Measuring Social Return on Investment (SROI)

Checklists, exercises, most copy, and content based/clipped on the guide from nef, 2008

Overview

SROI

Capacity-building and measurement framework that incorporates social, environmental, and economic impacts for a range of stakeholders. It reflects the value that organizations are achieving.

1. Measure (social impact, environmental impact, economic impact)
2. That measurement creates value
3. Value leads to informed decision-making and strategic planning
4. Stakeholders are informed, respond, and deliver services

Important Note:
All of the table examples are not pulled from anything and were quick examples I made up at the time of writing this. Look for those as inspiration, not as 100% accurate information.

Stages of nef SROI analysis

STAGE 01 – Boundary setting and impact mapping

- Step 1: Establish the parameters for the SROI analysis

- Step 2: Identify, prioritize, and engage stakeholders

- Step 3: Develop theory of change

STAGE 02 – Collecting data

- Step 1: Select Indicators

- Step 2: identify financial values and proxies

- Step 3: Data collection

STAGE 03 – Modelling and calculating

- Step 1: Analyze inputs

- Step 2: Add up the benefit

- Step 3: project value into the future

- Step 4: Calculate the SROI

- Step 5: Conduct the sensitivity analysis

- Step 6: value added and payback period (optional)

STAGE 04 – Reporting and embedding

- Step 1: Prepare the SROI report

- Step 2: Communicate and embed

STAGE 01
Boundary setting and impact mapping

Step 1 - Establishing parameters of the SROI

- We need to be clear about why we are conducting the SROI, what resources are available, and broadly what its priorities are for measurement.

- Make sure to record decisions and assumptions along the way

- An SROI can: encompass social value of a whole org, focus on one part of the org's work, a tool for strategic planning and improving, and communicating impact/attracting investment

- Keep in mind how we can apply SROI learnings from this project to other projects or to the whole organization

⚙ Exercise 1.1 – Initial scoping

1. What do you want to measure?

   A specific project, or the impact created by the entire organization?

2. Are you an independent researcher, or do you work within the project area or organization you wish to study?

   Think through how this will affect the design of the analysis, including implications for resources and time availability.

3. Why do you want to begin this process now?

   Are there specific motivations driving the work, such as strategic planning or funding requirements?

4. Who is this analysis for?

   Consider primary and secondary audiences.

5. What is the timeframe for the analysis?

   Consider how this will impact on what you are realistically able to measure.

6. Who will be responsible for the work?

   Consider both who will do the research and who will have responsibility for overseeing and managing the project. Will the SROI be carried out in-house or involve an external researcher?

7. What resources will be required and are these available?

   Consider time and funding.

⚙ Exercise 1.2 – What will you measure?

1. What are the activities for which you want to determine an impact?

   For example, if you are looking at a waste management organization, do you want to measure the impact of a recycling program or a computer refurbishment operation, or both? Describe the activities.

2. Describe the intended participants, or target population.

   For example, if you are looking at a skills training agency, do you want to track all of the participants, or a smaller segment; for example looking exclusively at subcategories, such as those recovering from mental ill health, or those who are aged between 16 and 24?

3. Over what time period will the social returns be measured?

   For example, will you consider social returns created from the beginning of a project through to its conclusion, or just over one financial year? Or will you follow one intake of participants in the project? Often organizations will project returns over the life of the outcome being achieved, so for young offenders this might mean for a life of reduced contact with the criminal justice system.

Background Information

- Conduct literature (website, annual reviews, reports, financial account, public policy documents, etc.) on activities, organizations involved, the broader issue, and industry. This helps add detail about the areas of work chosen.

- TIP: Build a library of information to use on other projects

⚙ Exercise 1.3 – Formulate and communicate a project plan + Checklist

PROJECT PLAN

- Scope of the SROI

  What will you measure?

- Workplan

  Who will carry out the SROI?

- Resources

  What time, money and other resources will the analysis require?

- Timeline

CHECKLIST

- Is there Board and senior management support for the SROI analysis?

- Is there agreement that internal, or external, resources will be made available?

- Have you decided which areas of work the analysis should cover?

- Has it been determined who will participate in the work and what their roles and responsibilities will be?

- Has background information been collected on the project or organization, including an understanding of how it operates and who the key participants are?

- Were you able to answer the questions in the previous sections?

Step 2 – Identify, prioritize and engage stakeholders

- We need to be clear about why we are conducting the SROI, what resources are available, and broadly what its priorities are for measurement.

- We need to understand the goals and objectives of the stakeholders to create an impact map.

- Secondly, data will be collected from the stakeholders to collect information on actual outcomes

⚙ Exercise 1.4-5 – Identify/Prioritize Stakeholders

1. Who are the direct beneficiaries?

   For example, if it is a training program for ex-offenders, the direct beneficiaries would be the ex-offenders.

2. Who are the indirect beneficiaries?

   For example, other beneficiaries of reduced reoffending would be the families of the ex-offenders, the wider community, and the State.

3. Who contributes to the project, either financially or otherwise?

   For example, funders, staff, volunteers, partner agencies.

4. Who else either makes the project happen or is affected by it, even if only peripherally?

   For example, in the case of the training program, there might also be reduced costs to the health system as ex-offenders settle into more stable lives. You could also include taxpayers as a stakeholder because they are involved in paying for criminal justice costs.

Next, **prioritize stakeholders** during a working session. Key stakeholders are those who are either most affected by the impact or who's influence can most directly affect the outcome work.

Include a **stakeholder audit trail** to be transparent about why certain stakeholders are excluded from the analysis. Excluding stakeholders from the analysis doesn't mean they're not important. It may mean that value to them is being counted elsewhere.

