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# Community costs

## Impact analysis — the social audit approach

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*Social audit techniques have been used increasingly during the 1980s recession. They represent an important means of extending impact assessment into the area of community social and economic costs.*

*In this paper some of the experience of recent work in this field is discussed, concentrating on matters of continuing major debate. The discussion is taken further by considering how social audit techniques might have to be broadened to cater for new project proposals, in the process providing some useful additional areas for examination applicable to all social audits.*

Keywords: social audit; impact analysis; project appraisal

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**A**FTER A SHORT FALL into disuse following the considerable work done in the mid 70s, social audit techniques in project evaluation have once more begun to attract attention in recent years (Gray, Owen and Maunders, 1987). The reawakening of interest in Britain in particular has been strongly associated with the efforts of local authorities to counter factory closure proposals, which greatly increased in number as the economic recession intensified.

Defining a social audit is not as straightforward as it might seem, since the term needs to be clearly separated from corporate social accounting (companies' own costed reports on progress in social, safety, environmental and other matters pertaining to their workforce and local communities). This separation can be difficult to achieve given the frequent abuse of the term social audit.

The major distinction is that social audits are usually conducted externally rather than internally. In general, a rather too wide definition of social audit has prevailed, which has seen virtually any writing related to social impacts, even journalism, being lumped into this category. A rather narrower definition is preferable, which stresses the role of providing full community financial costings, covering all the major options as an integral element.

Social audits as discussed here are: "systematic attempts to incorporate into project appraisal all major dimensions of both economic and social impact, extending beyond the usual concern with internal commercial project viability to look at community costs, benefits and opportunities".

By looking at the whole range of community costs and benefits of a particular project, together with an evaluation of alternatives, social audits can provide a fully costed series of options with which to inform decision-making. This is self-evidently important in the case of justifying using government monies to forestall closures.

More importantly, the same social audit techniques can be used by decision-makers in determining official responses to new project proposals. A much greater degree of control exists over such proposals, in the form of planning consent, land release and decisions on whether to provide assistance, such as grants, loans or subsidised premises.

Full social audits are necessary to inform decisions since the impact assessments provided by the applicants are inevitably, and understandably, only partial in nature. To commission a social audit is akin to getting a full surveyor's report when buying a house: it provides scope for further bargaining and condition setting, based on the fuller knowledge provided by professional evaluations.

## **Differing role**

For some the social audit framework should be an explicitly socialist one, challenging the view of commercial profitability being the sole indicator of a factory or other project's value (Geddes, 1987; Owen, Grey, Harte, 1987). The view that attention to improving the global profit margins of multi-nationals should not be allowed to obscure the costs borne by the local communities which are affected by rationalisations is a common one, but one which provides few ready solutions for how to control such decisions. It has been argued that certain companies, determined by size and sector, should be called to account by a national 'Employment Protection Agency', which could use social audit techniques to determine any closure proposal's wider regional implications. In certain cases these companies might then be called upon to bear some of the resultant 'community costs' (Long, 1987).

Elsewhere a more general role has been advocated, of striving to achieve an elusive (indeed unattainable) goal of comparability and improved objectivity in incorporating full community social and economic costs into impact assessments. This process is seen as essential to gaining a degree of general credibility similar to that enjoyed by environmental impact assessments (Haughton, 1987).

Certainly there exists a distinct uneasiness about how social audits can be usefully translated into action and over whether and how to make use of subjective judgements in assessment (Harte, 1986). Not least of the worries is the vulnerability to criticisms of naivety.

At national level in both Britain and the United States, where social audit work is strongest developed, there is little likelihood of political support for the view that, for instance, all or even most firms considering closure should automatically receive preventative transfer payments from the state up to the full regional costs of closure. Even if such a transfer were made there is nothing to suggest that companies are not astute enough to manipulate the system. This could readily be done by falsely declaring an intention to close, and then effectively using any cash injections to subsidise investments elsewhere, or simply using the transferred sums to contribute to higher profits. In defence of the social reparations case it should be noted that such distortions can be controlled, and would not anyway necessarily negate all the desired local outcomes.

