

**A Discussion Document
on the Valuation of Social
Outcomes**

SOCIAL VALUE

INTERNATIONAL

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Foreword

Social Value International

With members in over 45 countries and networks in over 20 nations, Social Value International (SVI) are a growing movement of individuals and organisations that are interested in accounting for social value. We believe in a world where accounting for value in a more holistic way than just financial impacts, can reduce social inequality and environmental degradation.

Working with members, SVI target changes to principles, practice, people, and power, that can help us to achieve our mission. We are active across the world promoting the need to not just measure social value, but also the imperative to manage, and ultimately maximise the value of activities.

SVI provide advocacy, training, and assurance in the areas of social value. We have produced guidance that is used consistently around the world on the [7 Principles of Social Value](#), and these are designed to ensure that the voice of those people affected by activities are heard and included in how we operate.

We have also produced guidance to conducting social value and [Social Return on Investment](#) analyses that provides a clear framework for anyone interested in accounting for social value. Together with our members we have also produced Standards on [stakeholder involvement](#), [understanding what changes](#), and [materiality](#). We will continue to produce further Standards on the other Principles of Social Value, striving to help people better understand the social value of their activities, and how they can use that evidence to maximise their impacts.

We are part of a growing international movement that recognises the importance of accounting for social value. We hope that you can join us in this movement, and help us to create a world where we value the things that matter to people – this is key to a more equitable and sustainable future for everyone.

World Business Council for Sustainable Development (WBCSD)

The World Business Council for Sustainable Development is a global, CEO-led organization of around 200 forward-thinking businesses working together to accelerate the transition to a sustainable world.

WBCSD is a unique network where members co-create solutions, learn from other leading companies; interact with the strongest partners and gain access to a one stop shop for tools and expertise to deliver positive impact for societies, shareholders and the environment.

Together, we develop transformational business solutions to the most challenging issues, delivering results that no single company could achieve alone.

The WBCSD's mission is to accelerate the transition to a sustainable world by making more sustainable business more successful. People are at the core of this mission. They are companies' employees, customers, suppliers, distributors, retailers and neighbours; therefore, their growth and well-being are critical to the bottom line. We believe companies that truly value people will be more successful.

Despite growing interest and momentum in social impact measurement and valuation, there is little consensus on how companies can measure and assess the value of this fundamental intangible asset. In many cases this leads to undervaluing and, consequently, under-investing in the social capital on which they depend.

To overcome this challenge, WBCSD has driven the development of the [Social Capital Protocol](#) that, alongside the [Natural Capital Protocol](#), is powering a movement to enable companies to integrate people, planet and profit as drivers of sustainable growth. By building engagement in developing and implementing the Social Capital Protocol, we aim to mainstream the measurement and valuation of social performance.

Of course, business cannot achieve this aim alone. The techniques applied by companies must be recognized by both their shareholders and their stakeholders. This buy-in is essential to enable credible, comparable and broadly accepted approaches and results. In addition, and perhaps more importantly, the field of social impact valuation is young, fast evolving, and takes companies beyond their regular scope of operations and expertise. Collaboration across sectors will be vital to bring together the range of insight necessary to advance this important practice.

We hope this discussion document provides a valuable contribution towards comparing and aligning valuation and monetary valuation techniques across business, the public sector, civil society and academia. And we look forward to continuing to work together!

For those interested in SVIs position on the role of valuation in impact measurement and management, read on. For those interested in the practical application of valuation, skip directly to section 1

There is growing recognition and interest in the valuation of social outcomes. As a result, Social Value International (SVI) and the World Business Council for Sustainable Development (WBCSD) convened a global meeting for experts to further progress the debate. Taking place in the Bellagio Center on Lake Como in Italy, and sponsored by the Rockefeller Foundation, the meeting brought together 22 individuals from a range of sectors and countries to discuss the variety of valuation techniques, their relationship to one another, and how they can be mapped and brought together with clearer guidance. This meeting has influenced much of the recent thinking and developments for SVI, and fostered improved links with practitioners, academics, and organisations. As an organisation, we continue to work in partnership to improve the way the world accounts for value, and in the near future we will deliver further activities to drive this important agenda. This report is also a

result of the global meeting, and is designed to garner cross-sector discussion and alignment.

