SOCIAL RETURN ON INVESTMENT
Valuing what matters

Findings and recommendations from a pilot study

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real wealth
means well-being

Current priorites include international debt, transforming markets, global finance and local economic renewal

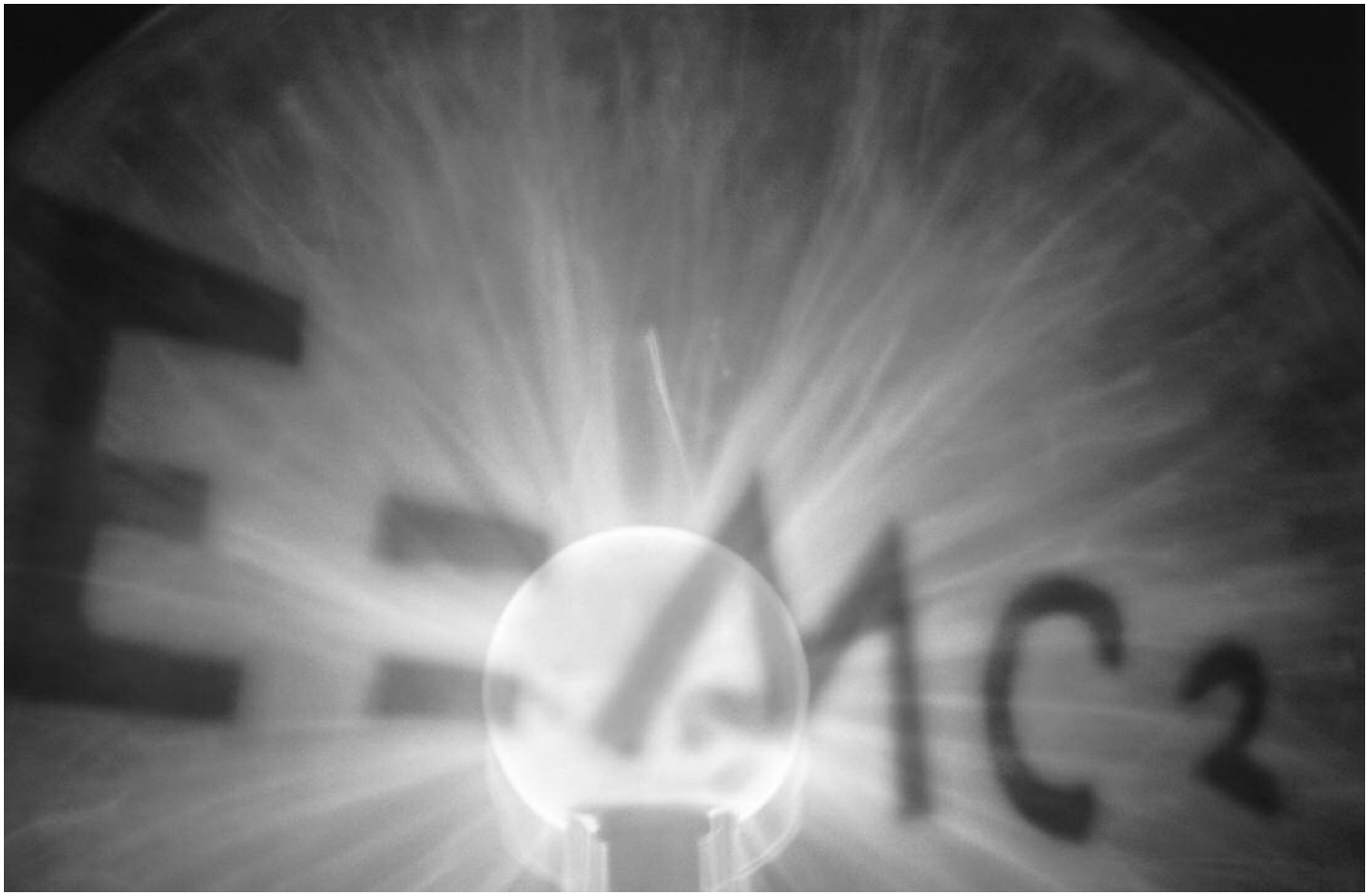
environment
lifestyles must
become sustainable

Current priorites are climate change, ecological debt and local sustainability

society
communities need
power and influence

Current priorites include democracy. time banks, well-being and public services

nef The New Economics Foundation is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G7/G8 summit meetings. It has taken a lead in helping establish new coalitions and organisations, such as the Jubilee 2000 debt campaign; the Ethical Trading Initiative; the UK Social Investment Forum; and new ways to measure social and environmental well-being.



Capturing the value of social activities through a measurement technique called Social Return on Investment (SROI) has great potential to improve the way organisations work and how resources are allocated, as well as illustrating the value of social and environmental impacts. We have developed an approach to SROI that is guided by stakeholders and provides different levels for organisations to use depending on their starting point, capacity or resources. It is of use for organisational management and delivery in the social economy; public expenditure and investment; grant giving and financial investment; and corporate responsibility.

Calculating SROI depends on having an understanding of stakeholders' objectives and of an organisation's impacts – both of which are essential for good management. SROI also depends on collecting information, which can take valuable time and resources to gather. Consequently, SROI is likely to develop and provide most benefit in sectors and organisations, which are already advanced in these areas.

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Introduction

Albert Einstein[1] is often quoted as saying "Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted." **nef** is redefining the way we understand and measure progress: finding ways to make the invisible value of things which are essential to quality of life visible and measurable, in short – valuing what matters.

When government and finance providers focus on value for money, it is increasingly necessary for organisations to find ways to present and measure the full range of their outcomes and impacts. Performance measurement is an important tool for organisations to assess the success of their efforts and to improve them. It is also important for funders to help them make informed financing decisions and for policy makers to inform the future of delivering public services and other policy goals.

For organisations that want to generate social and environmental benefits, a particularly powerful way to illustrate those benefits is to measure the value of the social and environmental impacts that are being created. Analysis of the economic value created by social and environmental benefits can be particularly important in justifying investment in activities that do not generate a direct financial return. This is as true for public service delivery and public expenditure as it is for social economy organisations. For example, time banks (a technique for brokering people's skills and time) have been shown to have social benefits far beyond volunteering, including employment and health benefits; being able to measure this full value would help make the case for further investment in their development.

Social Return on Investment (SROI) is a measure that captures the value of social benefits (social is taken here, and throughout the document, as shorthand for social and environmental). It is a relatively new measure, which was developed by Jed Emerson and the Roberts Enterprise Development Fund (REDF).[2] SROI represents a development of traditional cost-benefit analysis as a way of translating some of the social objectives of organisations into financial measures (generally gains or losses to public expenditure).

The term Social Return on Investment has been taken up by other organisations and used in varying ways. For example, some Socially Responsible Investment (SRI) funds refer to the SROI for their social investments and express it in terms of outputs – for example, the number of units of social housing built per dollar invested.

nef has started work on exploring the way in which SROI, as originally developed by REDF, could be tested and developed in the UK context. Our aim was to test the applicability of SROI to the UK and propose practical ways to develop it further. We recognised that there would be some questions that were specific to potential users of SROI and that the nature of organisations delivering social value in the UK might take SROI down a different route.

The need for change describes the need for new ways of looking at society and the organisations that operate in it. It then gives a flavour of approaches to measuring impact and value.

Building on the Roberts Enterprise Development Fund SROI gives a description of SROI as developed by REDF and the questions that they raised.

Research objectives and approach sets out the objectives of our research and seven questions to be answered. It briefly describes how we carried out our research and finishes with a note of caution.

The results of the pilot study summarises the version of SROI that we developed, describes the four enterprises we worked with and our key findings.

Conclusions sets out the conclusions and answers to the seven questions posed.

The next steps suggests a way forward to further develop SROI and throws down a challenge.

The need for change

The context for SROI development

There is an increasing understanding that economic activities generate social and environmental outcomes, whether positive or negative, and that social or environmental activities can also create economic impacts. The recent practical and policy interest in the concept of social enterprise illustrates this attention to models of wealth creation that can also be socially inclusive and environmentally sustainable.

Organisations from fully grant-dependent charities to corporates are keen to capture the full range of their impacts and understand how to improve them. Increasingly, managers aim to achieve a 'double' or 'triple bottom-line' - in other words not just financial, but social and environmental returns as well.

At the same time, funding providers require more sophisticated ways to allocate their funds to organisations on the basis of their effectiveness in achieving the full range of their stated impacts. Examples of this include outcome-related grant funding and social investment vehicles. Their goal is to maximise social or environmental impacts, or both, and at the same time to achieve financial rates of return from zero to full market rates. The public sector is also looking for methods of assessing how its procurement decisions and the broader use of public money can most effectively meet social, economic and environmental needs and policy goals. It is in this context that new forms of measurement are being sought.

Social Return on Investment mirrors the standard financial measures of economic return but shows how organisations of all kinds create value beyond the economic. This is particularly true for those organisations in the social economy that may search for either economic and social value, or just social value. When compared to mainstream businesses, they may or may not achieve similar levels of financial return, but even if they do not, the 'value' to society of the social or environmental returns that they create may well be equal or higher.

For organisations that have financial objectives, conventional measures of financial return can be used. These can be supplemented by metrics to assess performance in relation to non-financial standards, which means social and environmental performance. This is the model for most companies who practice corporate social responsibility.