FRAMEWORK:

Key Stakeholders	Reason for inclusion
Ex: Residents with acute disease	Central participant to social service redesign
Ex: Employees	They work directly with residents and have a constant relationship with them.

| Excluded Stakeholders	Reason for exclusion
Ex: Patients with insurance	Can go elsewhere for care (deadweight)
Ex: Families of the residents, living elsewhere	Don't' directly benefit from social services

Step 2 (Continued) - Engage Stakeholders
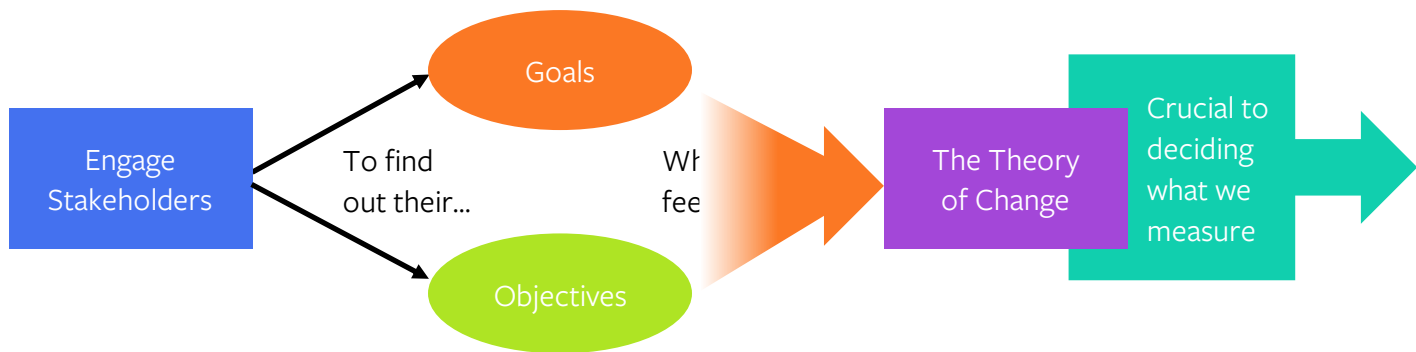
Theory of Change

The story of how your org /project makes a difference in the world; how it uses its resources to provide activities that then lead to particular outcomes for individuals, the community, and society

When engaging stakeholders, we are interested in:

1. What are their objectives for this project or organization?

2. What are their goals, beyond the scope of the project or organization?

3. As a consequence, what is it important for the SROI to capture?
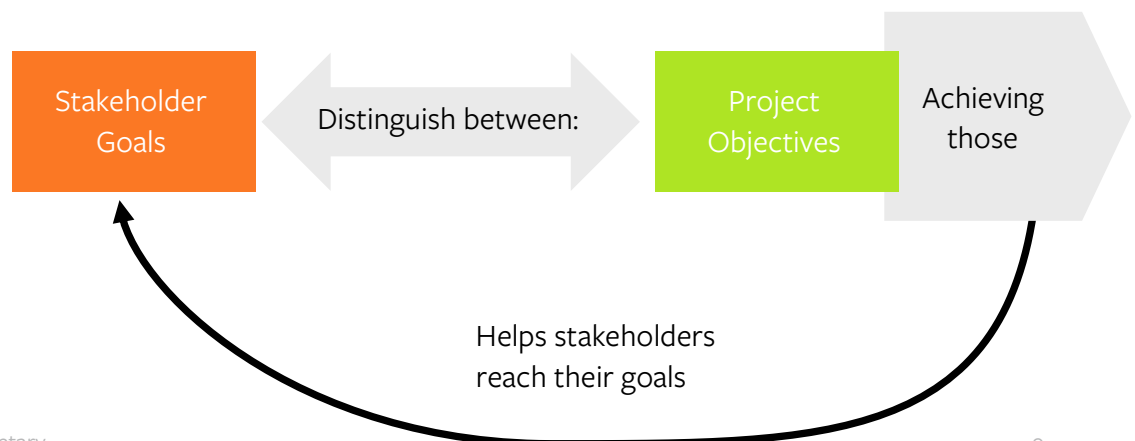
Finding Goals of Stakeholders:

1. Making assumptions

2. Collecting the information from existing sources, where this information has already been sought

3. Collecting the information directly from stakeholders

Best practices and methods for engaging stakeholders:

- Using statistically robust sampling techniques to ensure that a representative range of stakeholder groups is included in the analysis

- Ensuring the independence and objectivity of those persons (internal or external) conducting the research

- Involving stakeholders in the design of the engagement process, and encouraging feedback

- Acknowledging differences among stakeholders

- Ensuring confidentiality

- Documenting the rationale and processes of stakeholder engagement

- Get stakeholders together in one place and ask them directly.

- Try a workshop format, with informal discussions and a flipchart to record responses. You might want to use the storyboard approach detailed in Appendix 2.

- Have stakeholders complete a form during a regularly scheduled meeting – for example, an Annual General Meeting of an organization, or other set gathering.

- Ring representatives from key stakeholder groups and ask them.

- Email a short form around to representatives from key stakeholder groups.

- Have a social event and ask staff members to walk around and speak to stakeholders.

- Look at documents, such as annual reports or policy statements.

⚙ Exercise 1.6 – Stakeholder Engagement Plan

Determine what approaches you will use to understand their goals and objectives. it is a good rule of thumb to introduce the SROI research, explain why you want their participation, and warn them that you may be in touch down the line for additional information.

Stakeholder groups	Method of engagement	How many from each group to contact?	When to complete	Who is responsible	Goals	Project-specific objectives
Ex: Residents	Interviews in their homes	8-12	Next two months	Design researchers	State findings here	State findings here
Ex: Employees	Interviews on site of public housing	3-5; one at least at each level of management	Next two months	Design researchers; strategists	State findings here	State findings here