Through recent developments such as the Social Capital Protocol and the Natural Capital Protocol, businesses are aligning around an understanding of the need to measure and manage both social and environmental outcomes of their activities. This document is designed to provide additional guidance for organisations of all forms, be they governments, companies, public bodies, or third sector organisations, helping them to decide how to value social outcomes, taking into account critical issues around audience, purpose, and accuracy.

SVI's mission is to change the way the world accounts for value, in order to reduce inequality and environmental degradation. The consequence of this ambition is the explicit requirement to value important changes in people's lives as a result of activities, accounting for those outcomes that are not conventionally measured or managed. Underpinning the mission is recognition that whilst standard indicators of growth illustrate rising average wealth, inequality within, and between nations, continues to increase. We believe that to address the growing divide between people, what we recognise as valuable, and how we value those things, is of great significance.

SVI's approach recognises that valuation can occur through qualitative, quantitative, and/or monetary means. However, with an explicit focus on the maximisation of social value, it is the ability to quantify and monetise outcomes that provides greatest potential. The approach is often compared to tools such as cost-benefit analysis (CBA), and, although there are similarities, and a legacy to the traditional approach, SVI does not claim the same normative¹ position. As a method rooted in welfare economics, CBA adopts the position that changes to people's wellbeing (utility) should be valued from the perspective of those experiencing the changes. However, value is often calculated without the engagement of those with experience of the changes, with decision-makers implicitly making value judgements. This can lead to situations of material misstatements, where the value attributed to changes is not necessarily the value the stakeholder would place on changes to their lives. In contrast, SVI's stance is better considered as being closer to that of financial and management accounting, with focus on how valuation can improve decision-making, for both external and internal audiences. And by decision-making, we mean quite clearly, choices between different options; be it to design an activity in one way or another, to become involved with an organisation or not, or to invest or not.

The focus on valuation of social outcomes to drive decision-making and resource allocation does not detract from the need for SVI's normative position to continue to evolve over time, and it is important that those undertaking valuations are clear about their own normative position before starting. The current dominant framework that underpins accounting for financial value is one that prioritises self-interest and the motivations of investors. However, the almost-exclusive focus on financial value

¹ Normative; Establishing, relating to, or deriving from a standard or norm, especially of behaviour. www.en.oxforddictionaries.com

has helped create extreme levels of intra- and inter-national inequality, and increasing environmental degradation. Therefore, by including the direct and indirect effects of activities, the accountability of decision-makers is broadened. This means choices are informed by a more complete appreciation of value – one that can account for financial, social, and environmental impacts.

There are a range of options available to value wellbeing effects, and these can often be applied with varying degrees of rigour. From the perspective of social value, we mean rigour to be about ensuring that decision-makers are provided with information that is good enough for the type of decision being made. The key issues to be addressed are therefore, completeness, relevance, and accuracy. The first two ensure that the changes being measured are those that should be included – making sure that all outcomes are pertinent and no material concerns are omitted. Accuracy as the third issue of rigour relates to the valuation of social outcomes – and ensures that the relative importance attached to changes, appropriately reflects the perspective of those effected.

Decision-makers must understand the risks of selecting options that are incorrect, or sub-optimal, and their risk-appetite will guide the level of rigour that is required to inform their choices. If the different options available will have a significant impact on people's lives, and/or are highly costly, greater levels of accuracy will be required than in alternative situations where risks are less costly and impactful. For example, if a new hospital is to be built, it will be extremely important to have significant confidence that the various stakeholder outcomes are valued accurately. In contrast, if the hospital's existing therapeutic garden is being re-designed to improve patient wellbeing, the need for high levels of rigour is reduced.