Socially directed activity covers the work of non-profit organisations and 'social enterprises', which generate a degree of earned income in pursuit of a social return. Their primary aim is not only to maximise profits or financial returns, but also to improve quality of life. In conventional financial analysis, these models may be seen as sub-optimal in terms of resource use, compared to activities that maximise financial return.

Conventional measures of financial return therefore need to be set within an integrated framework for understanding return on capital more widely and in a manner that recognises the full economic, social and environmental 'value' of these organisations. Measurement is important, since it can enable organisations to assess their performance either over time or benchmark against other similar organisations and it can help people make hard choices between alternative investments or alternative tenders.

Increasing interest in social return

Interest in creating measures of social return is increasing in the areas of organisational management delivery in the social economy, public expenditure and procurement, grant giving and financial investment, and in corporate social responsibility

Organisational management and delivery in the social economy

Within most social economy organisations, ranging from grant-dependent charities to self-sufficient social enterprises, there is an increasing demand from management for ways of proving and presenting social and environmental impact. From the point of view of the organisation, this information helps to 'prove and improve' in that it is not only invaluable in

illustrating the effectiveness with which they achieve their goals, but also in helping to improve the organisation's performance by tracking and measuring outcomes and impacts and getting stakeholder feedback. It is particularly important for those organisations that may not generate financial returns but need to illustrate the full range of their impacts. This includes the ability to assign some proxy for economic value of certain social impacts which they create in order to further interest funders in their programmes and activities.

This is the key concept behind the Social Enterprise Partnership Quality and Impact project,[3] which has supported this SROI pilot. This project aims to understand sector needs, bring together existing impact measurement tools and create new tools, and support an increased use of such tools across the sector.

Public expenditure and procurement

The Government is seeking ways to maximise the 'public value' created by its use of taxpayers' money and its public procurement policy. **nef**'s work on local multipliers has demonstrated the role that local procurement spending can play in stimulating local economies.[4]

Government expenditure in pursuit of public policy interventions may create further gains or losses to the public purse. For example, it is useful to be able to assess the full extent of the costs and savings created by introducing an increased crime prevention strategy (compared with the costs of dealing with crime) or further investment in a preventative public health agenda (compared with further expenditure on acute hospital care).

Public investors may be interested in relating investment back to broader social and environmental objectives. This would widen the set of viable investments in some areas and possibly reduce some financial investments that had negative social returns, or increase those with broader social benefits. For example, physical asset valuation and sell-off decisions might change from just being about maximising financial income if the social returns from a transfer could be included in the overall assessment of return.

Local authorities in particular have been charged with creating community strategies that meet the needs of their locality and maximise economic, social and environmental well-being. To do so, they need to find measures that can illustrate the full value created by their spending and procurement decisions. Such measures can then be used to identify the best way to deliver local services or policies by finding those activities that generate the greatest overall 'public value'. Whilst the Best Value regime[5] was set up in order to address these issues, it has been limited by its inability to capture broader impacts of spending decisions. The Audit Commission[6] has recently challenged local authorities to make much more strategic use of their resources in order to meet multiple priorities.

More attention is being paid to how services are delivered and by whom. Organisations that seek to contract in this environment need to be able to show the full range of value that they can create in meeting these multiple objectives. Such approaches are particularly useful for enabling social economy organisations to better illustrate their impacts in a 'value for money' framework by being able to show how some of their 'added value' translates into better delivery and potentially long-term savings for the public sector.

Pressure is building from local authorities and other providers of public services to find ways of measuring the impact of their expenditure above and beyond simple financial returns. The same pressure to get the best result when spending scarce resources exists whether it is a Best Value regime resulting in a diversity of delivery options or investment funds that have been set up to achieve social as well as financial benefits. Achieving multiple objectives for the same investment frees up money for other priorities.

The extent to which SROI can be used in procurement decisions – other than in the case of a tiebreak on value for money between two tenders – depends on whether social and environmental benefits are included in the specification and relevant to the purpose of the contract. Where tender specifications do not include wider issues because of a lack of objective tools to assess value for money SROI can help fill the gap.

Grant giving and financial investment

There is a broad range of investors interested in social and environmental outcomes covering the spectrum from philanthropic foundations to socially responsible investors. These investors are increasingly looking for ways to access information from organisations that can help them make investment decisions on the basis of efficiency and effectiveness. They also need better ways to find those organisations that can clearly show the extent of their social, economic, and environmental impacts.

There is increasing pressure on organisations to demonstrate their effectiveness. Low investment returns following falls in world stockmarkets are leading to a smaller pool of funds for grant-making. But the number of voluntary sector organisations seeking funds is increasing, and that leads to a greater demand for grants. With more organisations chasing fewer grants, there is a greater need for organisations to distinguish themselves from other requests for funding and demonstrate their effectiveness.

As new methods of investment are developed from outcome-related grants to social investment and venture philanthropy – where the risks and rewards of investment are new and uncharted – new ways to capture the returns are needed.

Social investors will want to understand the social return that they are generating with their investments. SROI has the potential to provide an assessment of this return. Financial investors may be interested in the extent to which social and environmental impacts change the risk associated with their investments.

Corporate social responsibility

There is growing recognition that private sector activity is associated with significant social returns, both positive and negative. It can be affected by cultural norms (such as green consumerism) and public institutions (such as regulators). The private sector is increasingly turning to measures that demonstrate its social contribution and therefore bolster its 'licence to operate' and there is a growth in the numbers of businesses that are producing sustainability reports. Currently the focus is on accounting for and reporting on separate social, economic and environmental impacts, rather than on measuring inter-related returns.

The recognition that organisations are accountable for their impacts to groups other than their shareholders or owners, and that this accountability may exceed legal requirements in order to contribute to sustainability, is an important development that is throwing up a need for new standards and new tools.

Approaches to measuring impact and value

There are a growing number of approaches that deal with some or all of these issues. In the public sector, Best Value and the raft of new indicators across public services reflect an attempt by government to grapple with the complexities of productivity and effectiveness of public services.

For organisations from charities to multinationals, social and environmental accounting provides a framework for them to measure their achievement against social and environmental objectives. **nef** has been involved in social and environmental accounting from its beginning and was partly responsible for establishing Accountability (the Institute of Social and Ethical Accountability[7]), which has been responsible for developing standards in the field of sustainability reporting. Sustainability reporting puts stakeholder engagement at the centre of a process that should result in innovation and improvements in an organisation's performance. It provides a framework within which other approaches and tools can be used to understand impacts, including SROI. Tools such as SIGMA[8] and the Global Reporting Initiative[9] represent an emerging template for businesses to account for, and report, their social, environmental and economic performance.

In general, environmental measures are more developed than social measures. The Sustainability Assessment Model,[10] for example, provides a means to rate an organisation on whether it is a net contributor to, or a net consumer of, the earth's resources. Forum for the Future[11] is developing Sustainable Income Statements that adjust traditional profit and loss statements for an organisation to take account of the external environmental costs of operation.

Comparing social and environmental returns requires a method of measuring using a common indicator. One method of integrating measures of performance, and relating them to the total value created by an organisation, is to assign monetary values to the returns. For financial returns this is relatively straightforward; the annual returns can be converted into a net present value or a return on capital. If financial equivalents can be assigned to social and environmental returns, these can also be converted into a Social Return on Investment. Exploring the possibilities of such a measure is the purpose of this report.

Building on the Roberts Enterprise Development Fund SROI

Questions posed by the Roberts Enterprise Development Fund

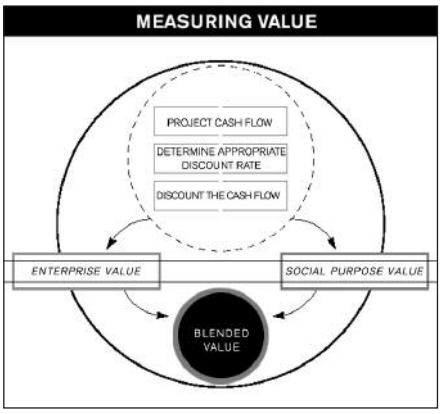
The Roberts Enterprise Development Fund (REDF) uses a tool that it has developed to measure SROI for the organisations that it supports. These organisations are focused on creating training and job opportunities to move people out of poverty. REDF set out to answer a number of questions:

- Can we measure the success of our efforts?
- How do we know whether we are accomplishing what we set out to do?
- How can we make informed decisions about the ongoing use of resources?
- How can we test and convince others of what we believe to be true and help organisations show the value of their social outputs in terms that would be understood by those financing non-profits?

Under the REDF method, SROI brings together the economic and social value created by an organisation in order to address these questions. In overview, the REDF 'blended value' approach:

- Takes the economic and social cash flows from a project over a number of years.
- Converts the cash flows that occur in the future into a present day value.[12]
- Adds up the present day value cash flows to lead to an enterprise value and a social purpose value.
- Combines these to give a blended value (See Figure 1).

Figure 1



Source: A Report From the Good Ship SROI by Cynthia Gair, 2003

To date, the REDF method has been developed as a template for one particular type of social enterprise that provides 'market-driven goods and services to customers to provide a supportive training and work environment for individuals who wish to improve their lives'.

There are six stages to the REDF approach

Stage 1: Calculate Enterprise Value
Discounted cash flow analysis of the business performance

Stage 2: Calculate Social Purpose Value
Discounted cash flow analysis of each enterprise's socio-economic results. Socio-economic factors are identified that produce direct, demonstrable cost savings and revenue contributions that are associated with individuals' employment in a social purpose enterprise. These values are calculated through public sector savings and gains.

