# Objectives of this Session

By the end of this session you will have:-

- Be able to recognise sustainable local economic development through the use of economic measurement tools and techniques.
- Understand the importance and relevance of measuring economic impact;
- Learn how to develop a framework/system to measure the economic/social impact of your project / organisation; and
- • Explore various tools that can help to measure economic and social impact.

# Lots of tools which might help you such as…

- LM3
- Cost Benefit Analysis (CBA)
- Social Return on Investment
- Social Accounting and Audit (CD31)
- Gross Value Added (GVA)
- Shellard Formula – used by the Bike Shed Theatre

Let's take a look at a few of these…..

# Objectives of this Session (SROI)

By the end of this session you will have:-

- Understand some the main principles and steps in SROI
- Applied some of the principles and steps of SROI relevant to your work
- Understand some of the strengths and weaknesses of SROI

“

*Dear Mr Ghandi*

*We regret we cannot fund your project because the link between spinning cloth and the fall of the British empire was not clear to us”*

one East Midlands
Getting voices heard, shaping change
REACH&IMPACT
awareness • engagement • access
EUROPEAN UNION
Investing in Your Future
European Regional
Development Fund 2007-13
BIG LOTTERY FUND
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# Money Talks

# Presentation outline

1. What is SROI?
2. Contexts
3. How is SROI Implemented
4. Uses (inappropriate)
5. Weaknesses
6. Strengths

# What is SROI? More than a Ratio..

- Approach to program, project and policy evaluation that aims to account for non-financial outcomes using **monetary values** to represent them.
- A way of reporting on **value creation** measuring social, environmental and economic results.
- Includes a **consistent approach** with standard steps.
- Strong emphasis on involving **stakeholders**.

(Nicholls, Lawlor, Neitzert, & Goodspeed, 2012)

# 2 Types of SROI

## Evaluative

- Conducted  retrospectively
- Based on outcomes that have already taken place.
- Preferred use in ongoing evaluation and not as a final outcome measure.

## Forecast

- Conducted before hand.
- Predicts how much social value will be created if the activities meet their intended outcomes

# Purpose

Its fundamental purpose is to provide a model for allocating monetary expression of the value of outcomes for which no agreed market value exists.

It can de used for a range of evaluation purposes:

- Assess projects. (Forecast)
- Demonstrate achievements (Evaluative).
- Help improve organisational operations.

(Nicholls, Lawlor, Neitzert, & Goodspeed, 2012)

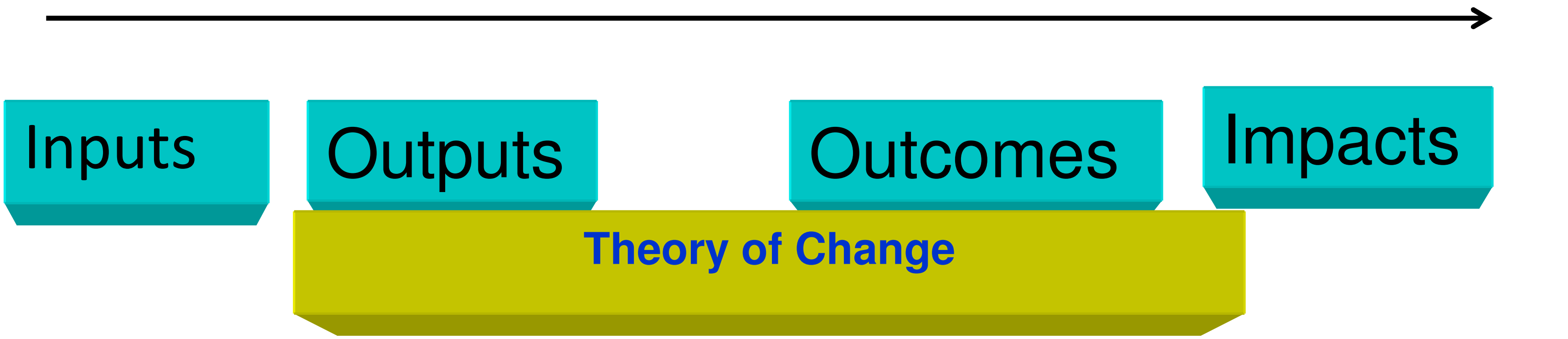
# 7 Principles of SROI

- Involve stakeholders
- Understand what changes
- Value things which matter
- Only include what is material
- Do not over claim
- Be transparent
- Verify the result

