



Sustainable Business  
**Partnership**

# Social Return on Investment

## Case study - London Borough

September 2014

# Overview

The Social Value Act is transforming public sector procurement. Business needs to embrace this opportunity and use it to develop their means of measurement and reporting

## Overview

The Social Value Act is radically transforming how business, the Public Sector and 3<sup>rd</sup> sector organisations are working together to deliver social value.

Many Local Authorities are already extending The Act beyond Services to include Goods and Planning

Business needs to consider how it can report 'Social Value Creation' in a way that is meaningful for its own improvement strategy and makes sense to its public sector clients

We were employed by a Waste Management Company (WMC) to carry out an assessment of its social impact in a London Borough (LB). This case study includes a summary of our work.

- Social Impact Mapping for waste management services and community activities
- Analysis of the Social Return on Investment (SROI) within the London Borough

$$SROI = \frac{\sum_{s/h=1}^{s/h=n} (NPV(stakeholder\_cashflows))}{NPV(investment)}$$



What is Social Value and how can it be measured?

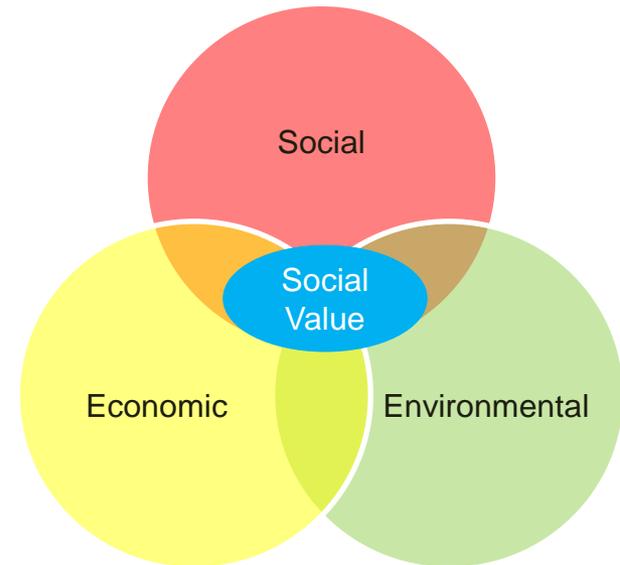
# What is Social Value?

There are a number of definitions for Social Value, but at its heart is a recognition that it concerns the balance between profit, planet and people.

**Social Value** refers to wider financial and non-financial impacts of programmes, organisations and interventions, including the wellbeing of individuals and communities, social capital and the environment.

From a business perspective it may be summarised as the net social and environmental benefits (and value) generated by an organisation to society through its corporate and community activities reported either as financial or non-financial (or both) performance

- *"As a concept, social value seeks to maximise the additional benefit that can be created by procuring or commissioning services, above and beyond the benefit of merely the services themselves"* - **The Social Value Act**
- *'A process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits to society and the economy, whilst minimising damage to the environment'* - **The Sustainable Procurement Task Force**



# Public Services (Social Value) Act 2012

The Social Value Act now requires all local authorities to take into account the additional social value when awarding services contracts

## The Social Value Act (The Act)

“An act to require public authorities to have regard to economic, social and environmental well-being in connection with public services contracts; and for connected purposes.”

## Why is the Social Value Act important?

- Social Value Act provides the Public Sector with an opportunity to create additional and targeted social value through their normal commissioning services
- The Act requires procurers to consider ‘value addition or contribution’ to the society on top of contractual obligations such as employing young offenders and providing apprenticeship opportunities.
- The Act provides Public Authorities with a means of engaging with business and their CSR activities



## Public Services (Social Value) Act 2012

CHAPTER 3

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Explanatory Notes have been produced to assist in the understanding of this Act and are available separately

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# How can Social Value be measured?

There is no agreed way to measure social value, rather it requires a combination of measurement strategies to assess direction and understand the ultimate impact delivered at a stakeholder level

- ❑ Measuring what matters is fundamental to capturing social contribution.
- ❑ The Social Impact Value Chain is central to impact analysis.
- ❑ Core inputs, activities, outputs, outcomes and impacts should be identified measured, monetised and valued across your services where:

## Measurement strategies

Measurement strategies may be broadly broken down into two categories; financial and non-financial reporting

- ❑ Financial for example
  - Social Return on Investment (SROI)
  - LM3 – Local economic benefits
  - Link to cashable savings (cabinet office)
- ❑ Non- Financial
  - Narrative reporting
  - Case studies
  - Non-financial data points (e.g. tCO2e saved, jobs delivered, carer hours)

- ❑ **Social Return on Investment (SROI)** is a framework for measuring and accounting for this much broader concept of value; it seeks to reduce inequality and environmental degradation and improve wellbeing by incorporating social, environmental and economic costs and benefits
- ❑ The Cabinet Office Guide emphasises that *"SROI is about value, rather than about money. Money is simply a common unit and as such is a useful and widely accepted way of conveying value"*.

$$SROI = \frac{\sum_{s/h=1}^{s/h=n} (NPV(stakeholder\_cashflows))}{NPV(investment)}$$

# Social Return on Investment (SROI)

SROI is a participatory method of understanding and quantifying social impact.