Accounting for financial value accepts certain levels of risk in return for evidence that is good enough for investors to make an informed decision, and managers to predict and react to market forces. Similarly, accounting for social value can accept evidence that is fit for purpose, and has sufficient precision for improved decision-making – a situation that is all-too-often ignored in the search for ever greater precision². SVI wish to encourage individuals and organisations to make decisions between options based on the valuation of social outcomes, and to avoid the reluctance to demand ever-greater (and often unattainable) rigour, as we believe that doing so can improve, and even maximise the impacts of activities. As such our normative position can perhaps be aligned with the work of Branco Milanovic³. Although he rejects the welfarist position, to which social value owes its' heritage, there is a consistent stance that addressing inequality, albeit with imperfect evidence, is a worthwhile endeavour in its own right.

² Social Value UK (2016). 'Is your data good enough?' Available at; <http://www.socialvalueuk.org/is-your-good-enough/>

³ Milanovic, B. (2016). In Defense of Equality (without Welfare Economics). www.economistsview.typepad.com/economistsview/2016/07/in-defense-of-equality-without-welfare-economics.html

Although not yet explicitly required by law for any form of organisation, legislative changes in some countries, increasing societal and market demand, and pressure from funders, is progressing the agenda to recognise the value of social outcomes of activities. Such calls for increased accountability of social outcomes are set to continue, and may likely require the internalisation of what are currently externalities of activities. Just as with financial outcomes, social concerns will require effective management to minimise negative effects, and ultimately, maximise positive returns. Yet presently, most of us are not adequately able to measure, report, and ultimately manage and maximise social outcomes. Nevertheless, an increasing number of private, public, and third sector organisations are embracing the potential that valuation of social outcomes can provide.

This document builds on other developments such as the Guide to Social Return on Investment, the Principles of Social Value, Social Capital Protocol, and the Natural Capital Protocol. It is the next stage of the conversation in how valuation can allow people and organisations to increase the value that is created by their activities.

1. Introduction

This document is intended to provide guidance for all forms of organisation on the valuation of social outcomes. In particular, it discusses how valuation through the process of applying a monetary value is key to understanding the relative worth of changes to people's wellbeing. The various applications of understanding the relative value of different changes will be outlined, yet the primary focus of this document is how such evidence is key to improving the ability to make decisions between choices.

This document is designed to contribute to the growing debate around why and how to monetise social outcomes, and is intended to be useful for organisations of all sizes and sectors. Initially the report discusses some of the essentials of valuation – outlining what we mean by valuation, why it should be employed, a taxonomy of different approaches, as well as identifying the key issues that should influence the choice of valuation approach. Examination of key issues such as the audience and purpose for valuation, the importance of the decision and its likely impacts, precedes an overview of how we can monetise outcomes, along with consideration of any potential risks. The document also examines the importance of assurance for valuation, prior to providing conclusions.

2. Valuation Essentials

This section of the document outlines a range of important issues regarding the valuation of social outcomes. A review of what is meant by valuation precedes examination of why it should be employed. The range of approaches and how they can be implemented are then presented, prior to a subsequent section on the assurance of valuations.

2.1 What we mean by valuation

Valuation is the means by which we estimate the worth of something, be it a product, service, or particular characteristics of things. There are alternative means of valuation, as highlighted below by the Social Capital Protocol (2017; 9)⁴;

“In financial accounting terms, valuation is understood to mean an estimation or determination of worth in monetary terms, but in welfare/wellbeing economics valuation means more than just monetary valuation. It includes qualitative, quantitative, and monetary

⁴ World Business Council for Sustainable Development (2017). 'Social Capital Protocol'. See <http://www.wbcsd.org/Clusters/Social-Impact/Social-Capital-Protocol>

approaches, or a combination of these, which measure the relative importance of impacts and/or dependencies”

Acknowledging the potential for qualitative and quantitative means of valuation, this report focuses primarily on the unique capacity that applying a monetary value to social outcomes can provide. The report is centred on the position that by attaching an assessment of relative importance, where financial proxies provide monetary representations of the worth of social outcomes, we are better able to appreciate their value. This is because we have a consistent unit of measurement to compare outcomes with one another, and the costs of their production. As a result, we are better able to make decisions for the maximisation of social value.