# The 6 Stages

1. Establishing scope & identifying key stakeholders
2. Mapping outcomes
3. Evidencing outcomes & giving them a value
4. Establishing impact
5. Calculating SROI figure
6. Reporting, using & embedding

# How does it work?




**For each stakeholder we look at:**

**Inputs** - resources invested in the activity
**Outputs** – the description of the activity e.g. 20 unemployed residents employed
**Outcomes** - changes to people resulting from the activity, i.e., a new job, increased income, improved stability in life, improved quality of life
**Indicators of change** – how do we know change has happened
**Quantities of change** – how many of the stakeholder group experience change
**Financial proxies** – how we value the change
**Impact** = Quantities times proxies, less reductions to reflect that some change happens anyway and some change is created by other factors

# Scope – Project Objectives/Activity

Hand in Hand TARA – **Project Objective**

- To provide specialised Self-Employment training and Support for 30 unemployed residents, leading to the creation of 5 new Micro providers in the local Social Care Market

**Activity**

- 30 places for unemployed residents for 5 Self-Employment workshops, and 12 hours of 1-2-1 support over 2 years

# Valuing the Outcome

**Indicator**

- Whether SE after 12 months (note each new provider will create 3 jobs)

**Proxy** (a figure that can be used to represent the value of something in a calculation)

- Out-of-work related benefits (per annum)* **1 Year** Lone Person/Couple 2 Children/Lone Parent 1 Child
- Cost of using an accountant/Solicitor in set-up a business

Avg 10 x £500 – (cost for CFF support/Legal structure)

# Valuing the Outcome

**Indicator**

- Increase in disposable income local spend

- **Proxy**
- Cost of debt advice service/Interest payments to Payday lender

Avg 10 x 265 (Avg Cost per person using Govt fund debt advice service)

# Valuing the Outcome

**Indicator**

- Frequency of use of micro social care provider
- **Proxy**
- Cost of elderly health care provision

(Emergency admittance & hospital stay) Based on avg 9 days @ £255 per day for 10 Elderly people receive new Social Care Support

# Valuing the Outcome

**Activity**

- **Now add in a Possible proxy for you own indicators**

- Consider where you would source the proxy information – who from, how the value has been calculated. At this stage you don't need a value.

# SROI stage 4: Establishing the Impact

**Dead-Weight/Displacement** 10 %

No Activity – general economic conditions

Did the outcome replace another outcome

**Attribution** 20 %

Who Else Contributed to change – eg District Nurse

**Drop-Off** 30 %

Does the outcome drop off in future years?

# SROI stage 5: Calculating the SROI

- Five steps involved:
  1. Projecting into the future – drop off rate.
  2. Calculating the net present value – discount rate (time value of money)
  3. Calculating the SROI ratio = Present value/value of inputs
  4. Sensitivity analysis – Which assumptions have the greatest effect on your model?
  5. Payback period- At what point does return value > investment.

# SROI stage 5: Calculating the SROI

- Total Investment = £60,000
- Total value of interventions = £172,400
  - Displacement/ Deadweight -10% (£155160)
  - Attribution -20% (£124128)
  - Drop-off 30% (£86890)

SROI figure **£1.45 : £1** invested

**SROI ratio =** $\dfrac{\textbf{present value (Value of benefits)}}{\textbf{value of inputs (value of Investments)}}$

# Strengths

- Fosters a commitment  towards transparency and accountability (Rotheroe & Richards, 2007)
- Promotes better communication and engagement between different stakeholders
- Expected to foster improvement of quality data
- Evaluative process promoted by SROI includes making organisations aware of their own values

(Arvidson, Lyon, Mc Kay & Moro, 2010)