and Table of Stakeholder Objectives and Goals

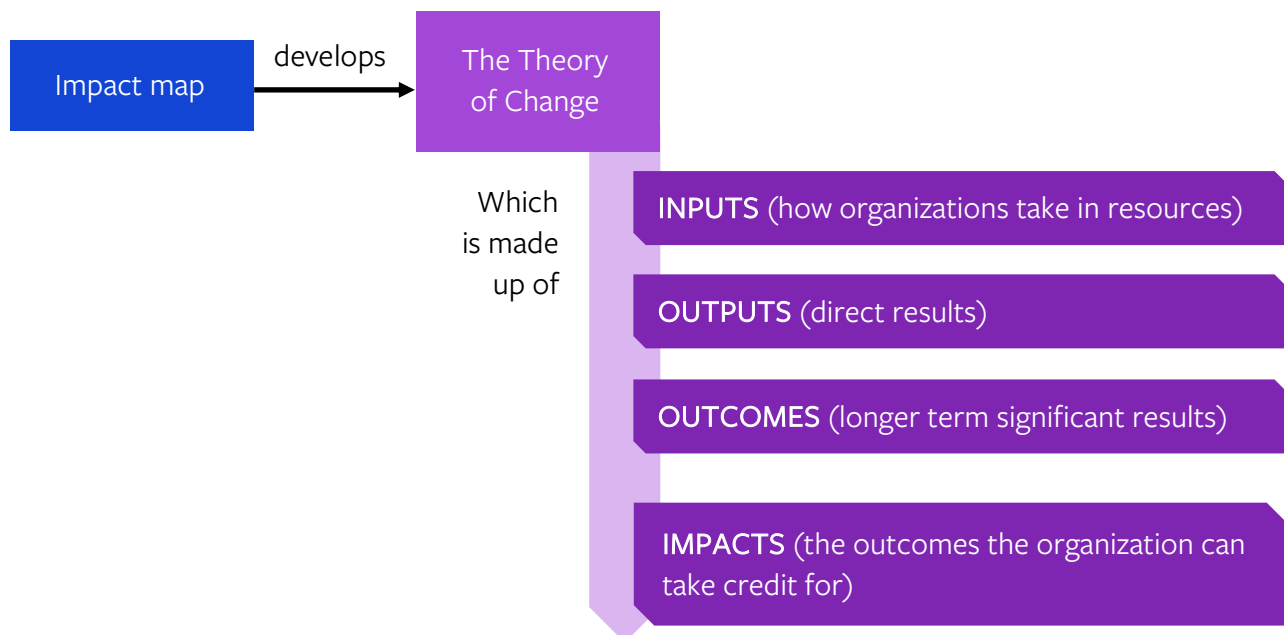| Stakeholder	Description	Goals	Objectives for Organization
Ex: Residents	Residents with chronic and acute health conditions living in public housing.	- Get employment - Health stability - Access to transportation	- Create stability for the residents - Create a new business model for engagement
Ex: Employees	Staff at the public housing complex	-Less evictions -Get better relationships with the residents	-Train the employees to create a better experience for residents

Step 3 – Develop a theory of change

Theory of Change

An account of how the organization takes in resources (**inputs**)
to do its work (**activities**)
which leads to direct results (**outputs**)
and longer-term more significant results (**outcomes**)
as well as part of those outcomes the organization can take credit for (**impacts**)

Use an impact map to develop the theory of change:

- Identify how the project works and how it affects key stakeholders (linking this to stakeholders' objectives)

- Capture this through analysis of inputs, outputs, outcomes, and impacts

Impact map → develops → The Theory of Change

Which is made up of

INPUTS (how organizations take in resources)

OUTPUTS (direct results)

OUTCOMES (longer term significant results)

IMPACTS (the outcomes the organization can take credit for)

Key Terms

Inputs

Inputs are resources used to run the activities – money, people, facilities and equipment. This is the investment against which the value of the impact is compared; often most key stakeholders make some kind of investment (which is not always funding).

Activities

The intervention you provide.

Outputs

Direct and tangible products from the activity (ex: number of people trained).

Outcomes

Outcomes are changes that occur for stakeholders as a result of the activity; for example, a new job, improved quality of life or increased community cohesion. This is the **result** of the organization's work and closely relates to the objectives of the stakeholder. Outcomes are the most important things to measure and can take place directly as a result of an output, or indirectly over time as the result of other outcomes being achieved.

Outcomes can be **positive** or **negative**, and it is **important that your impact map details both – even if the negative outcomes are unintended consequences.** Making visible any negative outcomes is important because these must be subtracted from the social value that you create. From an improving perspective, it prompts you to think about how you can work to reduce these negative outcomes.

Outcomes may also require knowledge of what happens after the stakeholder has stopped working or engaging with the organization. This may mean that some tracking is required and if you are not yet tracking today, you may be required to estimate how long an outcome lasts. For example, some people gaining work may drop back into unemployment. There may also be additional long-term outcomes that result indirectly from gaining employment, such as improvements in mental health and well-being.

Output		Result in	Measuring Outcomes	Achieving those leads to	Impacts
or					
Outputs + time					
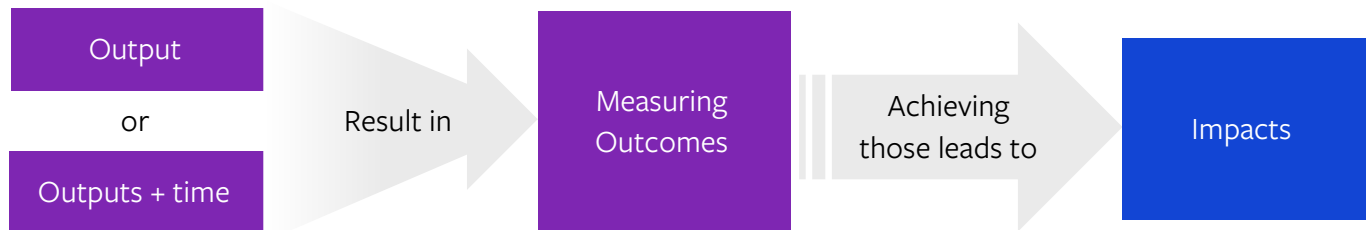
Impacts

Impacts refer to the difference made specifically by your organization or project in achieving the outcomes described above. There are several factors that need to be taken into consideration.

Attribution

Takes account of the fact that outcomes will also be influenced by other organizations and factors, especially where the stakeholders' objectives can only be achieved through the combined efforts of more than one organization.

Deadweight

The extent to which the outcomes would have happened anyway and is estimated by using benchmarks. Calculating deadweight helps an organization express the value of its work, and also weights the final impact depending on how difficult it is to achieve outcomes, which can vary across beneficiaries.

Displacement

(or substitution effect) occurs when the benefits claimed by a project participant are at the expense of others outside the project.