Stage 3: Calculate Blended Value
Add the two together and subtract any accrued long-term debt, to derive the enterprise's Blended Value.

Stage 4: Calculate Enterprise Index of Return
Enterprise Value is divided by the investment to date to derive the Enterprise Index of Return

Stage 5: Calculate Social Purpose Index of Return
Social Purpose Value is divided by the investment to date to derive the Social Purpose Index of Return.

Stage 6: Calculate Blended Index of Return
The Blended Index of Return compares the Blended Value of the social purpose enterprise to the total investment to date. It shows the return on both business and social mission activities

When applied to one of their investments, the Rubicon Bakery – a wholesale bakery that produces cakes and tarts, while providing quality entry-level jobs in the food service industry for disadvantaged community residents – Rubicon derived the following values:

- Investment – $1.8 million
- Enterprise Value – $10 million
- Social Purpose Value – $19 million
- Blended Value – $29 million
- Enterprise Index of Return – $6:1
- Social Purpose Index of Return – $10:1
- Blended Index of Return – $16:1

In this example, the Social Return on Investment is that for every $1 of investment, $10 of social value is created.

This blended return on investment is presented within a broader report, modelled on an investment analyst's report for for-profit companies that describes the organisation, its performance, impact and potential based on a range of factors and measures. This highlights the importance of not using the SROI number on its own as a decision-making tool, but situating it within a broader analytical framework that takes account of risk factors and impacts not captured in the numbers.

This approach to SROI reflects its development as an investment tool, focusing on business function analysis and quantification, coupled with more traditional third party assessment. This is a very different starting point to, for example, social auditing, which is typically seen as a tool for organisational development and accountability. Social Auditing focuses on a participative mode of evaluation and identifies the organisation's stakeholders and the social impacts and perspectives that follow. External inputs are limited to roles of facilitation and verification.

REDF has identified some big questions about their approach:

- Can the disadvantages of using only public sector savings be minimised?
- Can attribution and causality challenges be addressed?
- Can we capture costs and benefits that are not reflected in the analysis?
- Can we improve ways to offset the lack of industry comparables?
- Can complexity and cost be reduced?
- Is REDF's approach applicable to other fields?

REDF has offered possible answers to some of these questions. For example, some additional sources of value beyond public sector savings are identified such as increases in earnings for individuals. But others remain as challenges, for example the problem that the complexity and cost of SROI may be prohibitive for many social purpose organisations.

nef's objectives for the pilot studies, set out in **Research objectives and approach**, included taking up some of these questions.

Our approach to developing and applying SROI has been informed by **nef**'s long history of developing new ways of looking at the measurement of economic, social and environmental outcomes and impacts. The most important way in which we set out to resolve questions around reliance on public sector savings, attribution and capturing appropriate cost and benefits, was to use the social and environmental accounting framework. Identification of stakeholders is critical here.

If there are no absolute answers to some of the REDF questions, then the solution may be to rely on stakeholders for the answers.

As mentioned above, REDF produces SROI reports that include much more information on the organisation than simply the calculated blended value. They create a report that includes:

- An organisational analysis.
- The full range of social and economic outcomes and performance measures including information on employees.
- The enterprise's employment risk profile.
- Summaries of the enterprise's past and planned business and social initiatives.
- Accounts of some of the hard-to-quantify changes in individuals like increased self-reliance.

nef will use the learning from sustainability reporting to develop an SROI report. This report will cover many of the issues in REDF reports.

For **nef**, the main potential uses of SROI are:

- As an investment decision-making and performance measurement tool in the areas of public procurement and expenditure and investment – which would include a range of finance providers from grant makers to government to investors; and
- For business improvement and impact measurement within organisations creating social value.

Research objectives and approach

Objectives

The objectives of this pilot programme were informed by **nef**'s experience in impact measurement, by REDF's work, and the questions raised by REDF. In our research, we set out to:

- Test and develop a measure of SROI in a UK context.
- Identify the practical and conceptual issues that arose, building on the questions raised by REDF.
- Propose a practical way forward for SROI.

In particular, we wanted to address the following questions:

- Is it possible to use the framework of social accounting and reporting, in particular the process of stakeholder engagement, as a way of identifying and valuing benefits that are not related to public sector savings?
- Is it possible to do this within a framework that provides clarity on what social benefits, both direct and indirect, might be included in an SROI analysis?
- Can attribution and causality challenges be addressed?
- Would it then be possible to use SROI as a tool or even goal for organisational improvement as well as a measure of past performance?
- Is it possible to use SROI within a range of organisations where the social benefits are not always related to public savings?
- Is it possible to provide a pathway for different types of organisations to begin SROI measurement from whatever their starting point, capacity and resources?
- What is the relationship between SROI and Cost Benefit Analysis[13] (CBA)?

Approach

We carried out a mix of research, development and consultation and set out our proposed areas of research in an initial concept paper. We distributed this initial paper to a number of people with an interest in the field and their comments enabled us to refine our approach before starting pilots in December 2002.

We chose to work with social enterprises since they combine economic activity with social and environmental objectives. From an initial range of social enterprises, four agreed to work with **nef** and form the basis for the pilot. They included enterprises in a range sectors covering mental health, employment, training and the environment.

They are:

- Hartsholme Park Arboriculture Co-operative, Lincoln – composting green waste delivered by a co-operative for people with mental health and/or learning difficulties.
- Blackburne House, Liverpool – through the Women's Technology Education Centre (WTEC). Delivering training for women in areas of technology where they are traditionally under represented.
- Eldonian Community Trust, Liverpool – social regeneration, including a community warden scheme and sports centre staffed by intermediate labour market (ILM) trainees.
- Green Apprentices, Merseyside – a social enterprise, providing quality jobs and training to unemployed people to help them find and keep sustainable employment.

We worked with these four pilot organisations to:

- Construct a model for SROI that would capture their organisation's social return.
- Use data provided by the organisations to calculate SROI.
- Estimate organisational performance where data was not available in order to complete the analysis.
- Consider what conclusions could be drawn.

Caveats and limitations

The examination of SROI with the four pilot organisations has produced potential answers, or at least suggested avenues that could be explored in more detail, to several of the questions raised above.

But the scope of the research and capacity constraints imposed some limitations on the extent to which the objectives could be met. To develop methods to calculate SROI in a range of areas including employment, health and crime prevention, we selected organisations involved in different activities with a range of characteristics. However, as the pilot developed and data availability issues became apparent, the pilot tended to focus on activities within the organisations where data was most readily available and valuation possible. In most cases this led to a focus on employment objectives only rather than the full range of objectives of the entire organisation. For example, an assessment of the wider returns arising from the Eldonians would require comparisons of crime and health data between the Eldonians Village and the local community that are not currently available. The social returns of non-employment benefits were only explored in the case of Hartsholme Park Arboriculture Cooperative. This highlights the need for further work and development of SROI calculation in new areas.

SROIs have been calculated for the organisations involved but these issues mean that comparisons between organisations based on these SROI cannot really be made now.

The results of the pilot study

The way we set out to derive SROI is shown below.

Key stages to creating SROI

1. Boundaries	Define the organisation or programme and its boundaries.
2. Stakeholders	Identify stakeholders and their objectives; prioritise key stakeholders and objectives; identify common or overriding objectives.
3. Impact map	Identify how the programme works and how the programme affects key stakeholders (linking this to stakeholders' objectives); capture this through an analysis of input, output, outcome, and impact.
4. Indicators	Identify appropriate indicators for capturing inputs, outputs, outcomes and impacts; identify monetised equivalent values for the indicators. This leads to a series of levels of indicators building up from inputs and costs through to impacts and benefits; in some cases using averages and estimates where information is not available. Use 'deadweight analysis' to take account of the extent to which outcomes would have happened without the intervention.
5. Data collection	Collect data relating to indicators.
6. Create a model	Create a model to calculate final measures based on present value of future costs and benefits using a discounted cash flow model and using the principles of Cost Benefit Analysis (CBA).
7. Calculate and consider	Calculate value added, SROI, internal rate of return and payback period; use sensitivity analysis to identify the relative significance of data; consider and present the results in a way which brings out the subtleties and underlying limitations and assumptions.

This approach differed in a number of ways from the six stages used by REDF. For example, in basing SROI within a social and environmental accounting framework, **nef** made explicit a process of involving stakeholders – those who are affected by or can affect an organisation. Each stakeholder identifies the potential social value accruing to them. This process provides a checklist of the social values relevant to stakeholders. This in turn helped select indicators since these were measures of achieving the objectives. It moved decisions on identifying value and indicators of value away from the researcher and towards the stakeholders.

We calculated SROI from the perspective of the stakeholders and their objectives. This required mapping out the stakeholders. The possibility of different objectives opened up a way of selecting different indicators and potentially non public sector gains and savings.

In developing an understanding of the business, how it met its objectives and how it worked with its stakeholders, we mapped inputs through to impacts. This map provides a framework for organisations to understand their work on impact measures and gives them a pathway to start impact measurement at an appropriate point. The clarity given by this map also helps the selection of indicators.

Brief descriptions of the four enterprises we worked with follow:

Hartsholme Park Arboriculture Co-operative – www.shaw-trust.org.uk

Set up by the Shaw Trust in 1999, Hartsholme Park Arboriculture Co-operative's (HPAC's) members and workers are people with mental health and learning difficulties. They are supported by four full time employees.

