Social Return on Investment – an introduction

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Office of the Third Sector

SROI – an introduction

The SROI Network
Accounting for value

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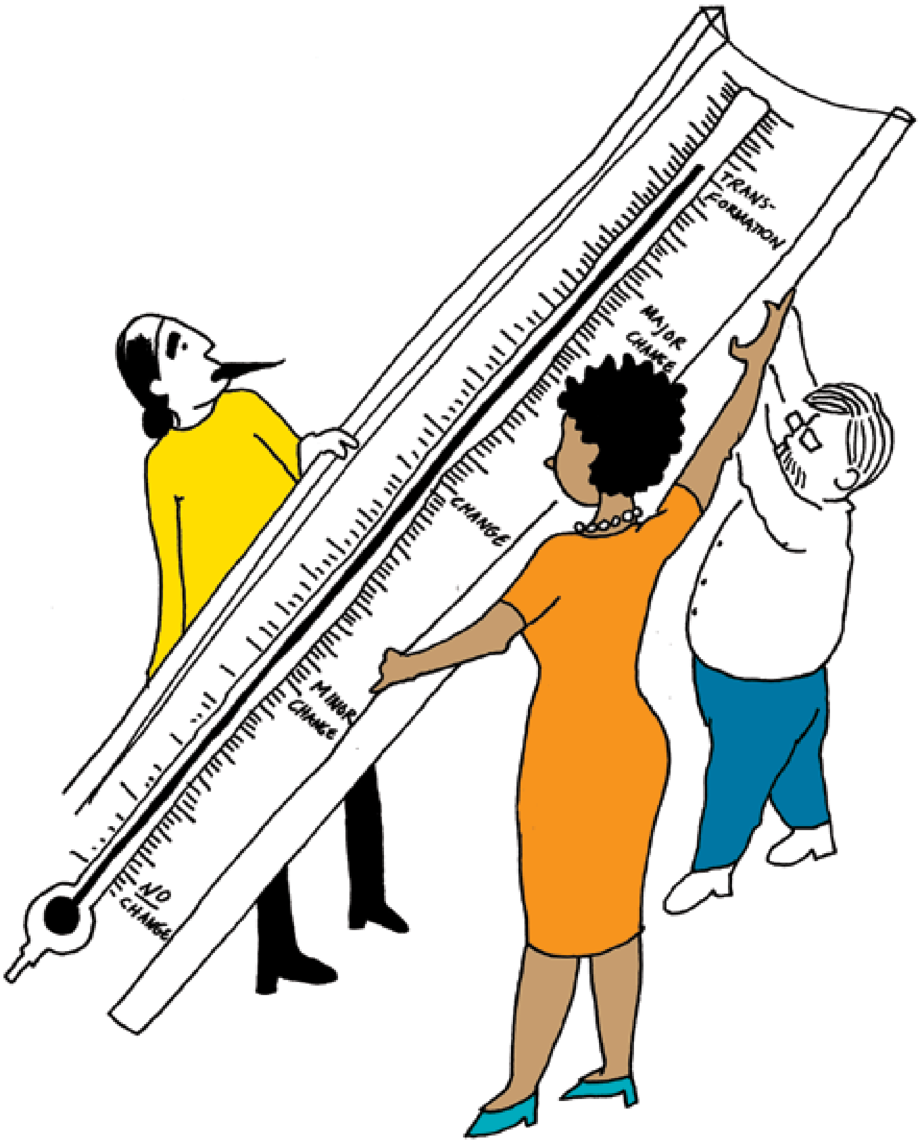
1 Introduction

Social Return on Investment (SROI) is an innovative way to measure and account for the value you create with your work. The methodology is relatively new to the UK, but it is attracting considerable interest from third sector organisations, government, funders, investors and commissioners because of its ability to tell a compelling story of change. As well as helping organisations account for their achievements and attract funding, SROI can also help organisations maximise their social impact and improve the lives of the people they work with.