Impacts are the outcomes adjusted to account for the **difference made by your organization**.

$$[Impact] = [outcomes] - [deadweight, attribution, displacement]$$

The Impact Map

The **impact map** presents your **theory of change** – the story of how your organization makes a different in the world – in a diagrammatic form

When looking at the impact map, notice:

- Information collected during stakeholder engagement is critical to the impact map

- It's usually not possible to complete the impact column until after data has been collected. But it is possible to make an educated guess as to whether or not deadweight or displacement will be applicable for each stakeholder group

Materiality check

After completing the impact map, it is a good idea to perform a 'materiality check'. Materiality is about considering what is most important or central to the analysis. Look at your impact map and decide what you will include as you move forward to data collection. It should include a consideration of the relative importance of outcomes to:

- Stakeholders

- The organization

- The overall social value being created

⚙ Exercise 1.7 – Impact Map & Materiality Check

IMPACT MAP

Stakeholder	Input	Output	Outcome	Impact
Ex: Residents	-Time -Attendance -Feedback	-Connection -Job apps. -Iterations on the services	-Increased self-confidence -Improved mental health -Sustainable employment	Explored deadweight and displacement; determined no deadweight or displacement
Ex: Employees	-Skills -Time	-Number of trained participants	-Sustainable employment -Better relationships	Determined no deadweight or displacement

MATERIALITY CHECK

- Review the impact map and determine which outcomes are not appropriate for inclusion in the SROI analysis, either because they are not material or data is currently limited.

STAGE 02
Data Collection

- Step 1 – Select indicators to measure change
- Step 2 – Identify financial values as proxies
- Step 3 – Collect outcomes data

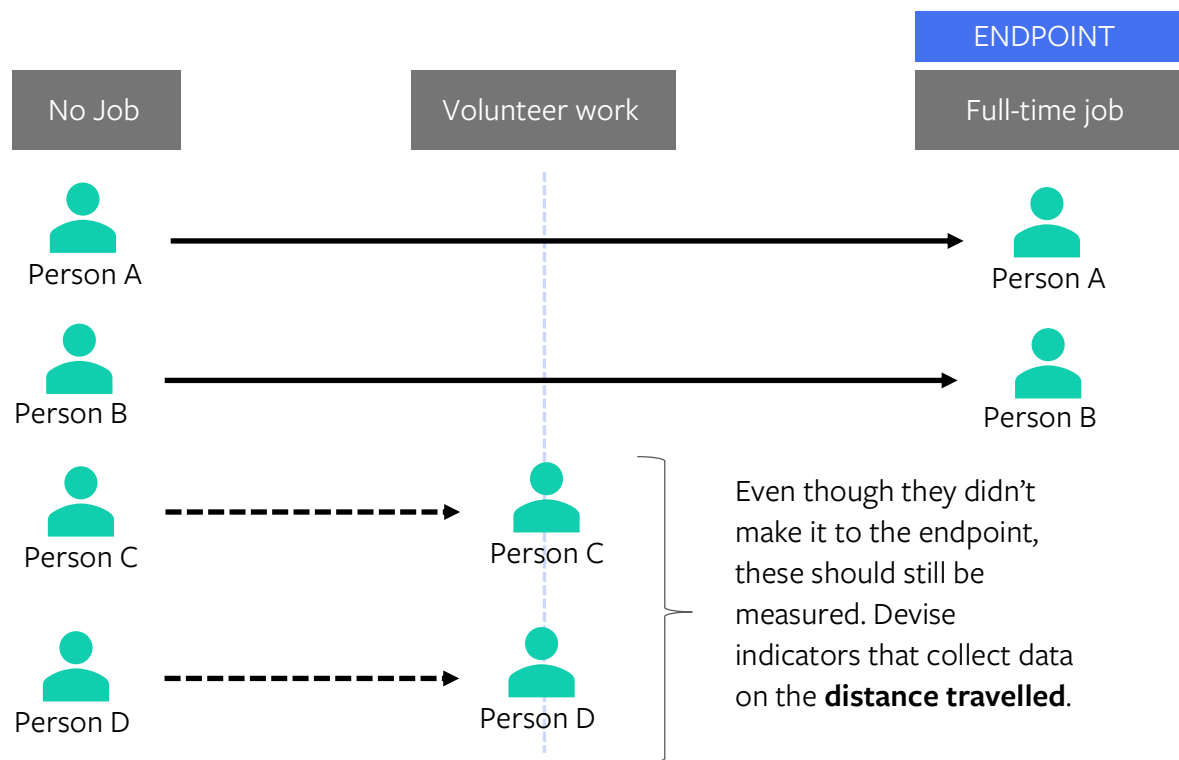## Step 1 – Select indicators to measure change

The first step in this stage gets you to ready for data collection by helping to select indicators for each of your outcomes.

- An **indicator** is a piece of information that helps us determine whether or not change has taken place. They are specific pieces of information, signs or signals that can be measured to determine whether a given output or outcome has occurred or has been achieved.

- An example options for measuring something intangible:

  - **Example: Self-sufficiency. Indicator: self-reported outcomes.** Monitor behaviors that would suggest self-sufficiency (ex: applying to jobs on their own)

- What gets measured is often what gets prioritized and resourced; finding the right set of indicators is therefore an important part of the SROI process. For this reason, SROI analysis is concerned with **outcome indicators**.

- **Risk of measuring outputs**: it is quite often unable to tell us about the difference an activity has made to people's lives. There is also a danger that a narrow focus on outputs will create perverse incentives for staff and/or produce unintended consequences as outputs, in and of themselves, are not a measure of how lives, communities and society have changed.

  - **Example: Getting a job – quantity vs. quality of the job.**

- o   A job creation program must look at the quality and quantity of jobs created.

- o   A high-quality job makes a big difference in someone's life. A low-quality job, and having a large quantity of those, would not make a big difference in someone's life.

- o   Measuring quantity and ignoring quality would mean putting people in jobs solely for the number to count, instead of looking at if the job is high-quality and makes a difference in someone's life.

