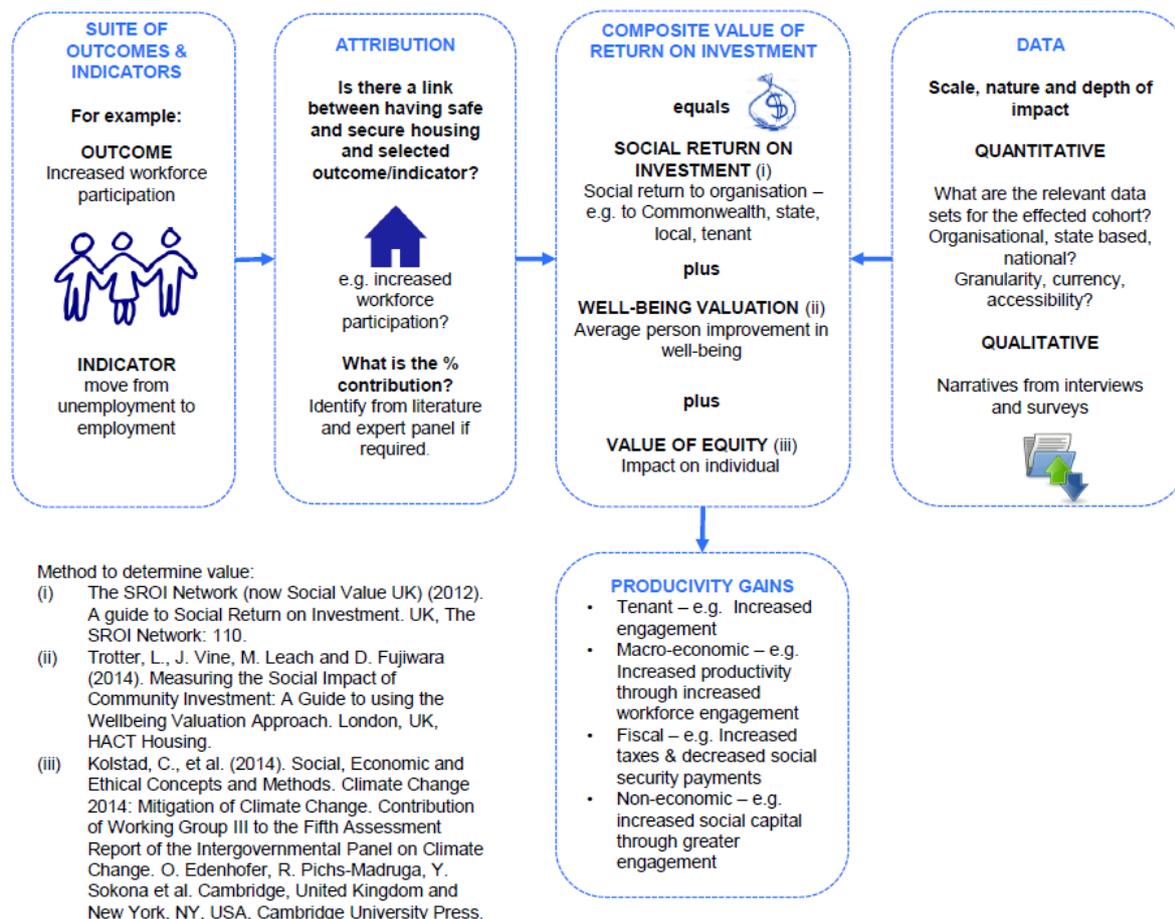




**COMPOSITE APPROACH TO RETURN ON INVESTMENT**

**Aim:** To establish a robust methodology for valuing the return on investment of providing social housing, in order to build the case for on-going investment. This is one element of our proposed *strategic evaluation framework* as illustrated below.



**Why a composite approach:** It is proposed that a single method does not capture the complex nature of the value returned to society and the individual of having access to safe and secure housing. Three elements are proposed to address this complexity. These could be used in parallel to understand and articulate the broad value the provision of social housing. This composite approach also embraces the productivity-based conceptual framework developed in our previous research<sup>1</sup>, where four aspects of productive return are considered: individual; macroeconomic; fiscal; and non-financial.

**Element 1 – Social Return on Investment (SROI)** - used to provide a ratio of impact to \$s input and/or an aggregated dollar return on investment for defined *benefits to society* which may accrue from the provision of social housing. This is determined through: identifying key outcomes, indicators, and impacts; establishing financial proxies for these; and determining a dollar value for this benefit. A detailed guide to this methodology is available and the Social Value UK website<sup>2</sup>.