HPAC collects green waste (domestic garden waste) from the local area in Lincolnshire. The waste is then shredded and composted by HPAC. The end product is used within Celebration Wood, which is an 11-acre site being planted and maintained by HPAC, or returned to the general public.

Shaw Trust is a national charity that provides training and work opportunities for people who are disadvantaged in the workplace due to disability, ill health or other social circumstances. Each year Shaw Trust supports over 20,000 people in the UK to achieve their personal development and employment aims.

This pilot analysis looks at HPAC, the 10 members of the co-operative and the 22 other workers taken on by HPAC (making 32 in the year) and the HPAC activities of the Shaw Trust.

For the pilot SROI analyses, we captured the effects of reduced health and social services spend and a small element of benefits relating to future employability.

Potentially significant effects not captured include effects of well-being and social capital.

Green Apprentices Ltd

Formed in 1998 by the two Groundwork Trusts on Merseyside as an SRB Partnership, Green Apprentices Ltd was established as an Intermediate Labour Market (ILM) company to work primarily within the new Deal Environmental Task Force (Welfare to Work) initiative focusing on Amenity and Commercial Horticulture sectors.

Since July 2002, Green Apprentices Ltd has built on the success of the Environment Task Force programme and has significantly broadened the range of key initiatives to include Ambition Construction: Fusion 21, Team North Huyton, ILM 25+, Sustainable Communities, and the Kensington Environmental Task Force.

Through these key initiatives, Green Apprentices Ltd is now able to offer employment opportunities in a wide range of construction related trades, household recycling, energy conservation, youth work, community planning, marketing and administration with landscape and horticulture continuing to grow and now supporting seven teams across Merseyside.

Green Apprentices Ltd seeks to build on these successes through a mission that has the aim: To become a leading social enterprise in the North West, providing quality jobs and training to unemployed people to help them find and keep sustainable employment.

Since May 1999, Green Apprentices Ltd has employed over 600 people and has been successful in achieving the job outcome targets for: ETF contracts with managing agents for 18-24 year olds across Merseyside; new programmes for 16-19 year olds and has been part of the most successful Ambition Construction programme in the UK for securing employment for people of all ages in the construction industry.

It is now an established independent organisation focused on developing a not-for-profit business with a social agenda through a number of internal commercial trading departments.

This pilot analysis covers the ILM programmes run by Green Apprentices Ltd in 2001/2002. For the pilot SROI analysis, we captured the returns to the state through reduced welfare payments and increased tax take. For participants we have included the benefits of increased income

Potentially significant effects not captured include effects on health and the environment.

The Women's Technology and Education Centre – www.blackburnehouse.co.uk

The Women's Technology and Education Centre (WTEC), based in Blackburne House in Liverpool, exists to promote the role of women by the provision of education, training and new opportunities of every kind, and to enable those women most at risk of social exclusion to acquire the skills necessary to take them into the labour market.

Since its establishment in 1983 WTEC has successfully recruited thousands of women – many of whom might otherwise never have considered making education a part of their lives – and provided them with the knowledge, support and skills to progress into employment. WTEC students are women of all ages, cultures and backgrounds – black and other minority ethnic women, women returners, unemployed women, professional women, older women, disabled women and lone parents. WTEC is proud of this achievement and of its position in Merseyside as a unique provider of women's education.

The SROI pilot analysis covers the yearlong (91 participants) training programmes run by WTEC in 2001/2002 and the related funding. Whilst the yearlong programmes represent only 12 per cent of the participants by number they represent 29 per cent of the training activity. These programmes were chosen as WTEC keeps the most data on these programmes.

In the longer term, it would be useful to extend the SROI analysis to cover the other WTEC programmes and eventually include Blackburne House in an SROI analysis.

For the pilot SROI analysis we captured the returns to the state through reduced welfare payments and increased tax take based on outcomes for employment and going on to further education. In order to put a value on further education we linked it to an increase in future income. For participants we have included the benefits of increased income as a proxy for the health and living standards that that income could bring.

Potentially significant effects not captured include the indirect benefits of education (for example, empowerment).

Eldonian Community Trust – www.eldonians.org.uk

The Eldonian Community Trust (ECT) was created by the community in Vauxhall, Liverpool to provide a vehicle for the physical and economic regeneration of the area. It operates through a combination of business expertise and knowledge, and community representation and input on the board of directors.

Over the last 14 years, the ECT has successfully helped transform significant parts of Vauxhall through the Eldonian Group (the Group), attracting major external investment, contributing to improvements in the physical environment, and improving the skill levels and employment opportunities of local people.

The ECT oversees the Eldonian community-based housing association, which aims to provide good quality, affordable housing. It currently rents out 310 properties to those in housing need, and also manages 147 other properties on three adjacent sites.

The value that ECT adds to its stakeholders and hence, its social return, is built up from all of its activities. These activities reinforce each other. For example, the housing association gains value from the warden scheme – by making the housing area a safer place and reducing the fear of crime for residents; and the warden scheme gains value from the housing association – by providing an area for the scheme to operate, thereby enabling the trainees to train, and helping the scheme to run through the social capital already built up by the housing association.

Whilst we would like to have looked at the social return of the Eldonian Community Trust as a whole, we decided that this would be too ambitious for this pilot. Accordingly, we decided to look in detail at two specific activities. We looked at the two Intermediate Labour Market programmes run by the Eldonian Group (warden and sports centre). We chose these two areas because they were the subjects of a social audit in 2001 and they are both areas for which social data already exists.

For the pilot SROI analysis, we captured the returns to the state through reduced welfare payments and increased tax take. For participants we have included the benefits of increased income.

Potentially significant effects not captured include health, crime and social capital.

Findings

Key findings from each of the seven stages are set out below:

1. Boundaries

With Green Apprentices and Hartsholme Park Arboriculture Co-operative, it was possible to apply SROI to the activities of the whole organisation. As a result of lack of available data we could only apply SROI to individual programmes at the Eldonians and Blackburne House. For example, an understanding of the value added by the Eldonians would need reference to crime and health statistics that compared Eldonians' residents with local residents.

In the two cases where we could not analyse the impact of the whole organisation, we only looked at a specific programme. We made assumptions about allocation of investment, resources and core costs to the specific programme, reflecting like for like.

2. Stakeholders and common objectives

We assessed social value for the main stakeholders, participants and funders. The focus on stakeholders' objectives gave us a way of identifying and measuring social value.

In looking at stakeholders and returns, we effectively created a stakeholder – the state – to represent the range of government and European funders. We then assigned the social benefits to that stakeholder.

In the pilot, SROI calculations measured the primary objectives of the organisations as determined by the stakeholders. We did not include secondary objectives and the indirect effects of achieving these objectives. In Green Apprentices, there is congruence between stakeholders, participants, management, and funders, all of whom want long-term employment to be created. In Blackburne House, there is some variation and overlap. Some funders want training outputs, others want to see progression towards employment. Equally, some participants want training without necessarily linking this to future employment; while some want to improve their position in the job market and others want immediate employment.

There remain problems for those organisations where there are no monetary equivalents for indicators of primary objectives for all stakeholders. For Hartsholme Park Arboriculture Co-operative, it was possible to monetise the benefits for meeting the funders' objectives – reducing health and social service spend; but not for meeting the participants' objectives – improving stability in their lives.

The value of some indirect benefits that did not arise from meeting stakeholders' objectives was not included in the calculations of SROI for this pilot. This does not mean that they would never be included in the full use of the method. For example, local financial flows arising from organisational procurement would have a range of economic and social impacts, but would be calculated in this method only if it was one of the stakeholders' objectives. There is no doubt that the focus on stakeholders' objectives will not always capture all impacts, particularly strong but unintended consequences. Clearly the range and extent of the outcomes that are identified will depend on which stakeholders are consulted.

Even so, a stakeholder mapping exercise, together with an understanding of stakeholders' issues, would help make sure that those benefits that are important to the organisation are also included. This is also the approach taken by sustainability reporting.

From the perception of the organisation calculating SROI, there are different benefits being generated for different stakeholders. There are also different measures of the same benefit for different stakeholders. For example, Blackburne House has funders with employment objectives and participants with training objectives. Green Apprentices has funders interested in increased income measured by benefit savings and increased tax revenue in the long run, as well as participants who want higher salaries.

One question that follows, that has not been fully determined, is how much returns to different stakeholders can be 'added up' to get a total return. This seems to be possible where the

process followed for each stakeholder is the same, after allowing for any double counting. This issue is explored further in the next section.

3. Measuring impact

We were able to describe how all organisations worked to meet their objectives and how they affected key stakeholders (linking this to stakeholders' objectives). We were able to describe this through an analysis of steps that are required to calculate impact – inputs, outputs, and outcomes – leading to impacts.

As definitions used for inputs, outputs, outcomes, and impacts vary, we set out below the definitions we used.

- Under the control of the organisation:

  Inputs – the resources used to run the activity: the money, people, facilities, and equipment.

  Outputs – the direct and tangible products from the activity, for example, the number of people trained.

- Where the organisation has less control and where other external factors will contribute:

  Outcomes – these are the changes in the individual participants (or other stakeholders) following the activity. Outcomes may be direct or indirect. Direct outcomes follow from the outputs (getting a job) and indirect outcomes follow from the direct outcomes (increase in income due to job gained).

  Impacts – these are the outcomes adjusted for the effects of what would have happened anyway; for example a proportion of participants would have been expected to get a job without the intervention.