- **Outcome indicators** can be both <u>qualitative</u> and <u>quantitative</u>. Sometimes for complicated and hard-to-measure outcomes, it is **necessary to use more than one indicator**. It is always preferable, where possible, to **blend subjective (or self-reported) and objective indicators that complement each other.**

- When choosing indicators, keep in mind that the impact map is the starting point for developing an **indicator set**.
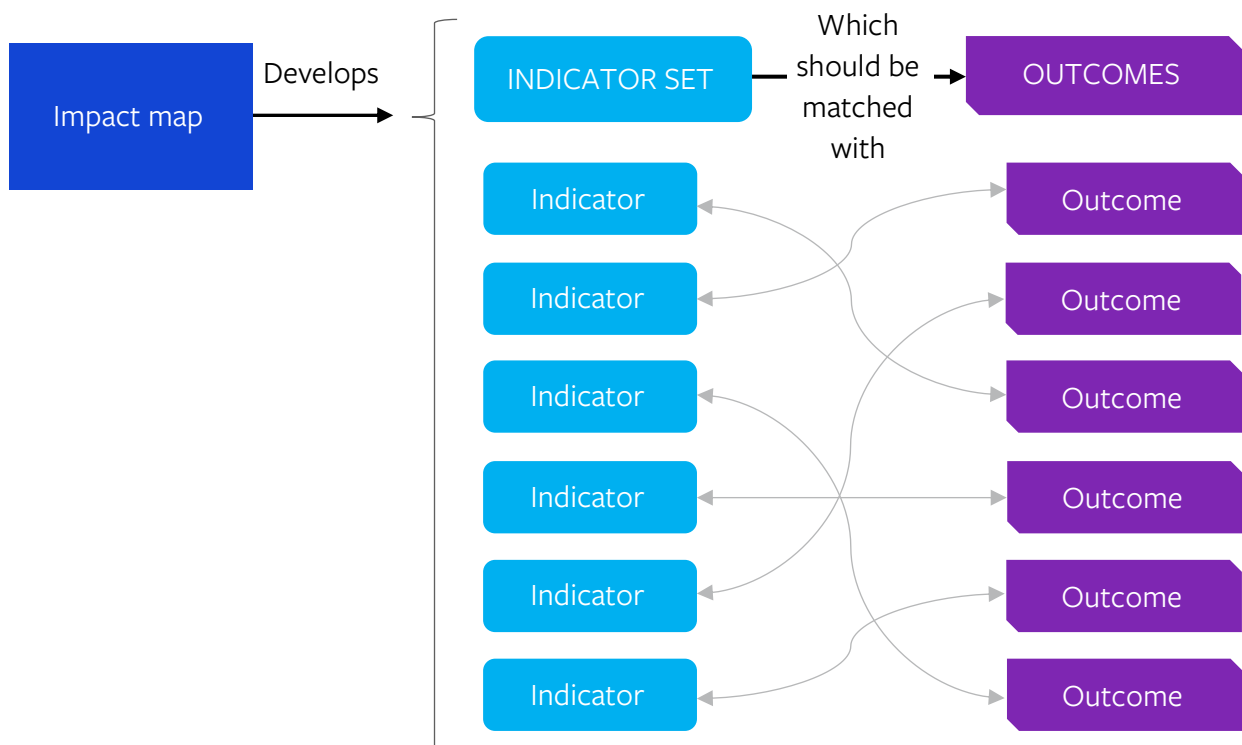
- Important point if benefits may take a while to see: some of the outcome indicators may not refer strictly to endpoints but capture the **"distance travelled"** by a beneficiary.
  - o **Example, below:** a social services program after 1 year may have some patients in full-time employment. Others may not have reached the endpoint but will have traveled some of the way towards that endpoint.

| No Job | Volunteer work | ENDPOINT |
| | | Full-time job |

Person A → Person A

Person B → Person B

Person C ⇢ Person C

Person D ⇢ Person D

Even though they didn't make it to the endpoint, these should still be measured. Devise indicators that collect data on the **distance travelled**.

⚙ Exercise 2.1 – Selecting Indicators

- Return to the impact map.

- Identify an indicator for each outcome

- If you need more info on selecting indicators, see ProveandImprove.org

Selecting Indicators

Outcome	Indicator
Ex: Residents have sustainable employment	-Participants are engaging in 1:1 coaching for resumes and interviewing skills -Participants are gaining employment or getting more interviews -Participants stay at jobs longer than they have before
Ex: Residents have improved mental health	-Participants are engaging in social groups to decrease isolation -Participants report increase in self-confidence and communication skills -Participants are accessing free telehealth therapy appointments

Step 2 – Identify financial values and proxies

The next step is to find ways of expressing the indicators in financial terms. This process is sometimes referred to as monetization. As SROI becomes more widespread, monetization will improve and there will be scope for pooling good financial proxies.

- Monetization can be **straightforward** (outcome of improving physical health is indicated by lest primary care visits. The costs of primary care visits should be used as the monetized value.

- In selecting financial values there is a trade-off between cost, data availability, and accuracy.

- Monetization **may need more creativity and digging around in less straightforward indicators.** When data is unavailable or difficult to obtain, you may choose to use proxies. A proxy is a value that is deemed to be close to the desired indicator, for which exact data is unavailable. Proxies are very useful because they enable you to include outcomes for which there is no direct monetary value.

  o this is a subjective process and for this reason we carry out sensitivity analyses to test different assumptions (Stage 3).

  o The proxies should be iterated on as more/better info becomes available

  o Proxies are a representation of the outcomes in monetary terms and are not intended to convey a sense of worth in the traditional sense of the word. **(Principle of inclusion > value placed on indicator)**

- Organizations and their stakeholders are best placed to choose the right values and it is possible to experiment with different values until you find the right ones for your circumstances.

- **TIPS for deriving financial values and proxies:**

  o Think about what is close to the indicator that is already traded in the marketplace, which indicates a willingness to pay on the part of participants.

  o Any studies you came across that may contain costings you can use?

  o Do not be too concerned with the fact that money might not actually have changed hands.

Exercise 2.2 – Financial values and proxies

There may be indicators which you choose not to monetize. You can still include these in the report in other ways - for example by reporting on it qualitatively.

Stakeholder	Outcome	Indicator(s)	Monetizable y/n	Proxy?
Ex: Residents	Ex: Residents have sustainable employment	Participants are gaining employment or getting more interviews -Participants stay at jobs longer than they have before	Yes	Tax money saved on not needing to give out food stamps
Ex: Employees	Ex: Residents have improved mental health	-Participants report increase in self-confidence and communication skills -Participants are accessing free telehealth therapy appointments		Money saved on ER visits from anxiety

Step 3 – Data Collection

Collecting data for each of the indicators is the next step. Use existing data and collect new information if needed. If you are carrying out a retrospective SROI, it can be difficult to gather data about an impact after the event.