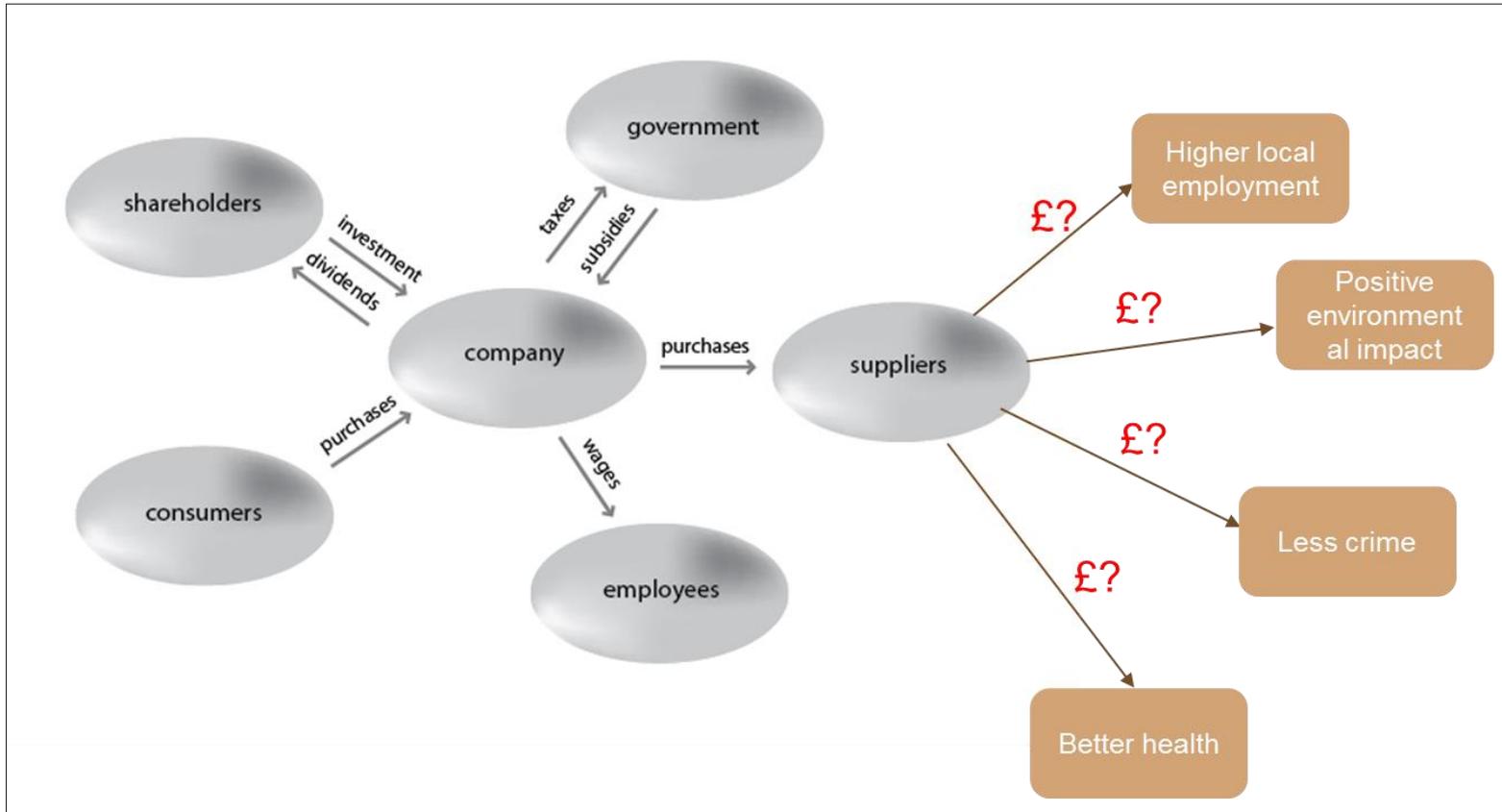
## Social Return on Investment

SROI is codified by SROI Network into a methodology that is used by the third sector and social enterprises to measure social impact and is based on 7 key principles