For an employment objective, the outputs are people trained, the outcome is people who get and keep a job and the impact is the people who would not have got the sustainable job without the intervention. These steps were used for Green Apprentices and the Eldonians.

For Hartsholme, the output was people working and the outcome was that they have mental stability arising from that work. It was assumed that there was no deadweight. For Blackburne House, the output was trained women, the outcome was either work or progression to further training and the impact was measured after allowing for those who would have gained the additional training or accessed employment without intervention.

4. Selecting indicators and data collection

We defined social returns as the financial value of the social benefits of the organisation for those outcomes that could be monetised. Indicators for this return were selected for each stakeholder. The choice of indicator should follow engagement with stakeholders. For the purpose of this pilot we focused on management objectives.

In order to build up the understanding of the impact and to explore the ability to provide a graduated pathway for organisations developing SROI, indicators were established for each of the steps – inputs, outputs, outcomes and impacts.

The issues relating to selecting indicators are set out for each of the steps. An important result of this approach is that it is possible to generate:

- Measures of value at each step – output, outcome or impact.
- Social returns for each stakeholder.

This has implications for accessibility and cost. First, even if an organisation cannot calculate SROI there is value in calculating and monitoring more simple indicators. Secondly, they can focus on one or more stakeholder.

Inputs

Inputs were the most straightforward indicators to define and collect. For example, the number

Deadweight

It is very likely that, without these organisations, some of the intended benefits would have happened. Some participants would have found other routes to success and an estimate of this 'deadweight' must be deducted from the benefits. For employment, one way of estimating this is to find the total numbers of people who leave the unemployment register who fit the broad characteristics of the target group, for example 25-year-old men unemployed for less than six months. This can be calculated as a percentage of the population of unemployed people with those characteristics, and this percentage can be used to estimate the number of participants who would have found other routes.

Displacement

The issue of displacement relates to the extent to which positive effects for one set of stakeholders are offset by negative effects for others. For example, one person's job gained may be at the expense of another person losing theirs. Given the small scale of the enterprises in the pilot, we have assumed that the displacement effects are likely to be negligible.

of participants starting a programme, or the cost of running a training programme. Most organisations would be expected to have access to such information.

Outputs
Outputs were also available and all the pilots were being monitored or funded on the basis of outputs, for example, the number of participants completing a programme. For Green Apprentices, this was the number of people who completed the ILM programme and gained a training qualification.

Outcomes
Organisations maintained less information on outcomes. For example, the Eldonians could provide information on the immediate destination of people at the end of the ILM programmes. But when the objective is a sustainable job, it is important to collect this information in the future as well as at the end of the programme. This is well recognised in the REDF model and they have developed a tool called OASIS to help track this information. Although other UK ILM programmes have also developed tracking tools, these were not used by the organisations in the pilot.

Because information on the sustainability of the outcomes was not available, **nef** had to make assumptions on performance for the purposes of this pilot. For example, an estimate was made of the number of people who did not retain their job for more than one year after they had left the organisation. The figures for people leaving the programme were also based on the average point at which previous participants left the programme.

For employment objectives, the indicator used for funders and the state was an estimate of the additional tax increases and benefit savings. Tax increases were estimated from the organisations' own estimates of average salaries being earned by participants. Savings were estimated from national data on benefit payments to groups that shared the characteristics of the participants, for example unemployed single men aged under 24. For participants, the benefits were estimated as an increase in the salary for those accessing work and gathered from the organisation's own knowledge. Better stakeholder engagement and follow up would permit a better estimate of salaries.

For Hartsholme's health objective, the benefit to funders and the state is measured by the costs saved from reduced use of the Health Service and social services.

In selecting indicators, there was a trade-off between cost, data availability and accuracy. Although one of the main limitations in this pilot was time and consequently data availability, some degree of trade-off will occur for any organisation calculating SROI. For example, an accurate calculation of the most recent set of first salaries after leaving Green Apprentices may be possible, but it would be costly and would not necessarily result in a better estimate of future participants' performance than an estimate based on a small sample. We used an average figure based on information received from Green Apprentices. This highlights the need to develop standard proxy measures to be used in calculating SROI.

The model also had to take account of the fact that some people require much more intensive and longer-term support than others if, for example, they were unemployed for longer periods of time. A measure of this additional effort is often described as 'distance travelled'. This issue makes comparisons between different organisations or programmes more difficult because they may focus on different target groups. An organisation that focused on younger people who had been unemployed for a shorter period of time may incur lower costs in enabling them to get into work than those concentrating on getting the over-50s into employment. The social return in the first case may then turn out to be higher than the latter, but that does not mean that it is better at doing what it set out to do.

A possible solution to this problem was to weight the outputs for different target groups. The problem then became the choice of weighting. The adjustment made to reduce the benefit by deadweight (the extent to which the outcomes would have happened without the intervention) also takes into account the distance travelled (discussed under the next heading). This is because the deduction for deadweight for groups who need more support is much less than for those who need less.

The extent to which this is an accurate adjustment depends on how closely the population from which deadweight is calculated mirrors the participants. Whilst this may not be the same it was decided that this would be a better measure, with less chance of double counting, than using a weighting created by **nef**. For example, the target group for Green Apprentices in the period under analysis was 18–24-year-olds who had been unemployed for more than six months; regional data was available for the numbers of people becoming registered as unemployed and leaving the register for this group. Whilst people who choose Green Apprentices as an option will not be the same as a random group from the total population of people of that age and unemployment history, it provides a reasonable estimate for use as a weighting.

Impacts
Impacts were defined as the outcome adjusted for an assessment of what would have happened without the activity – that is adjusted for the deadweight and displacement effects. This would then provide the indication of the additional benefit to each stakeholder group.

5. Data collection

These organisations, like most social economy organisations, did not maintain management information systems that would allow SROI to be calculated as a standard business process. The main gap was in tracking participants after they have left the programme. Whilst the main interest in SROI is expected to come from funders or investors, managers and customers, it will be managers that will have to implement any systems to measure SROI, although funders may invest in the means to help them measure.

This is one of the questions raised by REDF – can complexity and cost be reduced? In part the answer lies with the development of improved social impact measurement. A good social accounting system, for example, would provide much of the internal information necessary to calculate SROI. Whilst this requires an initial investment, the ongoing running costs are much less than the cost of trying to collect data for an annual SROI calculation from scratch.

Social enterprises' interest in investing in these systems will depend on the benefits: for example, whether success in winning contracts improves or whether stakeholder engagement results in innovation. It will also depend on the value that management place on investing in new systems compared with other activities.

Yet the ability to calculate value at each step, for example at the level of outputs, means that the investment can be managed incrementally and can fit in with other management systems. Investing in measuring value using simple indicators is still very useful.

Ways of overcoming the costs and complexity of calculating SROI are explored in **The next steps**. But they include:

- **Sector approach** – several organisations in the same sector investing in the calculation of SROI and using the results to illustrate the range of potential impacts and models.

Table 1: CBA and SROI

Area	Issue	nef approach
Which costs and benefits to include?	First, CBA has been traditionally carried out from the perspective of the appraiser. Attempts have been made to identify all costs and benefits but there is no universally agreed upon method.	The stakeholder approach enables a consistent and transparent way for all potential impacts to be considered.
	Secondly, social and environmental costs and benefits have been traditionally difficult to measure and so have either been excluded or subjective measures were used instead.	We found ways to monetise many of the significant impacts in all pilots. But further work is needed to see how widely this would be the case for different organisations.
Distribution of returns	CBA has been used in a way that masks the differing effects on individual groups by producing one overall return.	SROI analysis is able to draw out the impacts on different stakeholders.
Presumption of spurious accuracy	There is a tendency for CBA results to be perceived as definitive, without making clear the range of assumptions that have been necessarily needed to arrive at the results.	Sensitivity analyses are used to identify the critical assumptions. It is important that SROI results are not presented as definitive.
Use of present values	CBA uses discounting to convert future costs and benefits into current values. There is an argument to say that this approach encourages short-term decision making by discounting future effects.	Economists and practitioners have been debating this issue since the 1930s. Given the limited time horizons of the pilots, sensitivity analysis showed that this did not make much difference to the final SROI.

- **Funder approach** – funders taking the lead in investing in and calculating SROI, in partnership with funded organisations, as a way of measuring the social return on their investment. The partners of the Adventure Capital Fund,[14] for example, are planning to calculate SROI of some of their investments as a way of demonstrating the fund's return to its government funders.

6. Create a model

We constructed a simple spreadsheet model to calculate SROI. The model made use of Cost Benefit Analysis (CBA) techniques.

Assumptions have to be made, for example, for the time period to take account of costs and benefits and the rate of return to discount future flows.

Put simply, Cost Benefit Analysis gives an organisation the information to enable decisions to be taken about allocating resources by taking into account the relative costs and benefits of alternative courses of action. CBA as a concept works well. But in practice there are a number of difficulties that can arise. These issues and the ways in which **nef**'s approach addressed the issues, are set out in Table 1 (above). This table also answers one of the questions raised in **Research objectives and approach** – What is the relationship between CBA and SROI?

7. Calculate and consider the measures

SROI was calculated for outcomes (without accounting for deadweight) and impacts (accounting for deadweight). We used sensitivity analysis to assess the changes to SROI that would arise from changes to the assumptions.