- SROI principles have widespread approval, provide a benchmark for organizations to set their goals and review their activities. ( Wood & Leighton, 2010)

# Challenges/Issues

SROI literature is weak on providing guidance on how to facilitate stakeholder identification of meaningful values for non-marketable benefits

*" An SROI analysis is only as good as the data that is put in. In addition to properly resourcing organisations to collect outcomes data, SROI analyses can be strengthened by shared research on outcomes, proxies, and indicators"*

(New Economics foundation, 2008. in Wood, Leighton. 2010. p 28)

# Is SROI for us?

- The key questions to ask yourself:
  - Will my stakeholders find SROI analysis useful?
    - Funders mostly
  - Do we have necessary preconditions in place?
    - Can we successfully engage stakeholders?
    - Quantitative data bank in place?
    - Can outcomes be monetarised?

# Resources!

- http://www.neweconomics.org/publications/entry/a-guide-to-social-return-on-investment
- http://www.thesroinetwork.org/
- http://www.impactmeasurement.net/impact-manager
- http://www.jargonbusters.org.uk/alphabetical-summary-of-terms/
  - Jargon buster
- http://www.socialauditnetwork.org.uk/
- http://www.thinknpc.org/
- https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent

## Lots of tools which might help you such as…

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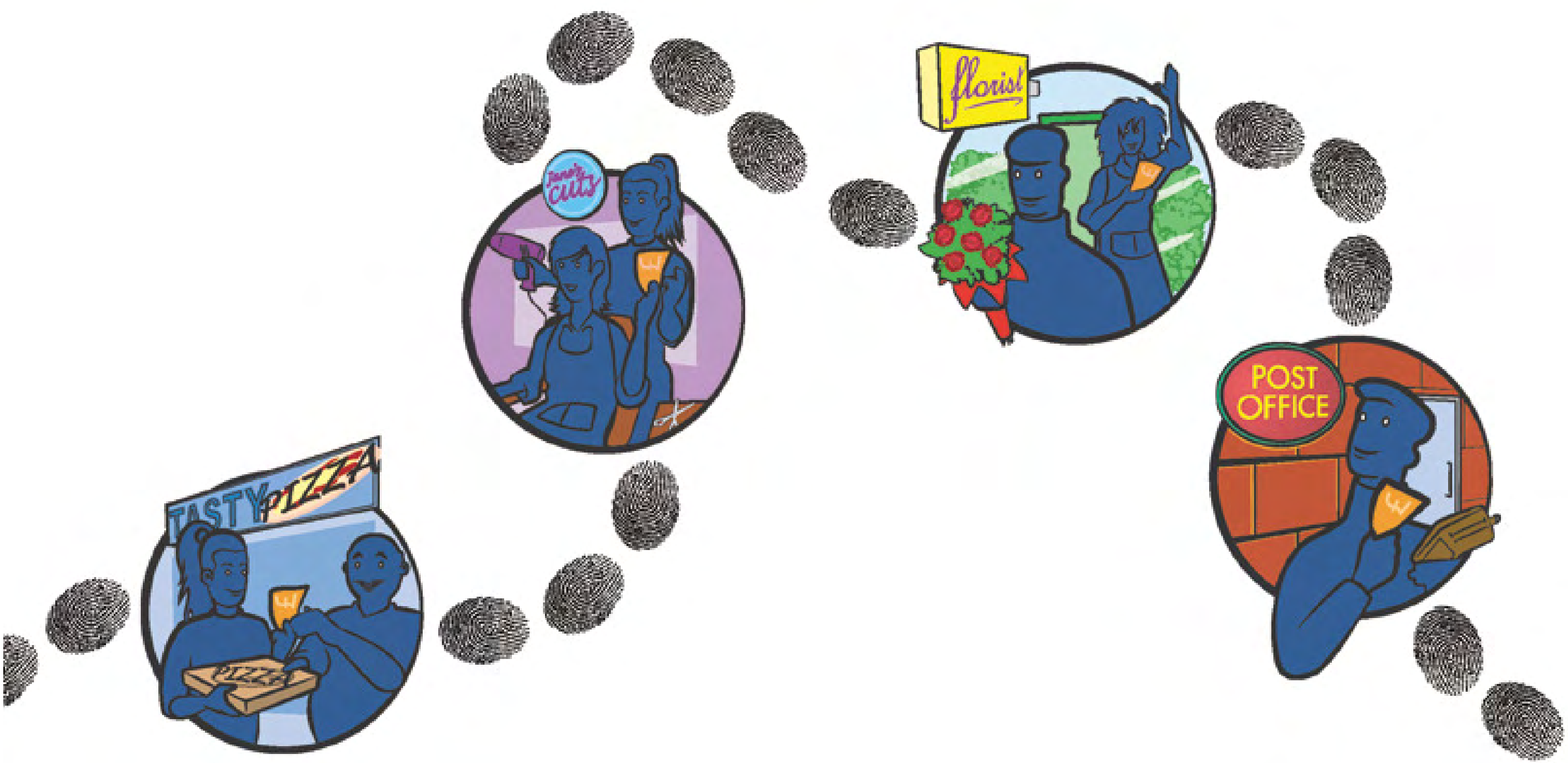
# The Money Trail:

## measuring local money flows with LM3



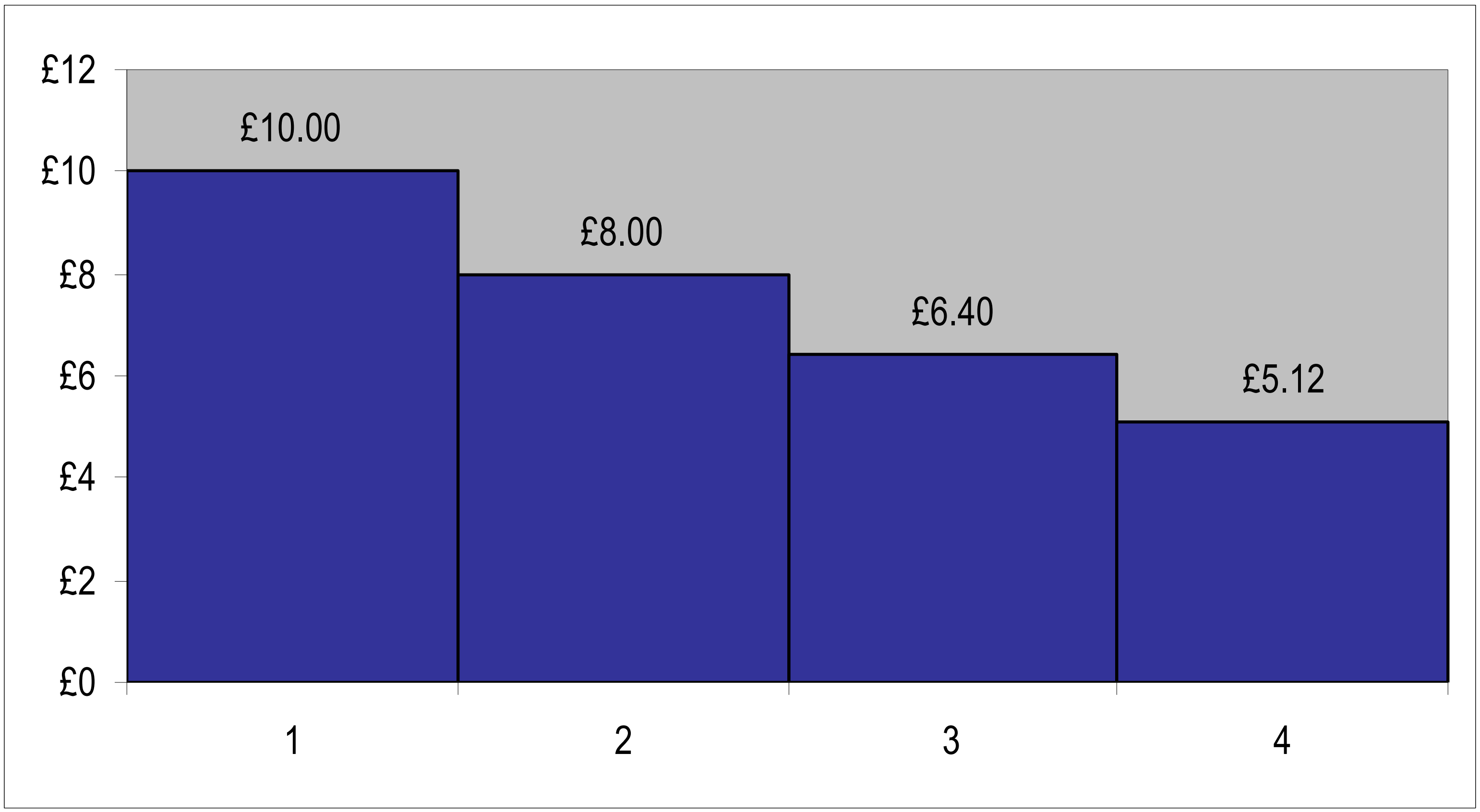
# Objectives of this Session

By the end of this session you will have:-

- Looked at ways to assess your economic impact, proportionate to your organisation through LM3