Collect data from the following sources:

- <u>Primary stakeholders</u> - People directly involved in the creation of social value – for example, project participants or employees

- <u>Organizations</u> - Membership organizations, government departments, market research firms, consulting companies and partner organizations

- <u>Published research</u>- Universities, government departments and research organizations

Collecting data to measure impact

The SROI approach encourages discussion around impact, which requires you to take into consideration:

- <u>Attribution</u> – the extent to which outcomes can be attributed to the organization being evaluated.

- <u>Deadweight</u> – what would have happened anyway whether an intervention– took place or not

Measuring impact can prove to be challenging and may require the use of benchmarks. **Benchmarks** are data on outcomes for similar stakeholders that were not involved in the specific project or organization under study (example: crime surrounding a public housing engagement neighborhood)

Acknowledge and document negative impacts. It is important to be honest about any negative impacts that your activities might be having. Identifying them will help you minimize them in the future. A fully transparent SROI will put a value on negative impacts and include them in the analysis, so you will need to find proxies to measure them.

Issues to consider when collecting data

- Time Constraints. Your requests may be met with slower-than expected response times as well as a lower-than-expected data quality, both of which may require you to undertake further analysis before incorporating them into your model.

- Double-Counting. When including valuations of indicators that relate to more than one stakeholder, care should be taken to avoid double-counting. Double-counting occurs when the same value is counted twice to the **same stakeholder.**

  o (Example: For example, if a disabled person gets a job, benefits might accrue to them (expressed through income); to their carer (respite time); and to the Government (tax and benefits). Counting the value to all three stakeholders is not considered double-counting. However, if the income gained through employment was intended to represent the improved wellbeing that employment brings about, then valuing the well-being benefit separately would constitute double-counting.)

- Expectations. Set limits on how long you will spend finding data.

⚙ Exercise 2.3 – Data Collection

Complete a data table, outlining sources and assumptions.

	Indicator	Data	Source/Description
Inputs	1.Example 2.Example	1. Number 2. Number	1. Ex: HACA 2. Ex: City of Austin
Outputs	1. Full time salaries 2. Example 3. Example 4. Example 5. Example	1. $50,000 a year 2. Number 3. Number 4. Number 5. Number	1. Ex: based on starting salaries of employment 2. Ex. Department of health 3. Ex. Stakeholder interviews 4. 5.
Impact	1. Example 2. Example	1. Number 2. Number	1. 2.

Then complete the following checklist:
- Have you considered attribution of outcomes between different organizations?
- Have you started to consider how you will factor in deadweight and displacement for each of the outcomes?
- To what extent have you matched indicators to each outcome?
- Will all of the indicators translate into a financial value?
- Are you clear about what assumptions you will be making?
- Are you happy with the proxies that you are using?
- Have you tested their appropriateness with stakeholders/colleagues?
- Have you been clear about what data you will not pursue at this time?
- Have you been clear about how that may affect your results?
- Have you allowed sufficient time for data collection from external resources?
- Have you been clear about what benchmark data you are using?
- Have you been clear about how it differs from your participant population?
- Have you been able to collect the data required?
- If not, have you been able to find alternatives?

Stage 2 for forecasted SROIs

Follow Steps 1 and 2 to identify indicators and financial values for your impact map.
The main difference is in Step 3. Instead of collecting actual outcomes data, you need to forecast what the outcomes would be. For example, if you are planning to set up a job creation agency, you need to provide a forecast of how many jobs that agency will create. Forecasting is best done as a group and by using previous research on similar programs. Make sure you keep a record of the assumptions on which you base your forecasting and test these in the sensitivity analysis in Stage 3.

STAGE 03
Modelling and calculating SROI

- Step 1 – Analyze inputs

- Step 2 – Add-up the benefits

- Step 3 – Project value into the future

- Step 4 – Calculate social return on investment

- Step 5 - Conduct the sensitivity analysis

- Step 6 - Calculate the value-added and payback period (optional)

Step 1 – Analyze inputs

We have looked at the sources of value that will become the "return." We also need to look at the investment that was required to generate that return. it will be necessary to analyze and understand the organization's financial accounts. You should also bear other non-financial inputs in mind (ex: volunteer time) and monetize these for inclusion on investment side of the calculation

Examining financial accounts for relevant information

Look at the relationship between the expenditure and social impact. This financial information is often expressed according to the amount of funds in and amount spent on specific categories.
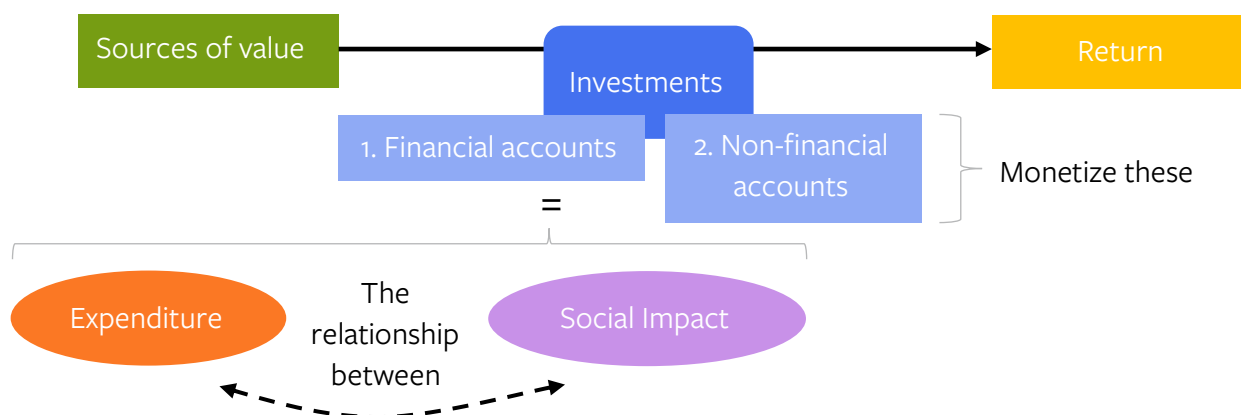
⚙ Exercise 3.1 – Analyzing input

Construct a table (Analyzing inputs) to record the main financial information.

Thinking about your financial accounts in this way can help you to see where and how funding relates to activities that create social, environmental or economic value.