- 1. Involve stakeholders**  
Understand the way in which the organisation creates change through a dialogue with stakeholders
- 2. Understand what changes**  
Acknowledge and articulate all the values, objectives and stakeholders of the organisation before agreeing which aspects of the organisation are to be included in the scope; and determine what must be included in the account in order that stakeholders can make reasonable decisions
- 3. Value the things that matter**  
Use financial proxies for indicators in order to include the values of those excluded from markets in same terms as used in markets
- 4. Only include what is material**  
Articulate clearly how activities create change and evaluate this through the evidence gathered
- 5. Do not over-claim**  
Make comparisons of performance and impact using appropriate benchmarks, targets and external standards
- 6. Be transparent**  
Demonstrate the basis on which the findings may be considered accurate and honest; and showing that they will be reported to and discussed with stakeholders
- 7. Verify the result**  
Ensure appropriate independent verification of the account

# How is SROI assessed?

Key to developing a SROI is the mapping of business activities, development of financial proxies and stakeholder consultation



**Figure** - Key stakeholders and typical outcomes for an SROI assessment.

Case Study  
Social Return on Investment  
London Borough

# Understanding WMC's Business activities in London

We mapped WMC's core business and community activities in order to identify all possible impacts associated with the services, be they negative or positive.

## Methodology

- ❑ Workshops were conducted to:
  - Understand the expanse of waste collection services provided by WMC in London;
  - Identify key stakeholders and how they benefit and contribute towards effective delivery of the service and beyond;
  - Establish scope and boundary of the study for SROI assessment;
  - Several community initiatives by WMC and partnerships with charities were also identified as a means of engaging with the residents in London in order to deliver service; these were also included in SROI assessment;
  - Check assumptions for forecasts related to provision of services and running of community projects and their effect on the identified stakeholders for SROI calculations forecast.
- ❑ Financial data was collected for contributions and outputs for each stakeholder and input in the SROI model to calculate SROI for WMCs services in London.

## Scope and Boundary of SROI assessment

- ❑ Total waste collection as per budgeted tonnage for calendar year 2013
- ❑ The assessment is for waste collected in the year 2013 and 5 years onwards i.e. until 2018
- ❑ The assessment measures absolute social return. This reflects the total impact of an organisation and is appropriate for mainstream businesses.
- ❑ Outcomes are evaluated wherever they occur (global) and not just locally e.g. carbon impacts of transportation or landfill can not be quantified just locally.
- ❑ Waste accepted from third parties is excluded from the assessment
- ❑ Clinical waste is excluded as the amount is too small to affect the larger business activities and because it is treated offsite

# What is Social Value? (continued)

Measuring and managing what matters – an example of ‘impact value chain’

Organisation’s planned work		Results of the organisation’s activity		
Inputs	Business Activities	Outputs	Outcomes	Impact
The resources that you need to deliver the service e.g. time, money, equipment	The things that you do to effect some sort of change in the community or the environment	Your service in deliverables and actual products from the activity	The result of the activity for a given stakeholder	The financial equivalent of the outcome
Investment of money and time	Waste collection services	Bins collected	Cleaner streets, re-offenders employed	Greater resident security (a financial proxy)
Investment of money and time	MRF	Recyclables sorted and sold to processors	Less material to landfill	Lower landfill tax
Time spent on community projects	RePaint	Paint exchanged	Residents get free paint	Paint valued at £1 per litre

**Figure** – Extract of Social Impact Mapping Analysis

# Waste Management Services in London Borough

Below is a diagrammatic representation of the waste collection and treatment services in the London Borough provided by WMC