- Considered how LM3 may be relevant to your work
- Considered the key components of LM3 tools

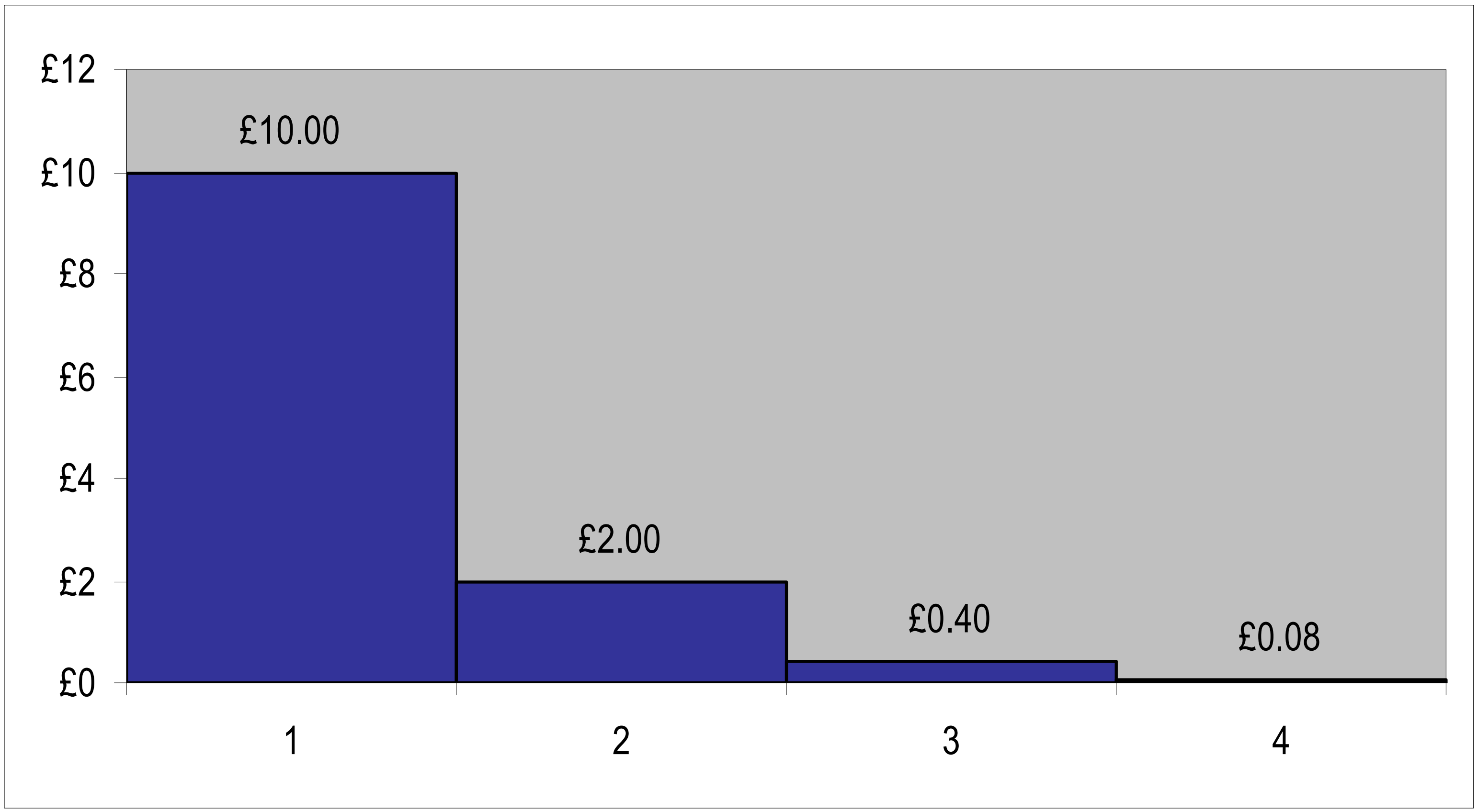
# Now imagine we painted a pound coin blue and followed its **trail**…