The monetising of social outcomes centres on valuing changes to people’s wellbeing. There can be positive or negative outcomes for people, resulting directly or indirectly from an organisation’s activities. Social value is focused on changes to people’s wellbeing, although in practice there are times when other things will be valued, especially changes to the environment. Recognising the intrinsic value of nature, we are still able to value many environmental changes, such as reduced pollution, or enhanced landscape, from an anthropocentric perspective as outcomes to individual or societal wellbeing. And whilst for some it may be sufficient to measure the output of environmental change, by extending this, and also assessing the value of the outcomes to people, we can better appreciate the relative importance of activities, and make decisions to maximise the impacts of what we do.

Underpinning all of SVIs work are the [Social Value Principles](#)⁵ (outlined in Appendix C). These are designed to provide the framework to help determine the changes arising from an activity, and which ones should be measured and valued. Further guidance is also available from SVI’s additional Supplements on Stakeholder Involvement⁶, and Creating Well Defined Outcomes⁷, as well as the WBCSD’s Social Capital Charter⁸.

To assess the appropriate impacts of that being analysed, the changes that are measured and valued need to be those that are caused by a specific activity. This requires examination of the likelihood of an outcome occurring regardless of the activity (counterfactual, or deadweight), the contribution of others, and any outcomes that have been displaced elsewhere. Only when all of these factors are considered,

⁵ Social Value International (2015). The Seven Principles of Social Value.

<http://www.socialvalueuk.org/resource/principles-of-social-value/>

⁶ Social Value International (2013). Supplementary Guidance for Principle 1: Stakeholder Involvement. <http://www.socialvalueuk.org/resource/supplementary-guidance-on-stakeholder-involvement/>

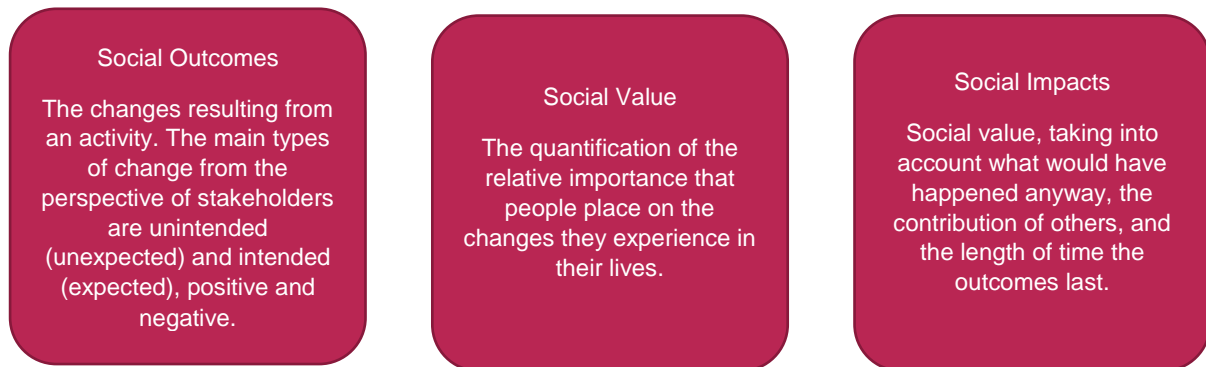
⁷ Social Value International (2016). Supplementary Guidance for Principle 2: Understand what changes. Part One; Creating well defined outcomes.