Sources of Revenue	Uses of revenue	Detailed use of revenue
-Gov't contract -Grant -Sales -Donations	**Social**: after school club	-Salaries -Expenses
	Economic: Work placement scheme	-Salaries -Expenses
	Environmental: -Door to door recycling program	-Salaries -Expenses

Use these headings as a guide:

Sources:

- Sales income
- Donations
- Grant income
- Contract income
- Subscriptions
- Private investment
- Loan funding
- An estimate of the value of volunteer time

Uses:

- Rent
- Insurance
- Equipment
- Utilities
- Salaries
- Program-related expenses

Record any additional relevant information if the financial accounts make explicit links to social impact.

We need to distinguish between revenue and capital expenditure.

The term revenue describes money that comes into an organization, which is then used for day-to-day operations over the financial year. By extension, the way that same money flows out of the organization – i.e. how it is used up – is referred to as revenue expenditure.

We do this in order to determine whether or not we need to project our SROI over a period of more than one year.

Identifying relevant costs and investments

- We need to make sure that we separate out the costs which relate to delivering that project.

- Some of the relevant costs will be easy to identify from our analysis in Exercise 3.1. For other costs it will be necessary to split these between activities.

- The way you allocate costs between activities may vary and needs to be clearly documented in your report.

- At this point it is also important to consider non-financial inputs, such as volunteer time. Monetize these wherever possible

- Having identified all the relevant costs and monetized as many non-financial inputs as possible, you can now add these up to determine the total investment that was required to generate the benefits you are interested in for your SROI.

Exercise 3.2 – Adding up the investment

Return to your table of inputs. Identify the relevant costs, monetize non-financial inputs and sum these to determine the total investment.

Sources of Revenue	Uses of revenue	Detailed use of revenue	Relevant cost	Non-financial inputs	Total investment
-Gov't contract -Grant -Sales -Donations	**Social:** after school club	-Salaries -Expenses			
	Economic: Work placement scheme	-Salaries -Expenses			
	Environmental: -Door to door recycling program	-Salaries -Expenses			

Step 2 – Add up the benefits (with Excel)

One sheet: list all of your proxies and assumptions. Then open a new sheet for each of your stakeholders. For each stakeholder, list the indicators of change in the first column & the number of participants it refers to in the second, being sure that the participant population is the same.

You will need to construct a final spreadsheet at the front of the document that summarizes the calculations; this should list all the stakeholders and total benefits that accrue to them each year.

Example:

Indicator	Value $
BENEFITS TO PARTICIPANTS	
-Employee wages	13,500
- less welfare benefits lost	-6,900
-less increase in tax contribution	-1,600
-Net benefit per participant that moves onto full time	4,500
-Number of participants that move onto full time	3
Total benefits to participants (=3x$4,500)	**5,000**
BENEFITS TO LOCAL GOV'T	
-Cost to send a ton of waste to landfill	39
-number of tons recycled per year	50
Net savings to local gov't ($39x50)	**1,950**
BENEFITS TO NATIONAL GOV'T (per employee)	
Welfare benefits saved	6,900
Number of participants that no longer need welfare	3
Net savings in welfare benefit expenditure (=3x6,900)	**20,700**
Savings in cost of mental health provision	20,500
Number of participants who do not require intensive care	4
Total health care savings (=4x20,500)	**82,000**
Net benefit to national gov't	**102,700**
Combined benefits (across all stakeholders)	118,150

Step 3: Projecting value into the future

Outcomes can have longevity even if the organizations supporting them are no longer involved. For this reason, we often project value into the future. In doing so, there are three things that need to be taken into consideration:

1. Discount rate
2. Benefit period
3. Drop off

Discount rate

- Compare the present value of benefits to the present value of the investment made to generate those benefits. Before we can do this, we need to understand a concept called 'time value of money'. The time value of money means that in general, $1 now is worth more than $1 will be worth in a year's time.

- The discount rate you use should reflect the uncertainty (or risk) of achieving the estimated benefits, as well as the uncertainty of your assumptions.

- If the benefits we aim to achieve in a project take two years to occur, and we want to know how an investment of £10,000 given to us now will compare with the benefits achieved over that two-year time period

Benefit Period

- Be as realistic as possible about assuming a time period over which your model will account for accrued benefits.

Drop off

- The concept of drop-off recognizes that the benefits will not endure for all stakeholders over the entire benefit period.

- Drop-off adjusts the projected future benefits to take into consideration these cases where the benefit does not endure.

Example: Projecting returns over multiple years

Example 3.3: Projecting returns over multiple years for YouthWork

To help you get used to the SROI model, this is a second example to consider. **nef** forecasted the social benefits generated through YouthWork, a fictional social enterprise based on a real example. Key assumptions are listed below. The figures have been changed for purposes of simplicity in presentation. Drop-off relates to those people who fall back out of work.

	Year 1	Year 2	Year 3	Year 4	Year 5
Average benefits to each participant					
Participant wages	£9500	£9785	£10,610	£10,925	£11,250
Less welfare lost	(£6800)	(£6800)	(£6800)	(£6800)	(£6800)
Less increase in tax contribution	(£950)	(£979)	(£1061)	(£1093)	(£1125)
Net benefit per participant	£1750	£2007	£2749	£3033	£3325
Benefits to State per participant					
Welfare payments saved	£6800	£6800	£6800	£6800	£6800
Increase in tax contribution	£1425	£1545	£1592	£1640	£1690
Net benefit to the State	£8225	£8345	£8392	£8440	£8490
Combined net benefit	**£9975**	**£10,352**	**£11,141**	**£11,473**	**£11,815**
Total participants in job	50	50	50	50	50
Less deadweight	45	45	45	45	45
Less deadweight and drop-off	45	40	35	31	27
Total annual benefits (benefits x jobs)	£498,750	£517,575	£557,050	£573,625	£590,750
Less deadweight	£448,875	£465,818	£501,345	£516,263	£531,675
Less deadweight and drop-off	£448,875	£414,060	£389,935	£355,648	£319,005

Assumptions
Average starting salary in Year 1 for all participants is £9500
Average annual growth in salary is 3% from year 1
Welfare payments = £6800 per year (£130 per week)
Income tax = 10% of salary plus 5% for employer contribution
Deadweight = 10% (e.g., 50 x 0.9 = 45). That is, we can only claim benefit for 90% of the benefits, because 10% of the participants probably would have found a job without the intervention.
Displacement is assumed to be zero
Drop-off = 12% annually (e.g., 45 x 0.88 = 40). That is, each year 12% of the prior year's employed participants lose their job.
Time period to accrue benefits = 5 years
Discount rate = 3.5%
Investment: public funding (New Deal) paid in year 0 = £500,000 to fund one-year pilot project

Step 4: Calculate the SROI

SROI measures the value of the benefits relative to the costs of achieving those benefits. It is the ratio of the net present value of the benefits to the net present value of the investment.