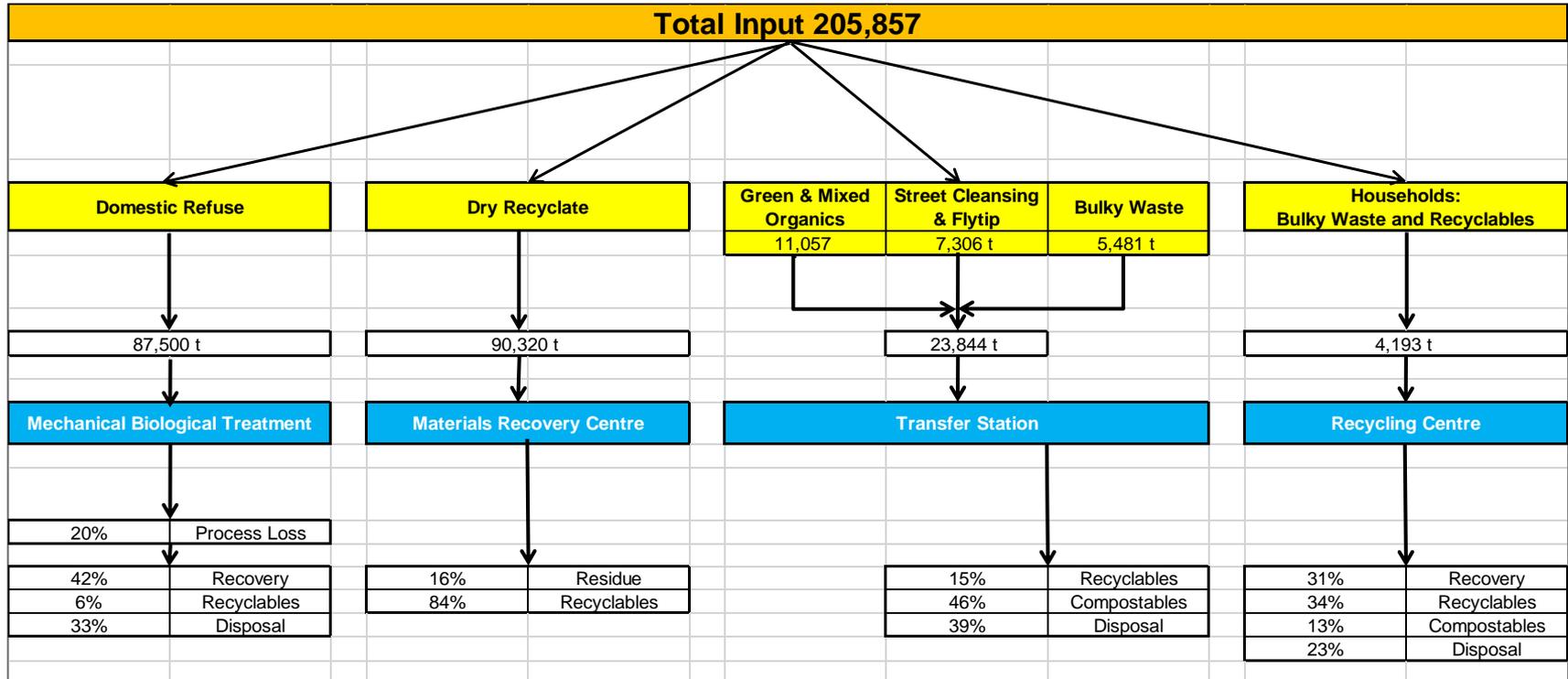
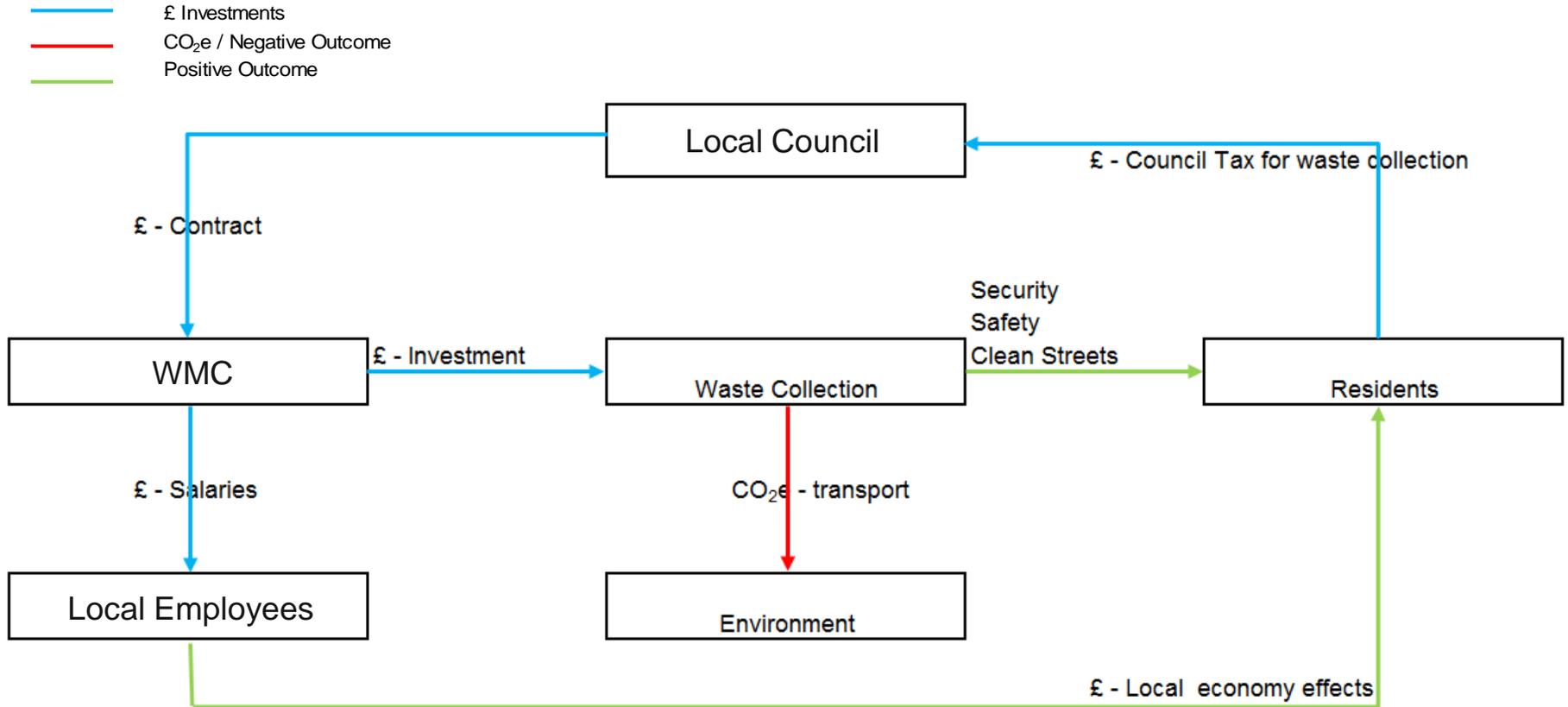