This short paper gives an overview of SROI. A more detailed guide for people wishing to implement an SROI has also been produced as part of a programme on measuring social value being funded from 2008-11 by the Office of the Third Sector. The Scottish Government is also funding a parallel programme focused on SROI. For more information on the guide and these programmes see *Sources of support*, on page 10.



2 About SROI

SROI is a framework for understanding, measuring and managing the outcomes of an organisation's activities. SROI can encompass all types of outcomes – social, economic and environmental – but it is based on involving stakeholders in determining which outcomes are relevant.

There are two types of SROI. Evaluative SROIs are conducted retrospectively and are based on outcomes that have already taken place. Forecast SROIs predict how much social value will be created if the activities meet their intended outcomes. Forecast SROIs are useful at the planning stage of a project, or if you have not been collecting the right kinds of outcomes data to enable you to undertake an evaluative SROI.

SROI was developed from social accounting and cost benefit analysis, and has a lot in common with other outcomes approaches. However, SROI is distinct from other approaches in that it places a monetary value on outcomes, so that they can be added up and compared with the investment made. This results in a ratio of total benefits (a sum of all the outcomes) to total investments. For example, an organisation might have a ratio of £4 of social value created for every £1 spent on its activities.

Case example – Fab Pad[1]
Fab Pad is a project run by the organisation Impact Arts. Fab Pad supports young homeless people to sustain new tenancies. The SROI evaluation carried out on Fab Pad revealed that for every £1 invested by the government in support, £8.38 of social return was derived in reduced health care costs, reduced welfare benefits expenditure and reduced costs of repeat homelessness.

As a result of their SROI, Fab Pad have gained follow-on funding support for the programme, developed a higher profile with their main partners and funders, and have begun applying SROI as a strategic management tool to other aspects of their business.

While the ratio is important, SROI is about much more than this. A good SROI presents a story of change, including both qualitative and quantitative findings, and provides information to help organisations maximise their outcomes.

The ratio should always be understood in the context of the whole analysis. There is an understandable fear that funders may use only the ratio to guide funding decisions. However, it would be a very unwise funder who made funding decisions simply on the basis of one number. It is also not recommended that you use the ratio to compare different organisations. Even if they work in the same sector, for example children's services, they will be working with different users with different needs, and may have made different judgements in calculating their ratio. As with any approach, SROI involves making judgements, but these should be well documented so as to be transparent.

1 www.impactarts.co.uk/

Why do an SROI?
SROI can help you improve services in a range of ways. It can help you:
- understand the social, environmental and economic value created by your work;
- maximise the positive change you create and identify and manage any negative outcomes arising from your work;
- reconsider which organisations or people you should be working with, or improve the way you engage with your stakeholders;
- find ways to collect more useful, better quality information.

Finally, and in part as a result of improving performance, SROI can help you promote your work, attract new clients or bring in new funding or finance.

Case example – The NOW project [1]
The **NOW** project in Northern Ireland provides training and support to enable people with learning disabilities to get the job they want and keep it. NOW identified that for every £1 invested in their projects, £3 was derived in social return. This meant that the value created by NOW, minus the cost of creating that value, was £824,990.

NOW carry out an SROI analysis each year and, as a result, they have changed how they report on all areas of their activity. NOW's SROI reporting is embedded within the organisation and helps senior management report the impact of their work on people's lives to NOW's Board and external stakeholders. They have used this information in some instances to avert a funding crisis by presenting their story in a language understood by their funders. The organisation has a new confidence brought about by their ability to translate the difference they make to people's lives into pounds and pence.

Who can use SROI?
SROI can be used by organisations, investors and commissioners:
- As an organisation, SROI can help you understand and manage your work;
- As an investor, SROI can help you be clear about how your investments create value and help you support your investees in creating that value;
- As a commissioner, SROI can help define what goods and services you want to commission and how these contribute to your organisation's goals.