You can calculate this simply in Excel by adding all of the projected net benefits (less deadweight, attribution etc.) and dividing them by the investment.

$$[SROI] = \frac{[\textit{Value of benefits}]}{[\textit{Value of investment}]}$$

Example:

Example 3.4: SROI for MillRace IT

The returns are calculated annually due to the nature of Social Firms, in that their 'output' is the ongoing training and support for disabled people. This means that no benefits are projected forward. The calculations that we do in this instance for SROI are simply:

$$SROI = \frac{\text{Net benefits}}{\text{Net investment}}$$

In our example, this can be expressed as follows:

$$SROI = \frac{£76,825}{£10,325}$$

SROI generated by MillRace IT

	Total value created	MillRace IT share	Investment	SROI	MillRace IT share
Aggregate benefits	£107,825	£78,288	£10,325	10.44	7.58
Less deadweight	£105,875	£76,825	£10,325	10.25	7.44

Step 5: Conduct the sensitivity analysis

After calculating an SROI ratio, it is important to assess the extent to which your results would change if your assumptions changed. This is referred to as a 'sensitivity analysis'. The aim of such an analysis is to show which assumptions have the greatest impact on your model.

Within a sensitivity analysis, we create a table and then change one assumption at a time, re-calculating the SROI at every step. When we are done, we can see clearly which assumptions cause the greatest change in the SROI figure.

Example 3.5: Sensitivity analysis for MillRace IT

To help you get used to the SROI model, this is a second example to consider. nef forecasted the social benefits generated through YouthWork, a fictional social enterprise based on a real example. Key assumptions are listed below. The figures have been changed for purposes of simplicity in presentation. Drop-off relates to those people who fall back out of work.

MillRace IT sensitivity analysis

Indicator	Baseline assumption	New assumption	SROI
Grant income (£)	10,325	5,000	15
		20,000	4
Number of participants that enter full time employment	3	5	9.6
		0	4.1
Share of outcome (attribution)	75%	90%	9.2
		60%	6.2
Cost per client to NHS (£)	20,561	30,000	11
		10,000	**3.3**
Number of participants that no longer need intensive health treatment	5	10	15.4
		0	-0.5

Understanding the sensitivity analysis

Since our calculations depend largely on assumptions, it is prudent to test the sensitivity of those assumptions. We change five areas in the MillRace IT case:

1. Amount of grant income (or investment).
2. Number of participants that move into full-time employment.
3. MillRace IT's share of outcome (or attribution rate).
4. Care cost per client to the National Health Service.
5. Number of participants that no longer need intensive treatment.

These categories were chosen because they are the ones that are most important in framing the SROI model for MillRace IT. The key finding of the sensitivity analysis is that the SROI ratio remains well above 1:1 for all assumption adjustments, except if the number of people no longer receiving in-patient care, or a similarly priced Government-funded health service, drops to zero. Again, it is important to stress that the use of in-patient hospital care is a proxy to stand in for the total amount the Government spends on treating those with mental ill health (which for the time being is unavailable data).

STAGE 04
Repeat and embed

Step 1: Preparing the report

The report should be a tool for both proving and improving. To fulfil the proving function, the report needs to include enough information to allow another person to verify your calculations. That is, it needs to include all the decisions and assumptions you made along the way. To fulfil the improving function, it should include all the information that you were able to find out about the performance of the organization which might be useful to strategic planning.

Consider including the following quantitative and qualitative information to produce a comprehensive and considered report:

- Information relating to the organization: include a discussion of its work, key stakeholders and activities.
- Description of the SROI process: include the scope of the analysis, details of stakeholder engagement, methods of data collection and any restrictions on the analysis.
- The impact map with relevant indicators and any proxies.
- An audit trail for decision-making including which stakeholders were included and which were excluded.
- Detail on any indicators that have not been measured or monetized.
- Details of the calculations: include the sensitivity analysis and a discussion of any estimates and assumptions.
- Case studies or quotes from participants that illustrate particular findings, especially where it might not have been possible to monetize indicators.
- An executive summary aimed at a broad audience, including participants.

You may also want to consider getting your report independently verified by a recognized expert.

Preparing the report is one of the most important parts of the SROI process as this is the place where you can make recommendations to influence what happens as your organization or project moves forward. Make sure to include ways to improve data collection and evidencing of outcomes.

⚙ Exercise 4.1 – Preparing the SROI Report

Prepare your SROI report. Include findings, analysis, and recommendations as to what the organization can learn from the information generated through the SROI process.

Checklist

- Have you included a qualitative discussion of the assumptions and limitations underlying your analysis?

- Have you included clear statements at each stage to show where you have dropped activities, stakeholders, their issues or indicators?

- Have you tailored the presentation of your results to each stakeholder?

Step 2: Communicating and embedding

The SROI process is intended to be iterative and should not end with the production of a report. The tools and techniques should be embedded in the organization and feed into ongoing strategic planning.

- A process for regular data collection.

- A process for training of staff to ensure knowledge and expertise is retained in the organization, even if there is turnover.

- A clear timeline for the next SROI.

- A description of the resources that will be required for ongoing SROI evaluation.

⚙ Exercise 4.1 – Preparing the SROI Report

Prepare a plan for sharing recommendations and embedding the process within the organization.

Checklist

- Are your recommendations balanced and sensitively phrased?
- How can you pre-empt any negative reactions to the findings?
- Does anyone else need to be trained, or supported with SROI?
- Where will responsibility for future updates sit within the organization?
- Are you comfortable that all staff are ready to communicate the results externally?
- Is there a plan in place to make sure that SROI data collection and analysis becomes routine and regular?