Recent social audits have concentrated on evaluating whether the total financial costs to government of allowing a closure to go ahead (for instance, social security payments and tax revenue losses, see below) would exceed the costs of intervening in various ways. This financial totting up has usually been accompanied by more qualitative assessments of impact, in recognition of the fact that not all costs and benefits are

of a sufficiently tangible nature to allow quantification.

There exists a parallel need for an appraisal of national long-term competitiveness and productivity considerations, to place the more local impacts into context. In certain instances, after such an evaluation, it may be recognised that closure is inevitable, and that the most a social audit could hope to achieve is to present the case for funds to ease the period of transition. Realistic goal setting of this type has not featured in many social audits to date, contributing to the disquiet felt by those who have been involved with them and not seen their own hopes fulfilled.

## **Regularising methodology**

In this paper the intention is to advance the discussion of social audit techniques by first considering some of the key areas of concern revealed by existing work. The analysis is then extended to consider how social audits might be applied as a forward appraisal technique for new projects. In particular, we examine displacement and deadweight effects, local skills mismatches and the interaction of local labour and housing markets.

Whilst some social audits have projected forward in identifying alternatives to closure decisions, looking for instance, at alternative production organisation and new market possibilities (see TUSIU, 1986b), very few have looked at new expansionary projects.

Several attempts have been made to begin to regularise the social audit methodology, most notably by Haughton (1987), who sets out a ten point framework, and by Harte and Owen (1987), who review the methodologies of ten British local authority social audits produced in recent years. As a result of this work there is now emerging a clearer view of what a social audit is and how it might be conducted, though important qualms must remain as to its usefulness in influencing the decision-making procedures of private capital or the public sector (Harte, 1986).

Certainly in Britain there is no formal workable bargaining framework for private capital and government which could make use of the product of social audits in cases of intended closure. Rather more scope exists in the case of new project proposals, as we have already pointed out. Indeed, in the USA, where environmental impact statements are legally demanded for certain categories of federal project, these must be accompanied by an evaluation of social impacts (Finsterbusch, 1980).

It nonetheless remains a moot point as to whether developing social audit methodologies is a necessary pre-condition to developing a working framework for the private and public sectors or a case of putting the cart before the horse.

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## Some key issues

Three areas of major concern exist for developing social audit techniques:

- Can they be used as a pro-active device rather than continuing to be associated with the reactive usage which has marked them to date? This after-the-fact (or at least post-announcement) tendency has certainly contributed to the general lack of success for existing studies in preventing closures. Pre-empting closure notice however does run the very real risk of becoming a self-fulfilling prophecy. In this paper we move on to discuss how new project proposals might be made subject to social audits.
- What areal coverage should be used in conducting the study and what time scales? Choosing a small geographical area emphasises the percentage change impact through using a smaller base employment level, but in doing this can play down the wider, aggregate impact. Similarly in calculating the costs to government of allowing closure, using different time-scales can produce different results. These emerge because the multiplier effect is inevitably a phased one.

In addition, a project's obtaining a guarantee of continuity, for instance for five years, can spread the cost to government of intervening, whilst allowing the costs of non-intervention to be added up over five years. For new projects too the choice of time period can be critical, particularly in looking at post-construction phase job creation. The answer to the problems of geographical coverage and time-scales is to disaggregate the social audit as a matter of routine. This should allow coverage of a number of options, for instance both local and sub-regional job losses, immediate and long term. Disaggregation has the additional advantage of greater appeal to each of the layers of government able to intervene.

- How can costs (or benefits) be allocated to appropriate responsible agencies? For instance, a factory closure will affect local government, local industrialists and services, various national government departments plus those individuals made unemployed or affected by a reduced quality of local service provision. Following on from this the parallel need is to identify which bodies might be called upon to contribute to a 'rescue package', covering, for instance, loans, training, housing, land rehabilitation and new factory building. This is important since some agencies who might not directly have borne the costs of closure, such as the Manpower Services Commission (MSC) or the European Community in the case of Britain, may nonetheless be called upon to help keep the factory open.

