitte, *The Economic Impact of the BBC: 2008/09*, BBC, 2010

Report published online at: [downloads.bbc.co.uk/aboutthebbc/reports/pdf/acc\\_economic\\_report.pdf](http://downloads.bbc.co.uk/aboutthebbc/reports/pdf/acc_economic_report.pdf)

Jura Consultants, *Bolton's Museum, Library and Archive Services: An Economic Valuation*, Bolton Metropolitan Borough Council and MLA North West, 2005

Report published online at: [webarchive.nationalarchives.gov.uk/20120215211001/http://research.mla.gov.uk/evidence/view-publication.php?pubid=423](http://webarchive.nationalarchives.gov.uk/20120215211001/http://research.mla.gov.uk/evidence/view-publication.php?pubid=423)

*The Economic Impact of the BBC 2009/10: An Update by the BBC*, BBC, 2010

Report published online at: [downloads.bbc.co.uk/aboutthebbc/reports/pdf/economic\\_report0910.pdf](http://downloads.bbc.co.uk/aboutthebbc/reports/pdf/economic_report0910.pdf)

*The Economic Impact of the BBC on the UK creative and broadcasting sector* (including the PwC report), BBC Trust, 2008 Report published online at: [www.bbc.co.uk/bbctrust/assets/files/pdf/review\\_report\\_research/economic\\_impact.pdf](http://www.bbc.co.uk/bbctrust/assets/files/pdf/review_report_research/economic_impact.pdf)

### *Other useful documents*

*BIS Occasional paper no. 1: Research to improve the assessment of additionality*, BIS, 2009.  
Report published online at: [www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/09-1302-bis-occasional-paper-01](http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/09-1302-bis-occasional-paper-01)

*DCMS Creative Industries Economic Estimates December 2011* published online at: [www.culture.gov.uk/publications/8682.aspx](http://www.culture.gov.uk/publications/8682.aspx)

*ERS Economic Impact Toolkits for Archives, Libraries and Museums*, ALMA UK, 2011 Published online at: [www.choicesforchange.info/wp-content/uploads/2011/02/18-11-ALMA-impact-Report-Final.pdf](http://www.choicesforchange.info/wp-content/uploads/2011/02/18-11-ALMA-impact-Report-Final.pdf)

*Guidance for Using Additionality Benchmarks in Appraisal*, BIS, 2009  
Report published online at: [webarchive.nationalarchives.gov.uk/+http://www.bis.gov.uk/files/file54063.pdf](http://webarchive.nationalarchives.gov.uk/+http://www.bis.gov.uk/files/file54063.pdf)

*Jura Consultants Economic Impact Methodologies for the museums, libraries and archives sector: What works and what doesn't*, MLA Council and MLA South East, 2008

O'Brien, David *Measuring the value of culture: a report to the Department for Culture Media and Sport*, DCMS, 2010  
Published online at: [www.culture.gov.uk/publications/7660.aspx](http://www.culture.gov.uk/publications/7660.aspx)

*The Green Book: Appraisal and Evaluation in Central Government*, HM Treasury, 2011 update  
Published online at: [www.hm-treasury.gov.uk/d/green\\_book\\_complete.pdf](http://www.hm-treasury.gov.uk/d/green_book_complete.pdf)

# Glossary

**Additionality:** an impact arising from an organisation's activity is additional if it would not have occurred without that activity.

**Attribution (in SROI):** how much the outcome in question was caused by the contribution of other organisations or people.

**Cost benefit analysis:** analysis which tries to quantify in monetary terms as many of the costs and benefits of a proposal as possible, including those things which do not have a conventional market value.

**Deadweight:** spending that would have occurred irrespective of the organisation's activity.

**Displacement and substitution effects:** these two terms are closely related, and refer to the degree to which an increase in spending related to an organisation is offset by reductions in spending elsewhere.

**Existence value:** the value placed by people on the continued existence of a product or service for the benefit of present or future generations.

**Leakage:** spending derived from an organisation's activities that takes place outside that organisation's local area.

**Multiplier:** a measure of the degree to which direct spending 'ripples' out into the wider economy.

**Option value:** the value of the availability of the option of using a product or service (which is usually free at the point of use) at some future date.

**Use value:** the estimate of the value of people's use of a product or service, even if that service is usually free at the point of use.

**Willingness to accept:** the amount that someone is willing to receive or accept to give up a good or service.

**Willingness to pay:** the amount that someone is willing to give up or pay to acquire a good or service.

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