<http://www.socialvalueuk.org/app/uploads/2016/08/Supplementary-Guidance-for-Principle-2-Understand-hat-changes-Part-one.pdf>

⁸WBCSD (2017). The Social Capital Charter. www.social-capital.org/introducing-protocol/principles/social-capital-charter

along with the appropriate duration to which outcomes last, can the social value of activities be identified.

Decisions on what impacts those responsible for the activity should be held accountable for need to be made. At one end of the spectrum this may be to account only for intended positive changes. At the other end of the spectrum, this may be to account for all material impacts, both positive and negative (caused by the activity) as experienced by all those effected. An organisation seeking to make resource allocation decisions to increase value, will need to strive for completeness, and base



accountability on the broader approach.

Consequently, valuation is the means to improve how choices between options are made, allowing resources to be allocated to increase people's wellbeing. **Valuation will therefore need to consider value from the perspective of those experiencing both positive and negative, direct or indirect changes, as a result of the provision, or reduction of goods or services, or changes in other determinants of their wellbeing.**

As this report will further outline, there are a variety of techniques available to monetise outcomes, such as stated, or revealed preference, and wellbeing valuations. Although not the intention to identify a single preferred approach, this document highlights important issues such as the motivation, purpose, and audience, that frame the valuation of social outcomes.

Much of the vocabulary used to explain the social results of activities is used differently by different people. Appendix A provides an outline of working definitions for many of the key terms used in this document. At SVI, we have a common approach to what we mean by social outcomes, value, and impacts⁹, and these are outlined briefly below;

⁹ In some documents, impact refers to macro-level societal, environmental, or economic changes. This is not the meaning adopted within SVI, or this document.

2.2 Why value

Valuation will be used to fulfil an intention. Understanding the purpose for performing a valuation exercise is important, because it is likely to heavily influence the approaches taken, and how much time and effort is justified to achieve an appropriate level of accuracy.

As individuals and organisations we value things all the time. We are always choosing between doing different things, or different ways of doing the same thing. For example, we make decisions about allocating resources where the effects of our choices may be similar, or very different. Whether we recognise it, or not, we often bring our own gut perception of the short or long-term value that will be created when we make decisions. This is particularly true when there is limited information about the effects of these decisions. Consequently, and whether we mean to, or not, we make these decisions about the value of different options without any data, confuse how much data we need, or even worse, look for data to justify a decision that we've already made.

By making explicit the process by which we value social outcomes, we are able to increase the transparency of our decisions. This creates the potential for progression from gut instinct, or the rule of thumb, to a state whereby the process of decision-making about social outcomes, more closely resembles that of decision-making for financial value. Practically, evidence of valued social outcomes is not the end of the story, it is far more effective when viewed as the means to a more informed conversation about the decisions we need to take.

Before outlining the types of decisions that valuation can improve, it is important to recognise that there are a range of additional applications where valuation can assist organisations. The WBCSD (2013)¹⁰ have outlined the business case generally for measuring socio-economic impact, with motivations ranging from costs and risk reduction, to capturing opportunities through innovation. Valuation is often viewed only, or primarily, as an effective means of reporting upon the relative importance of different options to external stakeholders – demonstrating the value of their contribution to gain or maintain their support. Although external communication of value is important, this is a limited view of the potential of valuations. Based on work by the Natural Capital Protocol and the Social Capital Protocol, Table 1 illustrates some of the applications that valuation of social outcomes can facilitate. Although designed with business applications in mind, they are nevertheless appropriate for all forms of organisation.