## Who wins and who loses?

A number of studies have now carefully broken down costs, including TUSIU (1986a and b) for national government costs, Cleveland County Council (1983) for local authority costs, whilst both Cole (1987) and Edinburgh District Council (1985) differentiate between national and local government costs. As yet no study has produced a highly disaggregated system of accounting which would allow some form of

proportional allocation, building up towards a view of who will actually bear particular costs. The lessons from existing approaches can be usefully portrayed by taking a hypothetical case covering the direct and indirect job losses resulting from a factory closure in Britain.

Local government will face the loss of rates income, until national government grants are adjusted to compensate. Additional costs will arise from increased education expenditure to cover greater uptake of school meals, maintenance payments, including uniform grants, plus the costs of more youngsters staying on into sixth form and entering further education.

There will also be a loss of income from those unable to contribute to child care facilities, plus more adult education provision, coupled with fees remission, and the need to make up the funding shortfall left by the MSC in providing Youth Training Scheme places. In addition there will be greater call on local bus subsidies.

Furthermore, each area will have its own range of schemes, which might include additional compensatory training provision, leisure time initiatives directed at the unemployed and industrial promotion. In the long term too, the impact of private sector housing being allowed to deteriorate through lack of funds may well mean that some part of the costs of rehabilitation will ultimately fall to the local authority.

For national government the main direct costs are those of providing unemployment benefits, supplementary benefits, housing benefits, redundancy fund payments, additional expenditure on national training schemes for both youths and adults, and possibly on inner cities schemes. In addition there needs to be considered the net impact on the trade balance through lost exports or increased imports, possibly the loss of part of a strategic industry, loss of income tax, VAT (value added tax) revenue and national insurance contributions.

There are also those costs borne directly by individuals through the impact on health in particular, redundant skills and fewer opportunities generally in the local labour market. Quality of life is also affected by any adverse impact on the quality of local services and the local environment. Other local employers suffer too where changes in demand or supply conditions bring operations to below viable threshold operating level or alter the condition of the local skills pool (such as a new project taking up skilled workers but providing no training itself, or the loss of a major local trainer).

Finally, the firm considering closing down will have to bear costs of production reorganisation and redundancy payments, though in some instances these might be recouped by selling off the vacated property.

## New project proposals

Looking at new project proposals requires many of the same elements which go towards constructing a social audit for cases of decline or closure, but with some additional elements brought into focus. As a starting point we will briefly outline the ten points provided by Houghton (1987), which, whilst primarily intended for closure or contraction social audits, were explicitly formulated to provide some guidelines for reversal and application to new expansionary schemes.

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## **A highly disaggregated system of accounting would allow some form of proportional allocation, building up towards a view of who will actually bear particular costs**

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- direct job losses/creation;
- indirect business job losses/creation — the industrial multiplier;
- leverage impact on other projects — facilitating, forestalling or curtailing other investments;
- personal income multiplier — 'the corner shop effect';
- costing total direct and indirect job losses and comparing these to the cost of intervention. Calculating costs in terms of local and national government contributions;
- costing or at least accounting for less tangible social impacts where possible such as health care, loss of labour market openings for young people, loss of skills, especially where these are largely non-transferable, job-specific;
- environmental costs or benefits;
- opportunity costs of, for instance, government expenditure following closure exceeding costs of successful intervention.
- the opportunity cost of allowing a once and for all opportunity to pass, such as a railway or canal closure decision given that the likelihood of rebuilding is so low due to high start-up costs;
- The 'Regional Demonstration Effect', in summary, that, as success breeds success, so despair breeds lack of confidence and ultimately lack of local investment.

For most of these points there is a direct relationship between the social audits of decline and of growth. It is necessary to bear in mind, however, that there is not always a direct correspondence. For instance the business multiplier effects of closure tend to be less than those of growth, as established firms adopt contingency plans to compensate for shortfalls in business (Brownrigg, 1980). These alternative plans may, of course, only serve to displace jobs in other local firms.

This framework is not, however, sufficient in itself to cater for new project social audits, and can indeed be improved upon as a tool for decline audits by incorporating additional dimensions of costs. In particular, four specific areas need to be focused on in expansion-related social audits — displacement and deadweight effects, the local skills pool and the interaction of local housing and labour markets.