Implementing any new system can take time and resources. It is difficult to estimate how much time it will take, as this depends on the type of SROI, the scope you set for your analysis, the availability of good outcomes data and your existing skills and experience. Scoping the work and answering these questions will allow you to assess how much time you may need to carry out and implement the recommendations of an SROI analysis.

Organisations with skills in evaluation, outcomes, accountancy and Microsoft's Excel software will find it easier to undertake an SROI. Many people will need to undertake a training course on SROI, and some will also need external support. SROI may not be

1 www.nowproject.co.uk/

appropriate for all third sector organisations although you will need to think through the stages and principles in relation to your own organisation in order to make that decision. However, used wisely and appropriately, SROI is a very powerful option for assessing and demonstrating change.

For more information on resources to help you do SROI, please see *Sources of support* on page 10.

The principles of SROI

There are seven principles of SROI that underpin how it should be used:

1. **Involve stakeholders.** Stakeholders should inform what gets measured and how this is measured and valued.
2. **Understand what changes.** Articulate how change is created and evaluate this through evidence gathered, recognising positive and negative changes as well as those that are intended and unintended.
3. **Value the things that matter.** Use financial proxies in order that the value of the outcomes can be recognised.
4. **Only include what is material.** Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.
5. **Do not over claim.** Organisations should only claim the value that they are responsible for creating.
6. **Be transparent.** Demonstrate the basis on which the analysis may be considered accurate and honest and show that it will be reported to and discussed with stakeholders.
7. **Verify the result.** Ensure appropriate independent verification of the account.

3 The process of SROI

Carrying out an SROI analysis involves six stages:

1. **Establishing scope and identifying key stakeholders.** It is important to have clear boundaries about what your SROI analysis will cover, who will be involved in the process and how. Often service users, funders and other agencies working with the client group are included in an SROI.
2. **Mapping outcomes.** Through engaging with your stakeholders you will develop an impact map (also called a theory of change or logic model) which shows the relationship between inputs, outputs and outcomes.
3. **Evidencing outcomes and giving them a value.** This stage involves finding data to show whether outcomes have happened and then giving them a monetary value.
4. **Establishing impact.** Those aspects of change that would have happened anyway or are a result of other factors are taken out of the analysis.
5. **Calculating the SROI.** This stage involves adding up all the benefits, subtracting any negatives and comparing the result with the investment. This is also where the sensitivity of the results can be tested.
6. **Reporting, using and embedding.** This vital last step involves verification of the report, sharing findings with stakeholders and responding to them, and embedding good outcomes processes.

An example of the process of SROI

Wheels-to-Meals is a fictional charity, used here to demonstrate the stages of an SROI. Wheels-to-Meals runs an older people's lunch club like a 'meals on wheels' service, except that service users are transported to meals. This gives users opportunities to socialise and attend group activities.

Stage 1: Establishing scope and identifying key stakeholders

Wheels-to-Meals decided that key stakeholders would include volunteers, service users and the local authority. They agreed that the SROI would:

- contribute to the upcoming review of their local authority contract;
- cover all the activities of the organisation over one year;
- be a forecast SROI analysis;
- be undertaken by internal staff.

Stage 2: Mapping outcomes

Through discussions with their stakeholders, Wheels-to-Meals identified the inputs, outputs and outcomes of their work. Their outcomes included service users being fitter, healthier and making new friends. By involving stakeholders, they also identified changes they had not known about, both positive and negative. For example, as a result of attending exercise sessions, residents said they were fitter, and this resulted in a reduction in falls.

Stage 3: Evidencing outcomes and giving them a value

For each of their outcomes, Wheels-to-Meals identified indicators, things they could measure that would show whether the outcome had been achieved or not.

For example, for the outcome 'healthier residents', Wheels-to-Meals chose the indicators 'number of GP visits' and 'number of residents reporting improved health'.

Then, for each indicator, Wheels-to-Meals identified a financial proxy. For example, for the indicators 'number of GP visits', Wheels-to-Meals looked at the NHS Cost Book[1] and found that a visit to a GP cost the NHS £19. This was therefore the potential saving each time someone did not need a GP visit because they were healthier, as a result of the work of Wheels-to-Meals' service.