¹⁰ WBCSD (2013) Measuring socio-economic impact; A guide for business.
<http://www.wbcsd.org/Clusters/Social-Impact/Resources/WBCSD-Measuring-Impact>

Table 1: Possible applications for the valuation of social outcomes

Application	How this application is relevant
Communicate internally and/or externally	<p>Improving the effectiveness of communication about the value of activities.</p> <p>For example, strengthening the external marketing communication to potential/existing funders, supporters and customers through a commonly understood language. Internally, it can provide improved consistency of reporting, fostering a greater sense of shared production of value by members of staff, volunteers and managers, whilst also allowing for comparison of performance to trends, targets and mission.</p>
Identify and manage risks and opportunities	<p>Determining the potential scale of risks and opportunities of activities.</p> <p>For example, scenario planning that identifies the value of social outcomes can help identify potential new market opportunities that could create greater financial and/or social returns, and mitigate any identified risks.</p>
Assess the impacts on stakeholders	<p>Identification of relevant stakeholders that are effected by activities and understand the degree by which they are impacted.</p> <p>For example, influencing how activities engage and prioritise stakeholders to ensure continued involvement and an effective social contract.</p>
Assess the total value and/or net impact	<p>Examining the social value of activities, accounting for both positive and negative impacts on stakeholders.</p> <p>For example, comparing the value of negative and positive outcomes of activities to appreciate the overall net value, and assess if the social return on investment is sufficient to warrant the required investment.</p>
Compare options	<p>Understanding where activities create most value to make decisions about where to prioritise investing resources.</p> <p>For example, comparing the relative value of different outcomes for the same people, or the same outcome for different people, can improve decisions about which stakeholders should be targeted to maximise the social value created.</p>

Adapted from Natural Capital Protocol (2016) Table 1.2

Monetising to improve decision-making

This document focuses on the last application, how valuation can help decision makers, make choices between options. However, this doesn't mean that all decisions need to be made with the most rigorous forms of data, the newest forms of measurement, or the most elaborate valuation techniques. Decision-makers will understand the level of rigour (accuracy) required, and it depends on the context of the decision (i.e. complexity, importance, resources) at hand; but importantly recognises that data collection and valuation need not necessarily be expensive, difficult, or time consuming.

There are different types of decisions about options we can make:

- To inform **strategy** (and increase potential for value to be created);
- To improve **operational performance** (and increase value being created);
- To **influence** partners and stakeholders (and increase value being created together);
- To integrate and drive organizational **values** (and increase value being created).

So, the purpose of valuing things in monetary terms is to help make choices between options. Whilst this may result in outcomes for some stakeholders being traded-off against others, it does increase the ability to make decisions between options that can optimise their impacts. When we do this as individuals, we value some options more than others without always needing to have a transparent process, often making implicit decisions about relative value. As soon as a group of people need to make a choice between alternative ways of using the resources they have at their disposal to select the option that creates the most value, the choice will likely benefit from a transparent process for valuing different things.

This is about making choices to increase value. For businesses, the aim to maximise financial value to generate returns for investors, remain competitive, or create value for customers is fundamental. Accounting has provided the basis for comparing alternative options and entities that create financial value for over 100 years, and has become a commonly accepted basis for doing so, based on a mix of practice, standards, audit, and legislation.

Financial value is underpinned by the idea that market prices reflect the value to consumers. Even the prices in a business to business supply chain end with a customer buying a final good or service, and being willing to pay a price that reflects the value to them. Social value maintains a similar position, whereby individuals or society are able to identify the value of social outcomes, albeit without the regulated and standardised elements of financial values. Consistent with the guidance from the Social Capital Protocol (2017) and the Natural Capital Protocol (2016), the ever-present risk of over, or under-claiming, can be reduced through the involvement of those with relevant knowledge. However, there is divergence between the valuation of social, and natural/environmental outcomes. The latter are more likely to use experts and recognised methods, whereas social considerations can be informed by those with experience of the changes. However, engagement with additional

stakeholders, and existing evidence, can often help to triangulate findings and provide valuable information on social outcomes.

In addition to the concerns of intended audience and purpose that drives the valuation of social outcomes, there are important external influences advocating and legitimising its usage. An overview of some of the key issues are illustrated below, preceding Table 2 that highlights examples of where valuation has influenced discussions and decision-making within organisations across a broad range of sectors. The examples provided are only intended to demonstrate a selection of widely available cases, and more exhaustive lists can be found on the websites of Social Value UK, the WBCSD, and the Natural Capital Coalition.