Figure - Waste Flows within London Borough

# Measuring and managing what matters

The flow chart below shows the impact value chain for waste collection services in the London Borough. Associated impacts and outcomes have been identified.

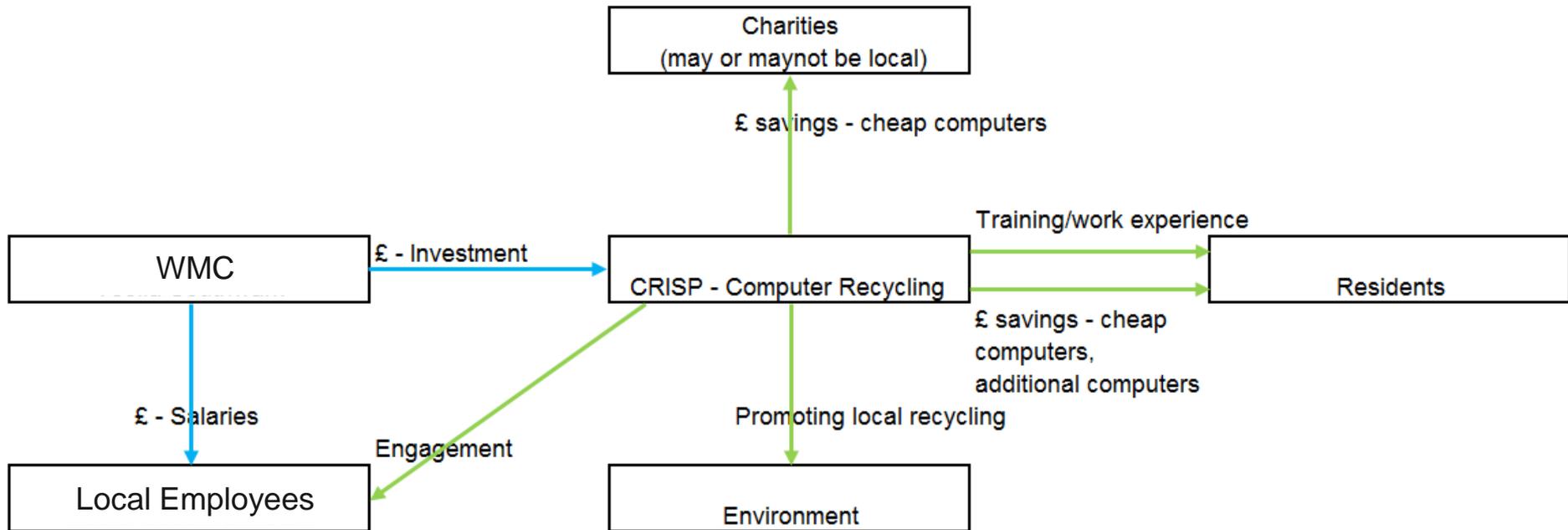


**Figure** - The flow chart for waste collection services shows key stakeholders who invest and benefit from the service with respect to the impacts generated as a result of the service such as CO<sub>2</sub>e to the environment and local economy effects to the residents.

