



Manifesto

April 2015

SOCIAL VALUE UK

Why do we need a Social Value Manifesto?

Inequality should be the defining issue of this election. A smaller percentage of the super-rich control an increasing share of wealth, pulling up the ladder behind them. A growing number of people live on low and irregular wages topped up by state subsidies. Inequality is getting worse and we need a new solution, other than relying on increasing economic growth or increasing taxes.

We believe that one of the root causes and potential solutions to inequality lies in the extent to which organisations – businesses, charities and public sector, can be held to account for how their actions create or destroy value for different groups of people.

This is why we are campaigning for a world where both financial and social value matter.

Public and private organisations are channels through which people organise together to create value. The way in which this value is usually accounted for through financial accounting. Methods of accounting for traditional financial value have been finely tuned and highly developed over the last two centuries. The reason these methods are so widely used is that they work - they provide investors with good enough information on business performance to unleash the levels of investment and capital which underpin our global economy.

However, financial accounting is a fairly limited system which recognises value by reference to the information needs of current or future investors. This is because these investors can hold the organisation to account for its actions by divesting their money. Inevitably this means that the effects of organisations on people who have no or little ability to hold organisations to account for these effects risks being ignored. As a result, decisions to allocate resources based on financial accounting will tend to omit effects on other people, leading to increased inequality and environmental degradation whilst generating profits for a few.

It is possible to change this.

By increasing the accountability of organisations, we can make resource allocation decisions that still create financial value but also on balance create more social and environmental value. We can do this within the existing framework for financial accounting, with additional changes in public policy as stated in the Companies Act. These changes will then drive changes in investor and organisation behaviour.

This manifesto sets out these changes. We need to push this agenda forward and be more vocal about the political and potentially revolutionary consequences that measuring social value could have on the world. Until companies take more accountability for their actions, there will be limited scope for improvement. This is more likely to happen if social value measurement and reporting organisations shout louder about accountability.¹ Organisations have consistently resisted increasing expectations for them to become accountable. Investment and returns have consistently increased nonetheless.

The issues here are not new. However our solution takes a different approach and focuses on public policy more than in changing accounting practice or in adding new information.

¹ For more reading on this theme, see [People, Power and Accountability](#) (Jeremy Nicholls, SSIR), [Why Impact Measurement is all about Power and Money](#) (Tris Lumley, Pioneers' Post), [Transforming Our Anti-Social Sector](#) (Tris Lumley, SSIR)

Information on social and environmental impacts in the strategic report a of company's annual report should be audited

Companies (excluding small companies) are required to provide information on social and environmental issues in the strategic report section of their annual reports.

The completeness and accuracy of this information is the responsibility of the directors, and is not audited except in so far as anything comes to light in the course of the audit of the financial accounts.

Investors could not rely on financial accounts to make decisions without an audit. It is this audit that provides investors with assurance that information included in the report is accurate, which is fundamental to their decision making.

It follows that investors will only rely on information on social and environmental impacts when it is audited – when they know the information included is material,

complete and accurate. Then they will be able to take this information into account when making investment decisions.

This auditing of social and environmental information is possible and is already being done on a voluntary basis.¹

Recommendation

The UK government should change Companies Act legislation to require an independent assurance service to be applied to social and environmental information in the strategic report.

¹ For more information about this, see [The Perfect Blend of Commercial and Social](#) news story on our website, or read the example of an integrated report [here](#).

Change the basis on which financial accounts are prepared: True and Fair should mean what it says

Section 393 of the Companies Act currently states that the accounts of a company are required to give a 'true and fair view'. In current accounting practices, that view is interpreted as being from the perspective of a hypothetical, wealth maximising investor. What is 'true and fair' for this investor is anything which maximises profits and therefore their return on investment.¹

This view is not based on the behaviour of actual investors. It is an assumed motivation. Investors are interested in other issues besides financial returns, for example they don't want those returns to be generated at the same time as using child labour. We therefore need a better, more accurate assumed investor.

More importantly, as a society we can determine the motivations of this assumed investor, on whose behalf accounts are prepared, in any way we like - one that better reflects individual investors and wider public interest for example. Changing this would change the information that was included (and valued) in financial accounts. This

additional information would not necessarily need to have the same level of rigour in being identified, quantified and valued.

Some of these ideas are already being explored by some companies such as [Holcim](#) and [Puma](#), who are including extra impact data as a Social Environmental Profit and Loss statement, in addition to their financial statements.

Recommendation

The UK government should legislate to ensure that company accounts are prepared to be 'true and fair' on the basis of what is of interest to an investor that seeks financial return subject to a reasonable level of assurance that social and environmental impacts that the business contributed to are included in the accounts.

¹ For more reading on this, see [Taking Account of Moral Issues](#) (Jeremy Nicholls and Kate Ruff, ICAS).

Change directors' responsibilities to improve social and environmental performance

Currently directors are responsible for including information about the impact of the company's business on the environment, and social, community and human rights issues. These responsibilities should be extended, to also demonstrate how their organisation is managing and planning to increase positive and reduce negative social and environmental impacts. Making this part of directors' responsibilities will strengthen the legal requirements for directors to act on the organisation's impacts.

Section 172 of the Companies Act states that:

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to-

- (a) the likely consequences of any decision in the long term,
- (b) the interests of the company's employees,
- (c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly as between members of the company.

In combination, the current legislation indicates that directors should act in a way to ensure a Company's success, whilst having regard for the social and environmental impact, and should include information about what they are doing to manage this impact. Under the changes we are proposing, "having a regard" would not be good enough. Directors would need to be clear on what they are doing to improve things.

Recommendation

The UK Government should change Directors responsibilities from 'having a regard' to 'seeking to improve'.

Conclusions

We believe that these three changes:

1. Introducing a compulsory audit on social and environmental impact information
2. Changing the assumptions under which financial accounts are prepared
3. Increasing the extent of directors responsibilities to include the obligation to improve their environmental and social performance

would fundamentally alter the way in which resource allocation decisions are made in this country. Whilst this subject does not necessarily make headlines, it will be systemic changes like these that will result in less inequality and more social justice, and a better society for all.

For more information about any of these ideas or campaigns, please get in touch by emailing Christina Berry-Moorcroft: christina.moorcroft@socialvalueuk.org.