<sup>1</sup> <http://www.sbenrc.com.au/research-programs/1-31-rethinking-social-housing-effective-efficient-equitable-e3/>

<sup>2</sup> <http://www.socialvalueuk.org/resources/guide-to-sroi/>

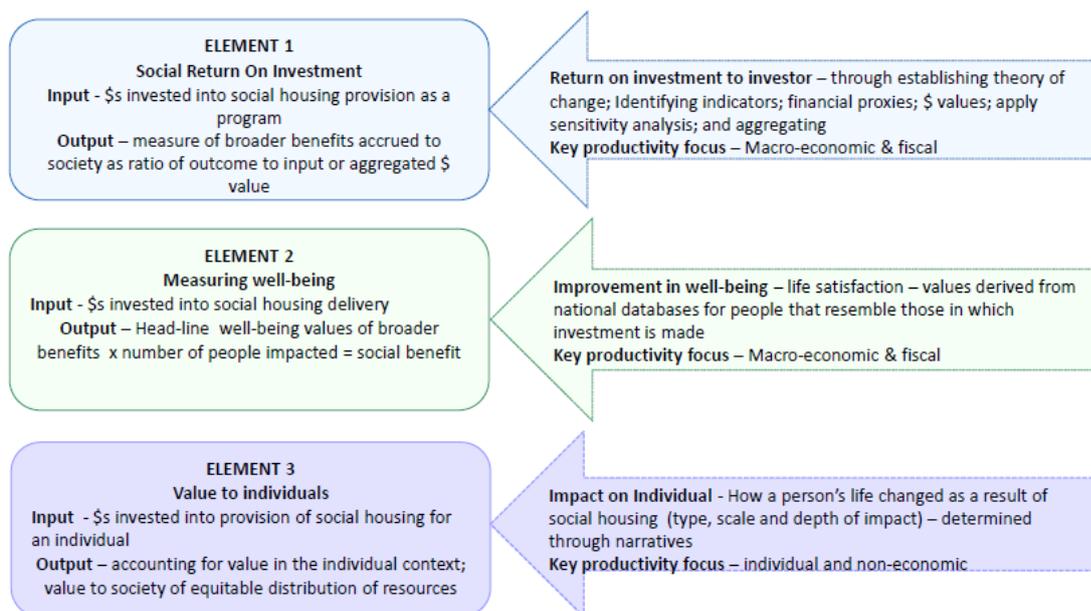


Element 2 – Measuring well-being - The OECD have been developing an approach to measuring well-being for several years. In the UK, a well-being valuation analysis method has been developed for community housing associations to measure the impact of their investment in terms of well-being. This method addresses the **impact on an average person’s well-being** of the broader non-housing benefits of access to safe and secure housing, and placing a dollar value on these. On-line UK-based tools are available for community housing providers<sup>3</sup> to undertake this analysis.

Element 3 – Value of equity / Value to the individual - individual narratives can be used to understand the **value to the individual** of both the housing and non-housing benefits of safe and secure housing. The value a person places on a given amenity such as a home (or a job) varies dependent on their life situation. Comparing, understanding and aggregating the value different people place on such social infrastructure can lead to understanding the broader value to society of provide more equitable access to such resources. Published work by the International Panel for Climate Change provides the grounding for future research on this third element<sup>4</sup>.

Figure 1 illustrates how value can determined by using three different methods, providing examples, available tools and the kind of data required to support this approach.

**Figure 1 – Composite approach to return on investment**



**ELEMENT 1 - SOCIAL RETURN ON INVESTMENT ANALYSIS (SROI)**

**Use:** establishes financial proxies for key indicators along with valuations for impacts. These can then provide a total \$ value for the social return on investmentcan from which a ratio of inputs to impacts

<sup>3</sup> <http://www.hact.org.uk/social-value-bank>

<sup>4</sup> Kolstad, C., K. Urama, J. Broome, A. Bruvoll, M. C. Olvera, D. Fullerton, C. Gollier, W. M. Hanemann, R. Hassan, F. Jotzo, M. R. Khan, L. Meyer and L. Mundaca (2014). Social, Economic and Ethical Concepts and Methods. Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change. O. Edenhofer, R. Pichs-Madruga, Y. Sokona et al. United Kingdom and New York, Cambridge University Press.



can be derived. For example, the Victorian Woman's Housing Association delivers \$3.14 of social value for every \$1.00 invested<sup>5</sup>.