A range of measures

Are SROI measures accessible enough to non-financial users? Even for financial returns on investment few SMEs (small and medium-sized enterprises) use this measure for assessing investment decisions and return on investment is hard to explain to non-financial people. This is even more important, given that SROI is more likely to be aimed at people who have a social background rather than a financial background.

One alternative measure for financial return on investment is the payback period. This shows the time period needed to payback the initial investment. The longer the period required before positive returns are achieved, the riskier the return. A short payback period is generally desirable. But a long payback period is a feature of activities that can generate significant

Table 2: Social Return on Investment

	Organisation			
Calculations of social return	HPAC	GA	ECT	WTEC
Net benefits (Present value over five years £'000)	340	1,460	440	370
Net investment (Present value over five years £'000)	190	940	270	290
Value added (Net present value – £'000)	150	520	170	80
Number of successful* participants	32	50	13	39
Value added per participant (£'000)	5.7	10.4	13.1	2.1
Social return on investment (social return in £ per £ input)	1.8:1	1.6:1	1.6:1	1.3:1
Internal rate of return (% per annum)	31%	22%	22%	13%
Payback period (months)	27	33	34	46

Key: * Success defined as achieving the programme objective e.g. finding employment; HPAC – Hartsholme Park Arboriculture Co-operative; GA – Green Apprentices; ECT – Eldonian Community Trust; WTEC – Women's Technology Education Centre, part of Blackburne House.

long-term change. We have calculated a social payback period (measured in months or years) alongside SROI to show the period over which the benefits would need to be achieved for the activity to 'break even'.

We also used another measure borrowed from the financial world – the internal rate of return (IRR). The IRR is the equivalent annual rate of return on the investment that the programme generates over the five-year period. When it is expressed as a percentage, the IRR can be compared with a financial rate of return. For example, a social IRR of 10 per cent may be compared with a financial IRR of three per cent to give a blended IRR of 13 per cent.

Sensitivity analysis
Sensitivity analysis means working out how changing your assumptions can change the results. For each change in assumptions there will be a different SROI. Sensitivity analysis gives us a way to identify those assumptions that, when changed, cause the biggest changes in the results.

For example, we looked at how much the assumption would have to change before SROI dropped to 1:1. Below this value, the costs outweigh the benefits. We found that SROI figures for one pilot were sensitive to changes in:

- Success rate (number who find jobs after the programme): Reducing this number by 20 per cent reduces the SROI by approximately 10 per cent. The proportion of people finding jobs would need to drop from 63 per cent to 23 per cent before social return breaks even (that is SROI drops to 1:1).
- Average level of pay for those jobs: Reducing the assumed level of pay by 20 per cent reduces the SROI by approximately 20 per cent. The level of pay would need to sink to £100pw – below the national minimum wage – before SROI drops to 1:1.
- Deadweight: Increasing this by 20 per cent reduces SROI by 10 per cent, but as deadweight and success rate converge it becomes much more sensitive. The number would need to increase from 12 per cent to 25 per cent before SROI drops to 1:1.
- The time period over which costs and benefits are projected and discounted: Doubling the time period to 10 years increases the SROI from 1.6 to 2.7. The period would need to drop to three years before SROI sinks to 1:1 – a result that is in line with the Payback Period.

As an example of differences between the organisations in the pilot, SROI for Eldonians and Green Apprentices is more sensitive to changes in average pay than in changes to deadweight or sustainability.

Summary of social returns
Values for SROI for the organisations in the pilot are summarised in Table 2.

Except for Hartsholme, these are SROIs that include the social value accruing to both

Table 3: Build up of net benefits

Average benefits	Participant	Stakeholder State	Combined
Job income (£)	9,900		9,900
Welfare payments (lost) / saved (£)	(7,300)	7,300	
Taxes (paid) / received (£)	(1,000)	1,600	600
Net average per person per year over five years (£)	1,600	8,900	10,500
Total per person over five years (£)	8,000	45,000	52,000
Allow for drop out (sustainability) (£)	6,000	36,000	42,000
Apply to all 50 people (£)	300,000	1,800,000	2,100,000
Allow for deadweight (£)	220,000	1,300,000	1,520,000
Apply a discount to each year to give the net present value (£)	208,000	1,252,000	1,460,000

participants and the state. We have therefore aggregated returns to both here. This aggregation is broader than the purely public sector gains and losses used by the REDF approach. Returns to participants are relatively low. For example, the total return generated by Green Apprentices of £1.4 million includes £0.2 million of return to participants and £1.2 million of return to the state. Net returns to participants are relatively low because some of what they gain on income from jobs they lose in welfare removed.

The **net benefit** is the sum of the annual benefits less annual costs expressed in monetised terms. For example, for Green Apprentices, 50 participants went on to employment after the programme. The monetised benefits to the participants come from increased income – wages from employment less welfare payments lost and taxes paid – income tax and national insurance (employees). The monetised benefits to the state come from welfare payments saved and increased tax revenues – income tax and national insurance (employees and employers). These benefits were built up for Green Apprentices as shown in Table 3.

The **net investment** is the present value of the initial investment expressed in financial terms. The investment was taken to be the grant funding.

The **present value** of each year's investment and benefits is calculated using a discount rate. We used the discount rate of 3.5 per cent recommended in the Treasury Green Book.[15]

The **value added** is the difference between the net benefits and the net investment.

All of the programmes add value because they generate a positive return. Expanding the calculation to cover the full range of stakeholders and the total work of each organisation is likely to increase these returns further.

Social return on investment is the ratio between the value of the benefits and the value of the investment. For example a ratio of 3:1 indicates that for every £1 invested in the programme £3 worth of value is delivered to society.

SROI appears to be relatively consistent and falling within a small range of 1.3:1 to 1.8:1. This is probably because social returns of these organisations (except for Hartsholme) were either mostly related to employment or the proxies used were employment related. Comparisons would only be possible between Eldonians and Green Apprentices, as they had very similar impacts. The calculation of SROI for organisations which had a wider range of objectives – if, for example, we carried out a full analysis of the Eldonians – would test this.

We do not yet have enough data about comparable programmes to be able to say whether an SROI of 1.3:1 or 1.8:1 is good or at an expected level. However, we can say that a return of greater than 1:1 (or even one that is a positive return rather than a negative one) is a tremendous achievement. The traditional view of such programmes has been to look at the

costs and not the benefits and to assume that programmes are a drain on the public purse. By looking at the social return we can show the positive value that such programmes can deliver.

However, as noted, this value is necessarily based on projections over the next five years. We have therefore calculated a social payback period (measured in months or years) alongside SROI to show the period over which the benefits would need to be achieved for the activity to 'break even'.

Payback period is the period over which the net benefits must be generated in order for the value added to be zero. It is therefore the minimum period taken to recover the investment.

This shows the time period required for the initial investment to be paid back. The longer the period required before positive returns are achieved the riskier the return. However whilst a short pay back period may be desirable for some activities, a long payback period is an important result because it indicates those activities which may not be supported by short-term funding regimes requiring quick outputs and impacts but which can generate significant long-term change.

For the pilot the payback period ranged from 27 to 46 months. In broad terms this shows that the participants who achieved success through employment, further education or increased stability need to stay in that state for between two and four years for the benefits to have paid back the cost of the programme.

Internal rate of return is the equivalent annual rate of return on the net investment that the returns generate over the five-year period.

For the pilot the internal rate of return (IRR) ranged from 13 to 31 per cent. Another way of looking at this is to say that an investment of £100,000 with an IRR of 13 per cent would be projected to generate a return of on average £13,000 per year over the next five years.

Difference with REDF results
These returns are lower than REDF social returns on REDF organisations. We did not look at blended returns and so have only compared social returns with social returns. The decision to exclude financial returns was taken because:

- The majority of social enterprises and the four organisations in the pilot do not generate substantial profits and hence financial returns.
- The reality of managing double- or triple-bottom-line organisations is that one year's profits may be spent on sustaining the next year's social outputs which means that net income performance tends to be less regular.
- The research could then focus on the more difficult social value issues and address blending this with financial values later.
- Those organisations that do not create financial returns most need to show the economic value of their social impacts.

Social returns for REDF organisations average 35:1 but range from 0.8:1 to 188:1. These are the social returns not the blended returns. This may be compared with the social returns in our pilot, which average 1.6:1, and range from 1.3:1 to 1.8:1. Not all of these differences can be explained but for the 80 per cent or so that can be explained there are three main reasons for the difference between the REDF and **nef** social returns.

First, **nef** SROIs were calculated over five years rather than in perpetuity (used by REDF), which accounts for approximately 40 per cent of the difference. We took this different approach because:

- The predictability of returns declines over time.
- The variation of those returns is likely to increase.
- Many social enterprises planning horizons are around five years.
- Very high figures may not look plausible to the very people that we are trying to convince.

Table 4: Pathways to SROI

Calculations of Social Value	Organisation			
Inputs	HPAC	GA	ECT	WTEC
Number of participants in the programme (p)	32	107	23	91
Investment cost (£'000)	£190	£940	£272	£287
Investment cost per participant (£'000/p)	£5.9	£8.8	£11.8	£3.2
Outputs				
Number who complete the course (p)	32	80	17	49
Retention rate (per starter)	100%	75%	74%	54%
Cost per completed trainee (£'000/p)	£5.9	£11.8	£16.0	£5.9
Outcome				
Number who succeed* (p)	32	50	13	39
Success rate (per completer)	100%	63%	76%	80%
Success rate (per starter)	100%	47%	57%	43%
Cost per success (£'000/p)	£5.9	£18.8	£20.8	£7.4
Impact				
Net benefits (present value over 5 years £'000)	340	1,460	440	370
Net benefits per success (£'000/p)	£10.6	£29.2	£33.8	£9.5
Value added per success (£'000/p)	£5.7	£10.4	£13.0	£2.1

* Success defined as achieving the programme objective e.g. finding employment, moving into further education, achieving greater stability in life.