# Measuring and managing what matters

Below is an example of impact value chain for a community project CRISP where the WMC has partnered with the charity to not only divert waste from landfill but also provide cheaper computers to local residents

- £ Investments
- CO<sub>2</sub>e / Negative Outcome
- Positive Outcome



**Figure** - Example of partnership with the charity CRISP that refurbishes old computers and sells them for less to charities, local business and low income residents. The stakeholders have been identified to show inputs and outputs from all stakeholders to assess benefits and losses.

# Assumptions

A number of important assumptions were made in order to conduct the SROI assessment.

## ❑ Population

- 1 % increase in population every year

## ❑ Revenue

- Unitary charge – 3.5% increase every year
- Additional charges – 3.5% increase until 2016 and reduces to £ 2m 2017 onwards
- Council tax payments by residents to increase 3.5% - adjusted to inflation
- 13% residents are not liable to pay council tax

## ❑ Waste Collection/Treatment

- 1% increase every year
- From 2017, contractual expectations are that 60,000 tonnes of waste will be sent to an ERF
- Waste sent to landfill increase by 1% until 2016 and decrease substantially due to contractual obligations in 2017

## ❑ Discount Rates

- The default discount rates were all set as 12% which is a typical private sector cost of capital figure. The variations are:
  - The 3.5% figure for individuals and social groups as suggested by government figure HM Treasury Green Book for assessing the impact of social policies
  - The 0% for the environment reflects the fact that the impact of environmental issues does not decline with time. This reflects how much the future is valued.

## ❑ Non- Financial Proxies

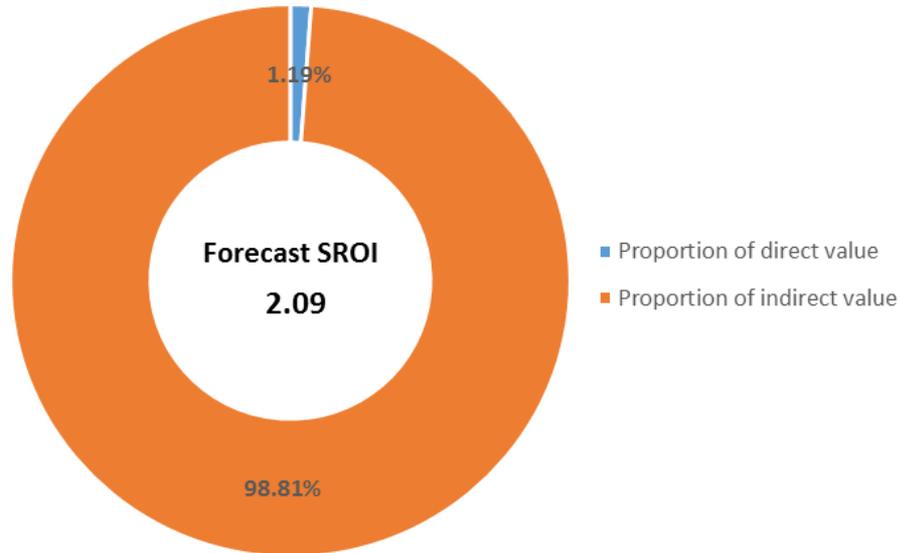
- Resident security measured in terms of counselling sessions required to achieve the same state of mind in the absence of collection
- Resident commitment and engagement measured in terms of the number of calls avoided as a result of the activity
- Staff engagement measured in terms of days' absence avoided.

# SROI Case Study – Waste Management Company (WMC)

WMC delivers £2.09 worth of Social Value to the London Borough for every £1 spent.

## Social Return on Investment

- ❑ WMC delivers £2.09 Social Value for every £1 spent from both its core business and community activities
  - £2.06 for the core business activities
  - £28.05 for community activities
- ❑ Community activities represent approximately 1% of the overall social value flow generated by the WMC in the LB
- ❑ Assumptions
  - ❑ Investment period 5 years
  - ❑ Cost of money assumed to be 12%
  - ❑ Discount on Carbon 3.5%