**Determined from:** organisational data for establishing scope; identifying stakeholders; mapping relationship between inputs, outputs and outcomes; data to support outcomes and valuing this; establishing impact (e.g. excluding what would have happened anyway); summing the benefits, subtracting the negatives and comparing the result to the original investment (various sensitivity analyses can be applied here); reporting and using results.

**What does this give us:** can be used to evaluate past investments or forecast future investment returns across housing and non-housing outcomes for providing safe and secure housing.

**Key issues:**

- Identifying the *scope* of the analysis and the appropriate *indicators*.
- *Attribution* - need to understand the extent to which non-housing outcomes can be attributed to the provision of i.e. percentage attribution. A follow-on discussion paper will address this.
- Gathering *data* across the nine domains on change, duration of change, appropriate financial proxies.
- Identifying financial proxies for each indicator and assigning \$ values - in the UK the HACT Social Value Bank can assist with this - <http://www.hact.org.uk/social-value-bank>
- *Deadweight* and *Drop-off* - what would have happened anyway and does the outcome drop off over time

**Process:** see Social Value UK<sup>6</sup>. There are several accredited organisations in Australia who can undertake SROI analysis. NSW FACS is also developing a method paper.

**Data sources:** national and state datasets, questionnaires, surveys, interviews

## **ELEMENT 2 - MEASURING WELL-BEING**

**Use:** The Organisation for Economic Co-operation and Development (OECD) has been actively developing methods and guidelines for several years around the measurement of well-being<sup>7</sup>. This relates to 'how people experience and evaluate their life as a whole'<sup>8</sup>. They have established eleven dimensions related to material conditions and quality of life being (Figure 2)<sup>9</sup>. In the UK, a well-being valuation methodology, specifically developed for community housing providers, has been developed to enable them 'to measure the success of a social intervention by how much it increases a person's well-being'<sup>10</sup>.

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<sup>5</sup> Kliger, B., Large, J., Martin, A. & Standish, J. 2011. How an innovative housing investment scheme can increase social and economic outcomes for the disadvantaged. State of Australian Cities. Sydney, Australia: UNSW.

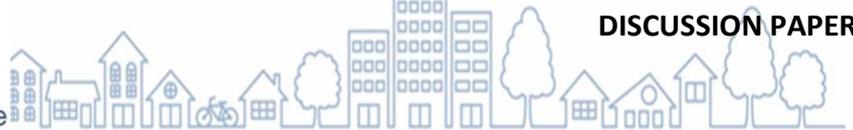
<sup>6</sup> <http://www.socialvalueuk.org/resources/guide-to-sroi/>

<sup>7</sup> <http://www.oecd.org/statistics/measuring-well-being-and-progress.htm>

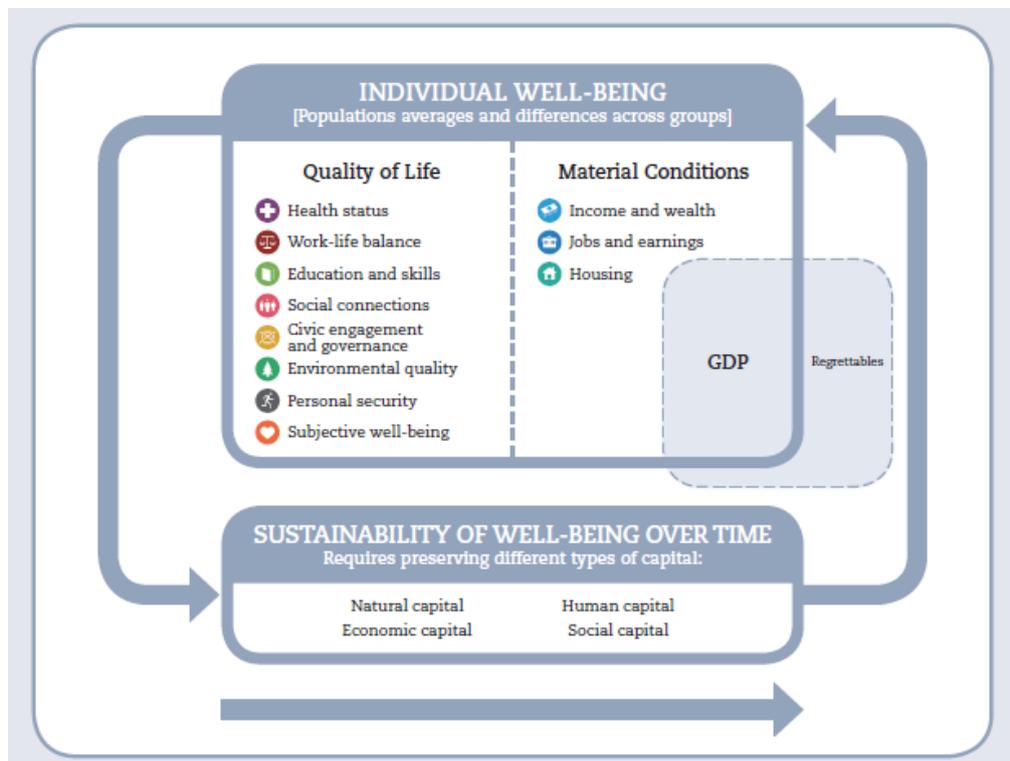
<sup>8</sup> Organisation for Economic Co-Operation and Development 2013a. OECD Guidelines on Measuring Subjective Well-being. OECD Publishing.

