NEW METHODS IN VALUATION

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Why valuation?

- Valuation is important because it allows organisations to:

    i. Choose between different options (**relative appraisal**)

    ii. Assess the merit of a single option – do benefits exceed costs (**absolute appraisal**)

What is value?

- Underlying concept of *value* is **subjective**.

- Monetary representation of a change in **wellbeing** ('utility') associated with a good or service (WTP and WTA).

- We are interested in subjective value from the point of view of your **stakeholders**

Defining wellbeing

- To measure value we need to measure wellbeing.
- Two main measures of wellbeing:

1. Preference satisfaction (traditional approach).
We can judge what is good for people's wellbeing by looking at what decisions they make.

2. Subjective wellbeing.
People report their level of wellbeing or 'happiness' in a survey. We can judge what is good for people's wellbeing by looking at what affects or determines their wellbeing.

Measuring value: Preference satisfaction

- **Revealed preference techniques.**

Value is assessed by looking at people's choices and behaviour in actual markets - eg, housing market.

- **Stated preference method**

Value is assessed by asking people their WTP or WTA in surveys.

- Problems:

  - People may not have well-defined preferences

  - Markets don't work well

  - People make wrong choices and can't attach monetary values

New methods for measuring value: Wellbeing valuation (WV) approach

- Usually use a global measure of wellbeing such as **life satisfaction (LS)**.

Example

- Living in a safe area increases LS by 1 index point.

- What is increase in income needed to also increase LS by 1 point? (£2,000)

- Then the value of living in a safe area = £2,000
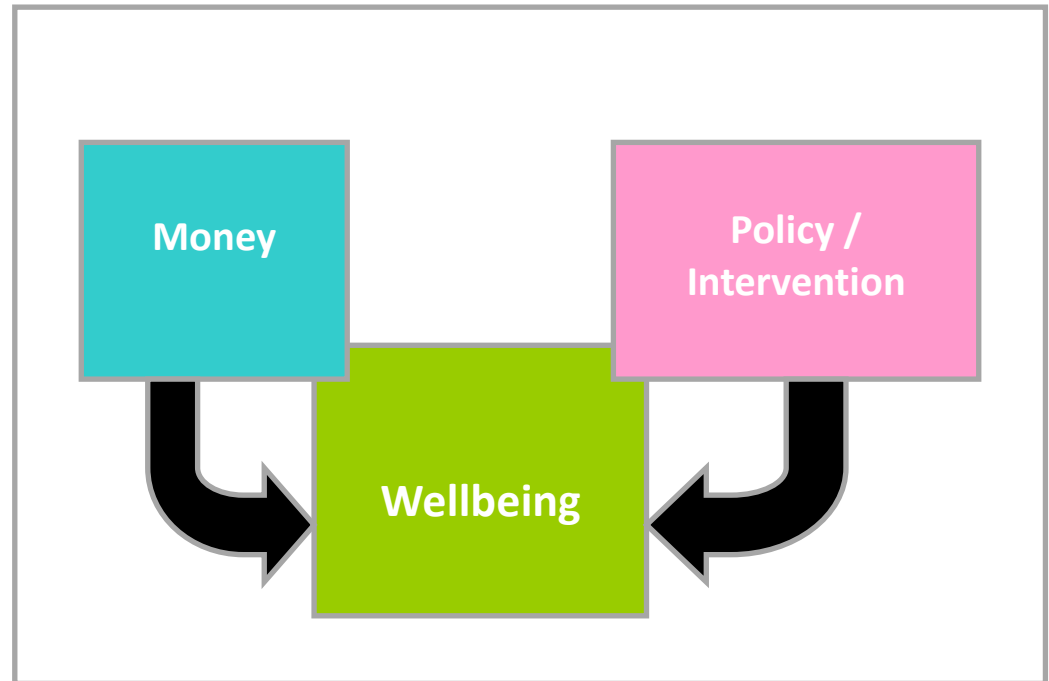
Wellbeing valuation in action

- **Coefficients** show the effect on wellbeing of the determinant variable.

- £1 of income leads to a 0.00003 index-point increase in LS.

- Living in safe area leads to 0.04 index-point increase in LS.

- Monetary value estimated as the **ratio of coefficients.**

- Value of living in safe area = 0.04/0.00003 = £1,200.

Shows effect on wellbeing of an increase in income

Shows effect on wellbeing of living in a safe area

Determinant of wellbeing	Coefficient	Standard error	P-Value	Value
Income	0.00003	7.26E-06	0.063	
HH size	-0.05134	0.0175238	0.003	-£1,711
Unemployment	-0.13220	0.0329485	0	-£4,407
Retired	0.29220	0.049708	0	£9,740
Student	0.02723	0.0434	0.53	£908
Male	-0.07333	0.0152815	0	-£2,444
High education	0.09885	0.0654781	0.131	£3,295
Good health	0.09114	0.0301683	0.003	£3,038
Married	0.19607	0.028198	0	£6,536
Divorced	-0.25446	0.0429041	0	-£8,482
Widowed	-0.25877	0.0787251	0.001	-£8,626
Seperated	-0.49150	0.0616202	0	-£16,383
Own house	-0.04334	0.0345594	0.21	-£1,445
Good social relationships	0.29818	0.0057069	0	£9,939
North England	-0.00662	0.0399095	0.868	-£221
Midlands	0.00906	0.0298516	0.762	£302
Wales	-0.11413	0.0547237	0.037	-£3,804
Scotland	-0.07526	0.0352845	0.033	-£2,509
N. Ireland	-0.01243	0.0442148	0.779	-£414
Carer	-0.14099	0.041895	0.001	-£4,700
Living in safe area	0.03628	0.0198234	0.067	£1,209
Age	-0.00463	0.0008355	0	-£154
Constant	4.95852	0.3011054	0	

Purposes and audience of wellbeing valuation approach

- WV can be used to estimate the value of anything for which we have data.

- But it is dependent on being able to make causal inferences about impacts on wellbeing.

- WV is a very cost-effective alternative.

- WV is designed to solve many of the problems inherent to preference satisfaction valuation methods.
  - *people are not assumed to have well-defined preferences*
  - *no market structure assumptions*
  - *valuation based on real experiences*
  - *people do not need to try and attach values themsleves*

- For vague/intangible things it may be more robust.

Datasets

- **UK**: British Household Panel Survey (BHPS)

- **Australia**: *Household, Income and Labour Dynamics in Australia* (HILDA)

- **Germany**: *German Socio-Economic Panel* (GSOEP)

- **Europe-wide**: *Eurobarometer*

- **US**: *General Social Survey* (GSS)

- **Worldwide**: *Gallup; World Values Survey*

Useful sources

Overview of all approaches:

Fujiwara & Campbell (2011). ***Valuation Techniques for Social Cost-Benefit Analysis.*** HM Treasury and Department for Work and Pensions guidance.
http://www.hm-treasury.gov.uk/d/green_book_valuationtechniques_250711.pdf

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