External influences

Social dimensions

The current social landscape is rapidly changing, causing increased pressure on all types of organizations, be it as a result of issues such as demographic change, migrant populations, or reducing public spending. The risks of ignoring these pressures means that doing nothing is an option that will likely result in individuals, organisations, and societies being left behind. At the same time, leading organizations are innovating to capitalize on social opportunities, and identifying solutions for social needs.

Economic dimensions

Social value has been undervalued from an economic point of view, with policy makers and business leaders historically unable to adequately incorporate social concerns into decision-making. The predominance of financial accounting has undue influence in how we make decisions, primarily because of the monetary values attached to them, and the acceptance of their validity.

Gross domestic product has for some time been acknowledged as insufficient as a sole indicator of people's wellbeing¹¹, and the need to address increasing economic inequality has been suggested as a cause for significant concern for the peace and prosperity of all people¹². However, assigning monetary value to social performance is not a new practice – it is already being used by insurance providers, and public policy makers etc. In fact, it could be argued that everyone is implicitly valuing social issues all of the time, making undervaluation an ongoing risk.

Legislative and regulatory dimensions

Although at present there is no legislation requirement to explicitly value social outcomes, there is growing recognition of the need to provide appropriate legal

¹¹ Stiglitz, J.E., Sen, A. & Fitoussi, J-P. (2008). '*Report to the Commission on the Measurement of Economic Performance and Social Progress*'. REVIEW Available at; <http://ec.europa.eu/eurostat/documents/118025/118123/Fitoussi+Commission+report>

¹² Piketty, T. (2014). '*Capital in the Twenty-First Century*'. Belknap Press

incentive to encourage broader appreciation of the impacts of organisational and policy decisions.

In the UK, as of 2013, annual reports for public limited companies must contain within their Director’s Report, consideration of how organisational activities create social and environmental impacts. The Public Services (Social Value) Act 2013, also requires that public bodies commissioning services beyond financial thresholds, must consider the social value of contracts. Also, in Wales, new legislation in the form of the Well-being of Future Generations (Wales) Act 2015, requires all public bodies to place the well-being of citizens at the centre of decision-making.

At a broader level, European legislation also requires the disclosure of non-financial concerns¹³, and the Council of the European Union has recently recognised the Natural Capital Protocol¹⁴. An ISO standard¹⁵ for monetising environmental impacts is also under development, and the British Standards Institute¹⁶ are in the early stages of developing a relevant social value standard.

Although legislation does not currently require the valuation of social outcomes, the changing landscape highlights the increasing pressure for conformance around extended notions of value. Given the development and convergence of standards and rules for the measurement of value beyond financial concerns, it is reasonable to assume that formal requirements will continue to increase.

Table 2: Purpose for Valuation

Organization types / Users purpose	NGO	Social Enterprise	Corporation	Government	Funders (donors and investors)
To inform strategy		Evaluative SROI report by Realise Futures: Realise Futures SROI Report 2015	Volvo Group report into the potential of electric buses: Volvo Group – KPMG True Value 2015	Scottish Government report evaluating family support projects: Evaluation of Intensive Family Support Projects in Scotland 2009	The FLUPP report, a report on a Brazilian programme, it was funded by its donor to provide evidence for strategic decision-making for continuity of the programme

¹³ European Council (2013). ‘DIRECTIVE 2013/34/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013’. Available at; <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02013L0034-20141211>

¹⁴ http://ec.europa.eu/environment/biodiversity/business/index_en.htm#

¹⁵ ISO (2017). ‘ISO/CD 14008’. Available at; <https://www.iso.org/standard/43243.html>