<sup>9</sup> Organisation for Economic Co-operation and Development 2013. Measuring well-being and progress. Paris, France: OECD.

<sup>10</sup> Trotter, L., Vine, J. & Fujiwara, D. 2015. The health impacts of housing associations' community investment activities: Measuring the indirect impact of improved health on wellbeing An analysis of seven outcomes in the Social Value Bank. In: SIMETRICA & HACT (eds.). UK.



**Figure 2 - OECD Framework for Measuring Well-Being and Progress**



**Determined from:** The OECD well-being work is captured in the *Better Life Index*. This interactive web-based tool provides a potential template for bringing together data gathering for our framework in an accessible way. Extending this approach, the UK-based *Well-Being Valuation (WV)* analysis works on the basis of ‘finding from the data the equivalent amount of money needed to increase someone’s wellbeing by the same amount’<sup>11</sup> (Trotter, Vine et al. 2014). Community housing providers in the UK can access the *Social Value Bank*<sup>12</sup> (drawing on data from four national datasets) to undertake a valuation of their social impact. A *Value Calculator*<sup>13</sup> is available for download from HACT UK for this purpose.

**What does this give us:** WV analysis for the UK community housing sector provides headline well-being values for specific financial proxies for improvement in individual well-being for the average person based on their access to community housing.

**Key issues:**

- Ready access to data and values to undertake such an analysis. The UK tool is based on ‘most popular community investment activity related outcomes’.
- Resources to build equivalent tools for Australia using the OECD guidelines to enable international comparison.
- Represents the average person rather than member of cohort likely to need social housing, especially where residualised.

<sup>11</sup> Trotter, L. & Vine, J. 2014. Value calculator. March 2014 ed. London, UK: HACT.

<sup>12</sup> <http://www.hact.org.uk/social-value-bank>

<sup>13</sup> <http://www.hact.org.uk/value-calculator>



- Chapter 3 of the Intergovernmental Panel on Climate Change<sup>14</sup> provides a discussion on temporal and lifetime well-being which may contribute to this aspect of our research.

**Process:** Needs to be established for an Australian context, drawing on national and state databases. Ideally accessible in a similar way to other on line resources such as: HACT UK Value Calculator; the Global Value Exchange<sup>15</sup>; and the OECD Better Life Index tool and web-site<sup>16</sup>.

### **ELEMENT 3 – VALUE OF EQUITY / VALUE TO THE INDIVIDUAL**

**Use:** This is twofold: (i) to determine and account for the nature of the *impact on an individual* (type, scale and depth); and (ii) articulate the value to society of improving the quality of life for all.

*type of impact*—the nature of the impact(s) on each person or organization - as outputs or outcomes  
*scale of impact*—the number of people or organizations affected  
*depth of impact*—the amount or intensity of change experienced, per type of impact, per person affected - i.e. change in subjectively experienced well-being<sup>17</sup>

**Determined from:** (i) qualitative narratives to be gathered, via housing providers, commissioned reports, interviews, surveys and case studies and the like (facilitated by the use of mobile technologies for data gathering); (ii) further theoretical research would also be required to explore concepts presented in the IPCC report by Kolstad et al., and issues of *distributive justice* and *differential value*.