Secondly, **nef** SROIs were calculated for organisations without significant trading profit. With the REDF organisations, trading activities make a significant contribution to supporting participants. Consequently, REDF investment required is relatively lower and hence, return on investment is higher. The net effect accounts for approximately 20 per cent of the difference.

Thirdly, **nef** returns have been calculated taking account of sustainability of outcomes and the impact of deadweight. These effects account for some 20 per cent of the difference.

Pathways to SROI

In order to show that there are other measures of effectiveness and how these represent steps towards calculating SROI, Table 4 sets out selected measures of input, output, outcome and impact for each organisation.

Conclusions

SROI is not the miracle solution that will solve everyone's measurement and funding problems. Nor is it necessarily the manacle that would limit organisations' ability to measure social value or force inappropriate measurements. Instead, SROI helps open up new ways of looking at organisations and the society that we live in and this in turn opens up new ways of working.

SROI has great potential to improve the way organisations work and how resources are allocated, as well as illustrating the value of social and environmental impacts. We have developed an approach to SROI that uses stakeholders to guide it and provides a pathway for organisations to choose their starting point, capacity or resources. This path starts with calculating simple costs per unit of input (a useful indicator in itself) and develops to net present value calculations of impact and a full SROI calculation.

To be able to calculate SROI depends on having an understanding of stakeholders' objectives and of an organisation's impacts – both of which are prerequisites of good management. SROI also depends on data availability, which takes valuable time and resources to gather. Consequently, SROI is likely to develop and provide most benefit in sectors and organisations, which are already advanced in these areas.

SROI can be used now

SROI as it stands can be applied in particular sectors and organisations for example in ILM (Intermediate Labour Market) and employment-related initiatives, but further research is required before it can be used in a wider range of sectors. In particular, SROI can now be used by investors in putting the social and financial value of their investments into perspective. Current measures of SROI give broad results, which need to be used with care, but do provide useful information not available before.

SROI is a particularly useful way of illustrating the economic value of the social and environmental impacts of organisations that may otherwise look unviable; they do not generate financial returns because they require subsidy. Examples include the economic value of setting up increased crime prevention programmes or supporting otherwise unsustainable elderly care in rural areas.

Answers to the questions asked

Is it possible to use the framework of social accounting and reporting, in particular the process of stakeholder engagement, as a way of identifying benefits that are not related to public sector savings?
Is it possible to do this within a framework that provides clarity on what social benefits, both direct and indirect, are and are not included in an SROI analysis?

It makes sense to combine an approach to SROI with social accounting and reporting. The stakeholders' objectives are critical in deciding what to measure and which indicators to use, and indicators will not necessarily be related to public sector savings.

Some benefits may not be included in the SROI number. This does not mean they are unimportant; it means they can be put in a wider framework, for example using the REDF investment report or another SROI report approach. This is an area for further development.

Can attribution and causality challenges be addressed?
The development of the steps of inputs, outputs and outcomes leading to impact – and in particular the allowance made for deadweight – helps address these issues. Focusing on stakeholders also focuses the analysis on impacts that the stakeholders want, rather than on social benefits that may be only partly caused by the organisation. Developments in the field of sustainability reporting are likely to provide future guidance.

Would it be possible to use SROI as a tool or even as a goal for organisational improvement as well as a measure of past performance?
It is possible to use SROI as a target for organisation improvement as well as a measure of past performance. Payback period provides a target for the time that the benefits need to be achieved in order for the value of the benefit to exceed the financial cost.

Is it possible to use SROI within a range of organisations where the social benefits are not always related to public sector?
In the pilot, we looked at a small range of organisations that had a limited range of objectives. Whilst we found it possible to identify social benefits not related to public sector savings that we could monetise (for example, increased personal income), we did not monetise all social benefits (for example, well-being or improved personal health). Consequently, further work is needed to fully explore this question. Certainly in Hartsholme it was not possible to identify ways of monetising the benefits to participants without working closely with them. This does not mean that it is impossible, just that a measure was not identified during this pilot.

Is it possible to provide a pathway for organisations to begin SROI measurement from whatever their starting point, capacity and resources and therefore can complexity and cost be reduced?
The pathway approach fits in with organisations starting out on social reporting. Social return measures can only be calculated on a regular basis where there are robust systems of social impact measurement, such as social accounting systems.

All organisations can start measuring value for money. Cost per unit of output is not a particularly useful measure for making comparisons with other organisations. This does not stop it being useful for internal budget management. Exploring stakeholders' objectives and starting to systemise measures of social impact will allow organisations to work towards more complex measures of SROI. In particular, payback periods are a useful way of measuring and setting targets relating to social impact.

Managers need to install systems to calculate SROI, so the models need to be relevant, accessible and inexpensive. The main pressure for calculating SROI is likely to come from external stakeholders and managers who want to maintain competitive advantage. For example, investors using SROI as a criterion would invest in organisations that can calculate their SROI. This is not only so that they can compare SROI but because the investment made by the organisation in this area is an indicator of management capability and hence the risk relating to the investment.

Organisations buying services and interested in value for money, as well as the ability to achieve multiple objectives with the same expenditure, will be interested in SROI as part of the tender process. It could help inform procurement specifications and reflect the strength of the organisation bidding for a tender.

What is the relationship between SROI and Cost Benefit Analysis?
We concluded that there is a strong relationship between SROI and Cost Benefit Analysis and that our approach to SROI addresses some of the concerns raised by Cost Benefit Analysis.

Views from the organisations in the pilot

The general view was that:

- This was a useful analysis that provided a step-by-step approach.
- More benchmark information would be essential to put the results in context.
- The organisations liked the way in which SROI starts to open up conversations about the value that their organisations are adding to communities.
- There were concerns over the cost and practicality of data gathering.
- Organisations saw this initial analysis as a starting point from which to capture further softer outcomes.

Green Apprentices found this a useful framework for discussing value added and that sensitivity analysis was also important, as it was for the Eldonians. Green Apprentices supported a wider use of this type of analysis and thought that standard tables would be helpful in what could be a very technical exercise. The Eldonians also liked the links with social auditing and the way in which numerical results are possible within this framework. Yet, although the step-by-step approach from inputs to impact was useful, they felt that the calculations were difficult to follow.

Blackburne House was interested in how they could use the analysis to compare with similar organisations and how they could use such analysis to improve their performance. They felt

that softer outcomes such as the effect of education, skills and confidence on the families and friends of participants were important and needed to be captured for the full value of their activities to be demonstrated.

Hartsholme liked the principle but found the approach to be too complex for their needs. They have commissioned further primary research into the value saved by the health and social services as a result of their activities and others like them. Shaw Trust, the parent organisation, has expressed an interest in testing this SROI model in other of its activities.

Views from the seminar

We held a seminar in November 2003 for people interested in exploring SROI and developing ways to take it forward. This generated a lot of enthusiasm and encouragement from the attendees who included representatives from government, foundations, researchers, practitioners, business schools and guests from the USA and Holland.[16]

The general view was that:

- SROI could be very useful and is timely given current needs for impact measurement.
- The stakeholder approach works well.
- The scope of SROI should be extended beyond the social enterprise sector (covered in our pilot) to the voluntary and community sectors and beyond.

Stage of development of SROI

Participants were not disheartened that we had not performed a miracle and answered all their questions. In particular, they pointed out that:

- Financial accounting has taken 100 years to reach a point where common standards and principles are becoming globally accepted. But even now there are still differences between countries and debates about valuation, for example, in the valuation and treatment of intangible assets.
- Social valuation, on which SROI depends, has come a long way, but is still in a state of relative infancy. We shouldn't hold back waiting for social valuation techniques to be developed; instead we should use SROI as a catalyst for their development.
- This is a journey of exploration that will have pitfalls on the way.
- We should not aim for the perfect solution but for one that works. Perfection may not be attainable in this lifetime and in striving for it we could miss a lot of other opportunities.

Ease of implementation

Although they were enthusiastic about SROI, participants voiced concern about some of the obstacles to implementing it. In particular, they were concerned about the levels of skills and resources needed by an organisation to gather and process SROI data and where the training and funding for this will come from.

Participants	Sectors	Area of operation	Activities
Investors	Social enterprise	Employment	Scoping
Funders	Voluntary	Mental health	Pilots/trials
Delivery organisations	Community	Health	Benchmarking
Measurement practitioners	Public sector	Crime	Building a database
Academics	Private sector	Education	Build a network
Government		Recycling	Developing method
Economists		Child care	Developing tools

Lack of training and funding are not new issues for the social sector. Funding organisations have objectives and they need impact information to know whether they are meeting their objectives. Consequently, it is in the joint interest of funders and funded organisations to devote resources to impact information.

The next steps

A way forward

nef's pilot has shown that SROI analysis can provide value to an organisation, but that SROI application needs development before it can be rolled out more widely. A wide range of organisations has shown interest in either SROI or its application. This interest has been achieved with limited direct promotion, mainly through word of mouth. Some of these organisations, for example the Adventure Capital Fund, have already committed to applying SROI but most are still in the initial interest stage. Generally, the enquiries have not been for SROI on its own but for a mix of SROI and impact assessment. It is unlikely that pure SROI alone would deliver a satisfactory solution to an organisation's needs. Hence, future SROI development needs to be firmly in the context of wider impact assessment.