*Displacement effects* can take several forms: investment in a new out-of-town superstore could prove to be at the expense of inner city corner shops and central supermarkets, which if they were to close down would be to the detriment of less mobile sectors of the community, particularly the elderly and the disabled.

Similarly a new project may prevent other possibly preferable uses of the land or even pre-empt another investment elsewhere in the area. To illustrate both possibilities using our out-of-town superstore example, preferred alternatives might have been a country park or an in-town superstore.

Investment displacement has its counterpart in people displacement. This has been particularly evident in the first phases of the London Docklands Development, which we shall return to later, and also in cases where council housing has been sold off to private developers.

*Deadweight effects* need to be incorporated in achieving an accurate assessment of changes actually credited to a new project. It is important in any meaningful cost-benefit analysis to identify and disregard impacts which would have taken place anyway. Haughton (1987) in fact suggests that job loss counts might disregard those job losses necessary for a project to be rescued.

In the case of expansionary projects the issues are more complex. For instance, in evaluating the benefits of a commercial Leisure Centre proposal, if the project in question were not to go ahead would another one automatically emerge, or another significant facility be attracted in its place — and how effectively can this be demonstrated?

*The local skills pool* provides another important consideration in looking at new projects. If a proposed project is not taking up slack in the labour market, that is, using the latent skills of the under- or unemployed, then, unless a suitable training programme is instituted, the net effect will be to attract people from outside with the requisite skills, or to cause chronic localised skills shortages. This latter circumstance will impact on other employers in the local economy, possibly acting to the detriment of their work capabilities or increasing labour costs to a level which makes it unviable to continue.

Whether in-migration is caused or local skills mismatches worsened, some of the desired beneficial impacts of the new investment will have been negated. There is always a need in the case of large projects, therefore, to incorporate some elements of a skills audit. This requires ascertaining the levels of existing skills in the area, in use, latent and those capable of rapid upgrading, and also a consideration of the capacity of the local training infra-structure to supply the additional demand for skills.

To revert briefly to social audits in the context of decline, this analysis suggests that there is a crucial need to examine job losses in terms of the age, sex and skill composition of the workers affected and relate these to the general state of the local labour market, looking for instance at job vacancies and the possibilities for skills redeployment.

*The interaction of local housing and labour markets* provides our fourth essential consideration since policies for either in isolation can effectively neutralise the other (Haughton, Peck and Steward, 1987). A major injection of semi-skilled jobs in a depressed inner city

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## **Four areas need to be focused on in expansion-related social audits — displacement and deadweight effects, the local skills pool and the interaction of local housing and labour markets**

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area with predominantly poor quality housing stock may create jobs for local people in the first instance, particularly where 'local jobs' targets are set as a policy goal.

However, as local workers' position in the labour market is improved so their housing aspirations and possibilities change. If the range of local housing possibilities is limited (by tenure as well as size) then there is every chance of significant 'leakage' as workers move out, in some part neutralising the desired policy impact. The parallel policy needed therefore, is to provide for a suitable range of local housing.

At the opposite extreme, there is the case of London Docklands where the provision of substantial numbers of new executive level jobs has acted to distort the local housing market by pushing up prices, to the disadvantage of some long-standing but less well off local inhabitants wishing to purchase houses in the area.

It is difficult to assign financial costings to all four of these additional factors, except in the most specious sense of adding up the costs to local authorities of initiating compensatory programmes, such as, Gateshead's Shopping Information System, (based in North East England) which helps distribute the benefits of the local superstore to the less mobile; or providing additional training places; or encouraging new low cost housing.

## Conclusion

Social audits have considerable merits insofar as they try to evaluate both social and economic costs and benefits to the community. Substantial scope remains for further refining the approach, in particular with an aim to providing an appropriate framework for generating a full costing of unemployment and a widely acceptable, more readily transferable methodology which would allow meaningful comparison of results across projects. This paper has moved the debate forward by suggesting new dimensions for analysis in social audits, in particular highlighting ways in which

new project proposals can be subject to more detailed scrutiny.

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