**What does this give us:** This would provide a further important dimension a composite view to return on investment, capturing knowledge and data relevant to the impact on individual outcomes, for specific circumstances (e.g. abilities, point in time etc) and in given locations. This would also provide an avenue to compare one person's well-being with another. Kolstad et al. (2014) discuss this method, which aggregates a person's well-being at a point in time to create *lifetime wellbeing* for individuals which can then be aggregated across people to determine an overall value to society. This is contentious but Kolstad et al. further explore this to consider the idea of distributive justice i.e. that equality of wellbeing does have value<sup>18</sup> leading to the ethical theory of prioritarianism i.e. 'improving a person's well-being contributed more to social welfare if the person is badly off than if they are well off' (Figure 3). Further to this 'prioritarianism indirectly gives value to equality: it implies that a given total of wellbeing is more valuable the more equally it is distributed' (Kolstad, Urama et al. 2014).

*'Once we have a lifetime wellbeing for each person, the next step is to aggregate these lifetime wellbeings across people, to determine an overall value for society. This involves comparing one person's wellbeing with another's... Utilitarianism gives no value to equality in the distribution of wellbeing: a given total of wellbeing has the same value however unequally it is distributed among people. But the idea of distributive justice ... suggests that equality of wellbeing does have value....The resulting ethical theory is called prioritarianism. As*

<sup>14</sup> Kolstad et al. (2014). Social, Economic and Ethical Concepts and Methods. Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change. Edenhofer et al. United Kingdom and New York, Cambridge University Press.

<sup>15</sup> <http://www.globalvaluexchange.org/news/b07bcb501c>

<sup>16</sup> <http://www.oecdbetterlifeindex.org/#/11111111111>

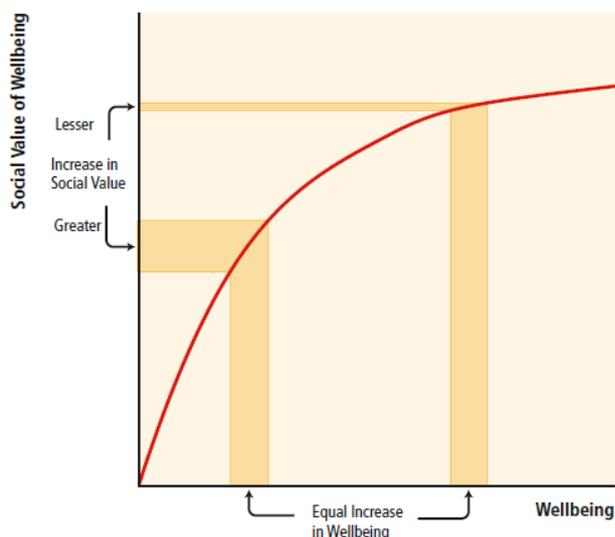
<sup>17</sup> McCreless, M. & Trelstad, B. 2012. A GPS for Social Impact: Root Capital and Acumen Fund propose a system for program evaluation that is akin to GPS Stanford Social Innovation Review.

<sup>18</sup> Kolstad et al.



Figure 3.1 shows, according to prioritarianism, improving a person's wellbeing contributes more to social welfare if the person is badly off than if they are well off (pp. 222-223)

Figure 3.1 - The prioritarian view of social welfare. The figure compares the social values of increases in well-being for a better-off and worse-off person. (Kolstad, Urama et al. 2014)



'The effect of a change on the person's wellbeing is the monetary value of the change multiplied by the rate at which money contributes to the person's wellbeing. This rate is the marginal benefit of money or marginal utility of money to the person. It is generally assumed to diminish with increasing income ... In sum, the effect of a change in social value at a particular time is calculated by aggregating the monetary value of the change to each person, weighted by the social marginal value of money to the person, which is the product of the marginal benefit of money to that person and the marginal social value of their wellbeing (Fleurbaey, 2009). Since the marginal benefit of money is generally assumed to diminish with increasing income, the marginal social value of money can be assumed to do the same. (pp. 227-228)

Please refer to Section 3.4 Values and Well-being for a more detailed explanation.

#### Issues:

- Resources required to gather, analyse and communicate information and data. Tools such as Lean Data<sup>19</sup> might provide insights into cost effective, individualised data gathering.
- How best to capture the complexity of this data but present in a manner which informs policy and delivery.

**Process:** Surveys, interviews and case studies to build narratives. Using traditional tools for qualitative data gathering such as coding, enhanced by new data gathering and integration methods.

**Resources:** see additional references In Kolstad et al; OECD work on *inclusive growth* may also be of relevance<sup>20</sup>.

<sup>19</sup> [http://ssir.org/articles/entry/the\\_power\\_of\\_lean\\_data](http://ssir.org/articles/entry/the_power_of_lean_data)

<sup>20</sup> Organisation for Economic Co-Operation and Development 2015a. All on board: Making inclusive growth happen. Paris, France.