For SROI to be used more widely there are three main necessary steps:

- Scoping – which organisations and sectors is SROI going to be most useful for?
- Developing the method – or a standard for deriving SROI that it is accessible and enables comparability.
- Building a body of data.

These three main steps are explored in more detail below.

1. Scoping

We need to identify the organisations and sectors for which SROI is going to be most useful and then start with those organisations and sectors.

2. Developing the method

Once the level of demand is established within a sector, people need to be able to compare results across organisations and ultimately across sectors. SROI also needs to be simplified so that more organisations can try it out and build up levels of data.

Rules and tools are needed. These are probably best developed by trying out in practice rather than in theory. Examples of rules include guidance on how to select time periods over which to collect data; guidance on boundaries; and how to present results, including impacts not captured in the SROI number.

Examples of tools include spreadsheets, step-by-step guides, proxy indicators and data tables.

3. Building a body of data

A body of data is needed to facilitate comparability and benchmarking and to avoid re-inventing the wheel each time an organisation sets out to calculate SROI.

How can this be achieved?

Further development needs to take place in the context of SROI users – delivery organisations, investors, funders and government – so that the perspectives of different users are taken into account.

It also needs to take place within a network that facilitates collaboration and learning across organisations, sectors and countries.

We propose that a network that brings together interested parties be set up to take this forward. The network should include investors, funders, delivery organisations, measurement practitioners, academics, government, economists and purveyors of well-being. We have already discussed with fellow European and American SROI explorers how such networks could allow member organisations to learn from each other.

Illustrative SROI tools

Step by step guide: a step-by-step guide to applying SROI for use by organisations. This would probably contain:

- Introduction to SROI.
- Guide to the different levels of analysis possible from basic input/output to measures of return.
- Guide to the seven stages, from defining boundaries to calculating and considering the measures.
- Guide to sources of information and how to apply averages.
- Spreadsheet model for calculations.

'SROI Light': A version of SROI that can be used very simply by a wide range of organisations. It would trade the rigour of a full SROI analysis for speed and so is going to be more applicable for internal use. SROI Light would be useful in cases where a track record has not been established and for projections into the future illustrating alternative scenarios. SROI Light could be based on SROI analyses but using industry averages.

Standard tables: Develop tables with standard information for use by practitioners. This could show for an employment programme the range of likely impacts and quantify the impacts, for example for an average person moving out of unemployment, use of the Health Service decreases by X per cent and average cost saved is £Y00 per year.

Benchmarking: Encourage benchmarking of data within sectors. Such data would include not only overall SROI calculations but would include underlying data, for example cost per job.

Investment Report: REDF investment style SROI reports on organisations and hence develop an SROI style four-page report template. This could draw from the learning from sustainability reporting. Such a template would be used by other organisations applying SROI and for presenting to investing organisations.

Our four pilot organisations were from the UK social enterprise sector. More development could usefully take place within the voluntary, community, and public sectors and within the private sector.

We are looking for other organisations to join with **nef**. We envisage a core network of organisations working in this area connected to a looser network of organisations working further afield. Here are some examples of participants, sectors, area of operation and activities.

Finally, we are throwing down a challenge to organisations and individuals that are interested in SROI to step forward and make themselves known to the wider SROI community and answer these three questions:

1 Are you interested in being a stakeholder in future SROI development?

2 What do you expect from SROI?

3 What can you contribute (in terms of ideas, practical experience, time, resources, data and case studies)?

Contact **nef** at **info@neweconomics.org** or at **www.neweconomics.org**

References

1 Albert Einstein 1879–1955, theoretical physicist and social and philosophical thinker.

2 The Roberts Enterprise Development Fund (REDF) – is a private charitable foundation whose mission is to help people move out of poverty. **www.redf.org**

3 Social Enterprise Partnership (SEP) Quality and Impact Project – is developing and promoting quality and impact tools which are easy to use and which will help social enterprises improve their performance, understand the impacts of their work, and prove their value added to others. SEP is funded by the EQUAL Community Initiative programme and other funders. **www.sepgb.co.uk**

4 **nef**'s work on Local Multipliers – for example, LM3 is a measuring tool that enables anyone to assess how a particular business or initiative impacts the local economy, and how to improve that impact. LM3 takes its name from the Keynesian multiplier to measure how income entering an economy then circulates within it. The theory is that a change in income has a multiplied impact on that economy.
www.neweconomics.org/gen/tools_lm3.aspx

5 Best Value – was introduced on a voluntary basis in 1998 following the Programme for Government. The objective of Best Value is to ensure that management and business practices in local government deliver better and more responsive public services

6 Audit Commission – is an independent body responsible for ensuring that public money is used economically, efficiently and effectively **www.audit-commission.gov.uk**

7 The Institute of Social and Ethical Accountability (AccountAbility) – is an international, not-for-profit, professional institute dedicated to the promotion of social, ethical and overall organizational accountability, a precondition for achieving sustainable development. **www.accountability.org.uk**

8 SIGMA – Sustainability – Integrated Guidelines for Management – was launched in 1999 with the support of the UK Department of Trade and Industry. It is a partnership between the British Standards Institution, Forum for the Future, and AccountAbility. **www.projectsigma.com**

9 Global Reporting Initiative (GRI) – is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. **www.globalreporting.org**

10 The Sustainability Assessment Model: Measuring Sustainable Development Performance – a paper prepared for presentation at Offshore Europe 2003 – Tom Baxter, Generis Oil and gas Consultants; Jan Bebbington, The University of Aberdeen; David Cutteridge, Inchferry Consulting; and Gordon Harvey, BP.

11 Forum for the Future – is a charity set up to apply solutions to defuse the environmental crisis and to build a more sustainable society. Forum believe that economic, social and technological solutions can deliver not just a healthy environment, but a better quality of life, strong communities, and practical answers to poverty and disempowerment. **www.forumforthefuture.org.uk**

12 Present Value – This is based on the idea of discounting – that having £1 in a year's time is worth less than having £1 today. So future cash flows are reduced by a discount rate to reflect this perceived loss in value.

13 Cost Benefit Analysis – gives an organisation the information to enable decisions to be taken about allocating resources by taking into account the relative costs and benefits of alternative courses of action. In its simple form, cost/benefit analysis is carried out using only financial costs and financial benefits. For example, a simple cost/benefit analysis of a road scheme would measure the cost of building the road, and subtract this from the economic benefit of improving transport links. It would not measure either the cost of environmental damage or the benefit of quicker and easier travel to work. A more sophisticated approach to cost/benefit analysis is to try to put a financial value on these intangible costs and benefits. This can be highly subjective – is, for example, a historic water meadow worth $25,000, or is it worth $500,000 because if its environmental importance? What is the value of stress-free travel to work in the morning **www.mindtools.com**

14 Adventure Capital Fund – was launched in December 2002 with the aim of delivering a new form of long term investment into community enterprises. The aim is to fill the investment gap that faces community enterprise organisations, and without which their potential to grow is always going to be held back. The programme is delivered by the Development Trusts Association, the Scarman Trust, **nef** and the Local Investment Fund.
www.lif.org.uk

15 Treasury Green Book – provides appraisal guidance for government departments and executive agencies considering projects, programmes or policies. It aims to make the appraisal process throughout government more consistent and transparent **http://greenbook.treasury.gov.uk**

16 People from the following organisations attended the seminar:
Association of Chief Executives of Voluntary Organisations (ACEVO), Charity Bank, Civil Renewal Unit – Home Office, Community Fund, De Omslag – Netherlands, Esmée Fairbairn Foundation, Foursome Investment Fund, Green Apprentices, Hadley Trust, HM Treasury, Home Office, London Business School, Mazars, MHC International Ltd, Nottingham University, Nuffield Foundation, Shaw Trust, Social Enterprise London, Social Enterprise Unit – DTI, Stanford University / The William and Flora Hewlett Foundation, The Cooperative Group, Tomorrow's People Trust, Triodos, Venturesome – CAF (Charities Aid Foundation).

One of the other things we do

environment
lifestyles must
become sustainable

Current priorities are climate change, ecological debt and local sustainability

Local Works: Local people must be put back at the heart of their local economies. Policies that favour the large and remote are threatening the vibrancy and diversity of our communities, bringing Ghost Town Britain. Giving real power to local people can reinvigorate our local rural and urban economies.

nef is leading this campaign characterised by a highly diverse membership that seeks to combat the spectre of 'Ghost Town Britain'. It promotes the importance of local sustainability and self-determination. For example, Local Works was a big part of the campaign to defend community pharmacies. Taking as a starting point the fact that local communities should be more in charge of their own economies, education, healthcare, consumer and leisure needs, Local Works is campaigning for a legal framework that can make this happen.

The needs of communities must be at the heart of environmental, social and political justice. At a time of growing disenchantment with political processes, individuals and communities can and should have a real impact on how money is spent in their communities and what they invest in. Having a tangible impact on the delivery of services is a vital tool for political, social, environmental and economic reinvigoration in all of our communities.

Local Works recognises that there is no single blueprint, but that communities should draw up and implement their own plans to achieve these goals.

For more information please call 020 7820 6300

environment
lifestyles must
become sustainable

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