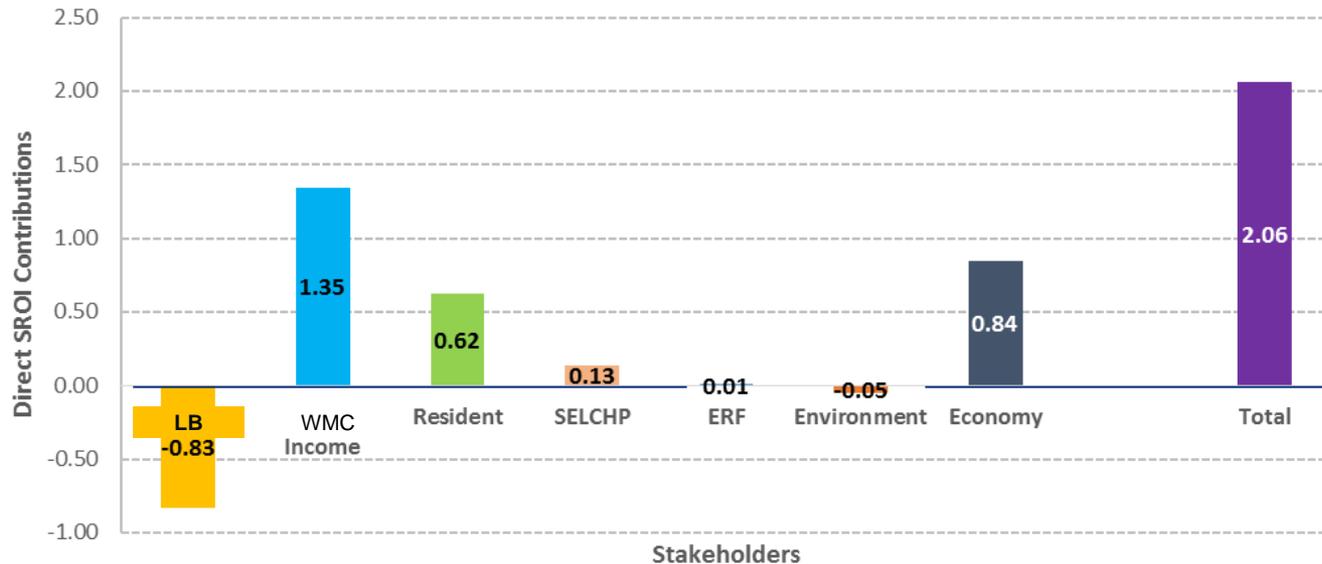


**Figure** - Proportion of direct and indirect SROI contributions of stakeholders.

# SROI Case Study – Waste Management Company

The forecast SROI contribution of each stakeholder directly associated with the provision of the waste collection service

- ❑ The direct beneficiaries of the service are WMC, the residents of the Local Borough and the economy.
- ❑ The Local CHP (LCHP) and Environmental Recycling Facility (ERF) also benefit from WMC’s services in the London Borough owing to steady supply of fuel to run the plant and recovery of electricity and heat which is then distributed to the National Grid and low income residents locally, respectively.
- ❑ The London Borough may be financially at loss but at a social level i.e. residents and economy show a positive return on investment.
- ❑ Environment is at loss despite the provision of waste collection and treatment service specifically diversion of useful material from the landfill and recirculating it back into the market. However, it is important to note that the magnitude of this loss is relatively small compared to landfill and the fact that all useful and virgin materials are recirculated in the market.