…If **80%** of money stays local



## Now imagine we painted a pound coin blue and followed its trail…

…If **20%** of money stays local



**So imagine we are starting with £10. If 80% stays local, we end up with £50 staying in the local economy. Just £12.50 if 20% stays local.**

**80% of money stays locally**

| | Enters | Remains |
|---|---|---|
| | £ 10.00 | £ 8.00 |
| | £ 8.00 | £ 6.40 |
| | £ 6.40 | £ 5.12 |
| | £ 5.12 | £ 4.10 |
| | £ 4.10 | £ 3.28 |
| | £ 3.28 | ..... |
| **Total** | **£ 50.00** | |

**20% of money stays locally**

| | Enters | Remains |
|---|---|---|
| | £ 10.00 | £ 2.00 |
| | £ 2.00 | £ 0.40 |
| | £ 0.40 | £ 0.08 |
| | £ 0.08 | ..... |
| **Total** | **£ 12.50** | |

## LM3 = Local Multiplier 3

- Adapted from the Keynesian multiplier
- Applied to the local economy
- We measure three rounds

**LM3** enables you to measure the impact of your business on the local economy.

**LM3 = Local Multiplier 3**

"used as an exemplar of how to demonstrate sustainable procurement and regeneration".

"LM3 not only enables people to understand local economic impacts but also highlights opportunities to strengthen the local economy".

"LM3 measuring tool acts as an incentive to *improve* performance, not just a single standalone analysis".

http://www.proveandimprove.org/documents/TheMoneyTrail.pdf

# LM3 = Local Multiplier 3

LM3 – is a way of calculating a relative figure or ratio looking at 3 rounds of spending

1. Total income received by an organisation
2. Total spent in the local economy by that organisation (including employees as well as suppliers of goods and services)
3. Then looks at how much of that income those suppliers have spent in the local economy

When these figures have been calculated the total amount of money from all three is divided by the original income (L1) to arrive at a multiplier.

# Small group task

Have a look at Hand-out – LM3 exercise

Read through the introduction to The Green Country CVS and discuss the three questions at the end.

Prepare to feedback your thoughts

## LM3 = Local Multiplier 3

The local CVS received £250,000 in 2013.
If they had spent £180,000 on local employees and suppliers within a 20 mile radius
And the suppliers and employees who responded to the spending survey indicated that £103,000 (57%) was spent within a 20 mile radius then,

$$\frac{\pounds 250{,}000 + \pounds 180{,}000 + \pounds 103{,}000 = \pounds 533{,}000}{\pounds 250{,}000} = 2.13$$

## What to **think about**

- How many of your **staff** live in the local area?
- How could you address local **staffing** issues?
- Where are your **suppliers** located?
- How much are your suppliers spending **locally**?
- How could you improve **local sourcing** decisions?
- Are there **supply chain** gaps?
- Will changes you make **matter**?

# Online Resource/tool

Let's take a look at LM3 online…

# What to **do** next

- Would **others** be interested in your learning?
- Should you **publicise** your results?
- How can you **apply** what you've learned?