Stage 4: Establishing impact
To calculate their impact, Wheels-to-Meals took the quantity of each outcome and multiplied it by the financial proxy. This gives the total value of the outcome. Then they adjusted each outcome, taking into account what would have happened anyway, and how much of the change was due to factors other than Wheels-to-Meals.

Stage 5: Calculating the SROI
Wheels-to-Meals then worked out their social return ratio. They projected their impacts into the future for five years, which was how long they thought their outcomes would last. They then added up the value of the projected impacts, which was £81,742 over the five years. This figure was then divided by the total inputs (or investment) made to the project, which was £42,375. This gave a total ratio of £1.93: £1. So for Wheels-to-Meals, there is £1.93 of value for every £1 of investment.

To check that their data and the assumptions they made were robust, Wheels-to-Meals carried out a sensitivity analysis. Using a spreadsheet, they changed the numbers for a range of things, including their estimates of impact and their financial proxies. Then they looked at how these affected the ratio. Where the effect on the ratio was significant, they took extra care to double check that their data and estimates were accurate.

Stage 6: Reporting, using and embedding
Wheels-to-Meals sent a copy of their report to their funders, and used the findings in subsequent funding applications. They held an event for volunteers and service users to give them the findings of the study verbally.

As a result of undertaking the SROI, Wheels-to-Meals improved their outcomes data collection, and put systems in place to undertake an evaluative SROI in a year's time. They also used the findings to help them achieve the best possible outcomes for their service users.

1 www.isdscotland.org/isd/360.html

4 Sources of support

There is a range of support available to help you use SROI, including *A guide to Social Return on Investment*, training, consultancy and an indicator bank. The following websites are useful sources of this support.

The SROI Network website contains a range of SROI resources including *A guide to Social Return on Investment*, a full description of the principles of SROI and details of SROI training courses: **www.thesroinetwork.org**. If you have an SROI report you would be happy to share, please send it to the SROI Network and they will include it in their SROI library.

The website of the Scottish Government funded SROI Project contains a range of SROI resources, which will include an indicator bank and information on accredited SROI training: **www.sroiproject.org.uk**.

new economics foundation's website contains a range of relevant resources, including information about SROI in commissioning and public policy: **www.neweconomics.org/gen/newways_socialreturn.aspx**.

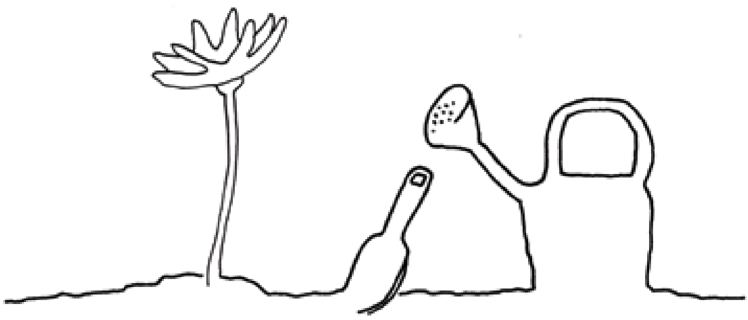
nef consulting provides SROI resources and consultancy for third sector organisations, including details of SROI training: **www.nef-consulting.co.uk**.

Charities Evaluation Services' website contains a range of resources on evaluation and outcomes assessment in the third sector: **www.ces-vol.org.uk**.

National Council for Voluntary Organisations' website contains information and advice on strategy and impact: **www.ncvo-vol.org.uk/strategy-impact**.

New Philanthropy Capital's website contains a range of resources relevant to measuring social value, including SROI, well-being, reporting to funders and full cost recovery: **www.philanthropycapital.org**.

For more information on the **Office of the Third Sector's Measuring Social Value project** go to **www.cabinetoffice.gov.uk/third_sector/Research_and_statistics/measuring_social_value.aspx**.



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