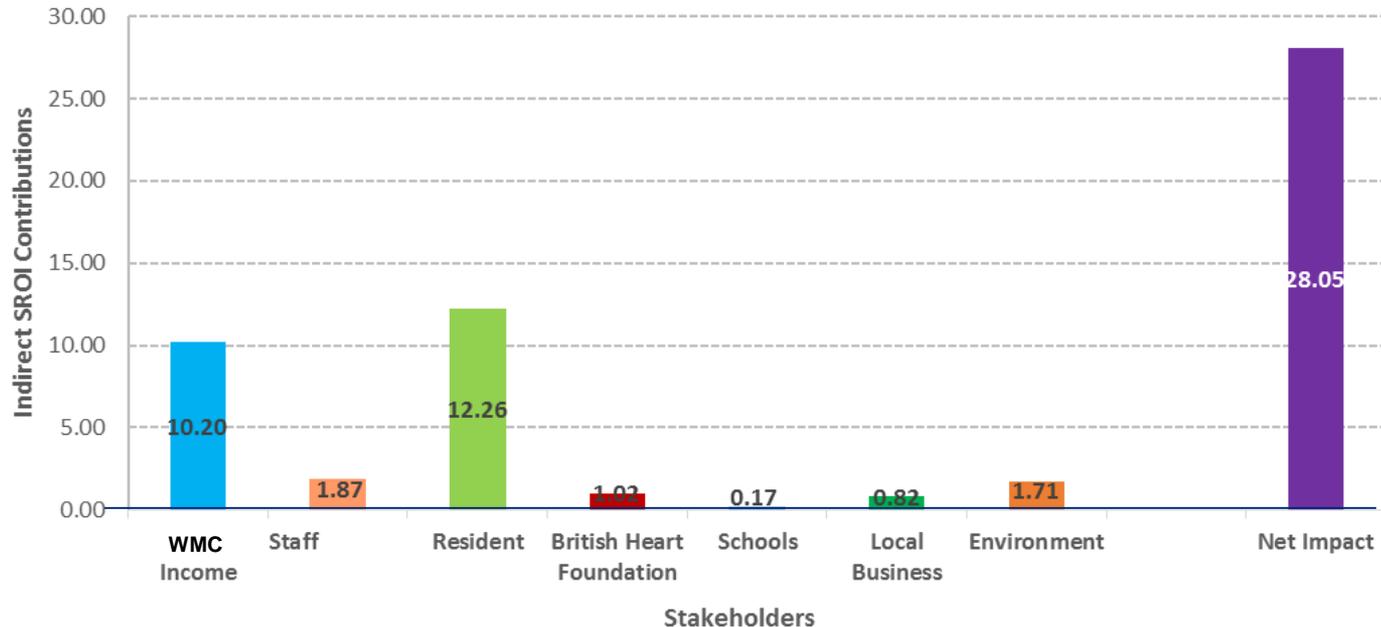


**Figure** - Forecasted SROI contribution of stakeholders directly involved with waste collection and treatment services in LB.

# SROI Case Study – Waste Management Company

Total Social Return on investment for community project that benefit indirectly from the core business

- ❑ WMC and the residents of the London Borough are the key beneficiaries as all social initiatives for the community and indirectly improve WMC’s business through low absenteeism rate of employees, fewer complaint calls received, fewer people seeking counselling as a result of increased wellbeing; residents benefit from a better quality of life i.e. low income residents receive extra support form the community through the provision of reusable household items – furniture, bikes, computers, children have been given access to additional learning tools at a learning centre.
- ❑ It is of interest to note that the environment will also become a beneficiary in the forecasted future due to reduced demand for new and virgin materials.



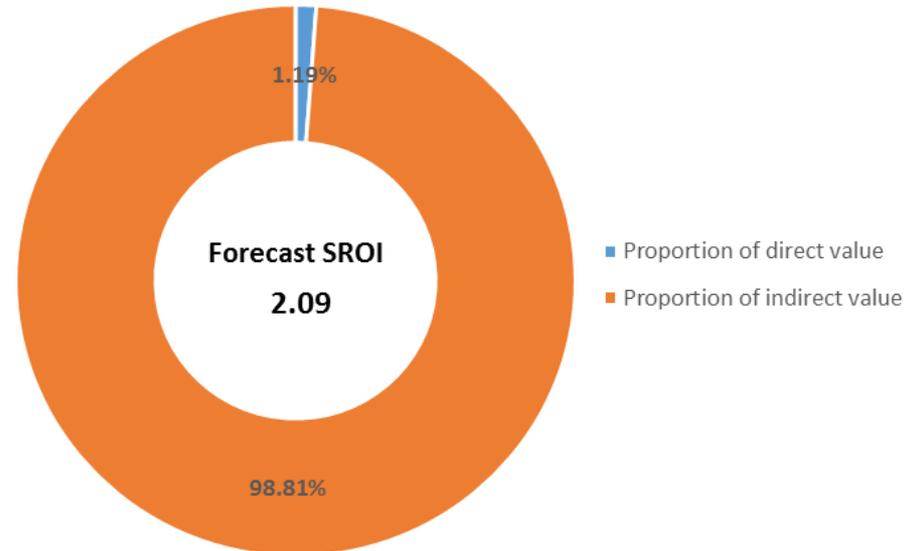
**Figure** - Forecasted SROI contribution of stakeholders indirectly involved with waste collection and treatment services in LB

## Key Findings

If Business can put 'Social Value Creation' at the centre of their core activities they will be able to deliver transformational change to Society

### Lessons Learned

- The WMC delivers £2.09 of social value for every £1 spent by the London Borough for its waste management services
- Community projects deliver almost £30 in social value for every £1 sent and dramatically outperforms the core business activities in delivering social value. This is not surprising given that 'society' is at the centre of their conception.
- Where Business can link their core business activities to a community multiplier by placing 'Social Value' at the centre of their activities, then real and transformational impact will be achieved.
- SROI is not a perfect measure and requires a range of assumptions, nor is it 'absolute'. However, it can prove a very useful tool in assessing 'direction' and 'relative scale' of impact



**Figure** - Proportion of direct and indirect SROI contributions of stakeholders.



# Sustainable Business Partnership

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