¹⁶ <https://www.bsigroup.com/en-GB/our-services/events/2016/BSIsocialvalue/>

					(accredited by Social Value UK): Evaluating Impact of a Better Early Childhood Programme in Brazil 2015
To improve operational performance	e.g. <i>Managing social value</i> A SROI Framework and Forecast Analysis for Care Network (Blackburn with Darwen) Ltd 2012		e.g. <i>integrate in your balanced scorecard</i> Ambuja Cements Limited, True Value: An Innovation in Sustainability 2013	e.g. <i>incorporate in cost-benefit analysis</i> Report produced for the Department for Children, Schools and Families: Cost Benefit Analysis of Interventions with Parents 2007	e.g. <i>improve portfolio performance management</i> SROI Evaluation of the Business Growth Loan Scheme 2010
To influence partners and stakeholders	The Carmichael Centre: SROI evaluation of the resident member service 2012	Mantell Gwynedd: SROI forecast of Teulu Ni: Early Intervention that creates value in the lives of vulnerable families (2016)	PwC: 'Report by PwC valuing its 'Total Impact' in 'Valuing our total impact' 2016	Report by the King's Fund to inform investment into mental health: PAYING THE PRICE The cost of mental health care in England to 2026 (2008)	HACT. Valuations calculated to inform investment into social housing: Measuring the Social Impact of Community Investment: A Guide to using the Wellbeing Valuation Approach 2014
To integrate and drive organisational values		Social value report by Bromford Housing Group: Social Value Report 2015	Report into the environmental profit and loss resulting from Puma business activities: Kering Environmental Profit and Loss report 2013		

So far, this document has considered the essential concerns of *what* is valuation, and in particular, *why* we would want to monetise social outcomes. The remainder of the document outlines *which* different techniques are available, and provides an examination of *how* to monetise social outcomes.

2.3 Which approaches are available to monetise social outcomes?

This section outlines some of the key issues that will influence the choice of valuation method, prior to outlining the various choices, and the steps required for their implementation. The identified factors are:

- 1) The audience and purpose – who is the intended focus, and what is the decision(s) evidence will support?
- 2) The importance of the decision to be taken – how critical will the outcomes of a social impact valuation be to inform this?
- 3) The level of complexity required to conduct the valuation – are key data available? Are those who need to participate nearby, or far away? What are the likely resource requirements?
- 4) The value range - how different are the values of different outcomes that arise likely to be?

The audience and purpose

The purpose and audience for social value information is fundamental to deciding what to measure, how to value what you have measured, and what level of accuracy is required. A small business making a board decision on alternative ways to deliver a service, where the service has to go live in a couple of weeks, may have to accept a broad overview with a relatively low level of rigour, constrained by resources and time. A government department making a multibillion dollar investment that will have consequences for many years, will need a high level of rigour and have more resources and time to dedicate to what is measured, and how it is valued.

There are several dimensions that impact on the level of rigour required of social value information to ensure it fit for purpose, and these can help form useful diagnostic questions to appreciate the purpose of social value. Issues such as if the information is to be made available publicly, the geographic scope, the quantity of people that are effected, the time-period over which outcomes are being measured, and the level of investment required, all need to be considered to appreciate the purpose of valuating social outcomes.

Often this decision is informed by the audience's understanding of risk or opportunity, and understanding the consequences if, with more rigour and resources, a different decision would have been made (see sections 3.2 and 4.3 for more detail). The Natural Capital Protocol also identifies that 'identifying the target audience and understanding what drives them is key in defining your objectives as it

will influence the way the assessment is conducted'¹⁷. A stakeholder mapping exercise can help understand both the target audience, and those other stakeholders that will be part of the social impact assessment, as such issues will necessarily influence the choice of valuation technique.

The importance of the decision to be taken

It has been highlighted that where decisions have potentially very large impacts, there is likely to be a higher level of precision required. There will be consequences of making the wrong decision. This can negatively affect the organisation as resource allocation ties up resources, reduces resources for other choices, and ultimately may affect people's lives. Greater rigour to value social outcomes is required the more significant these effects could be, and for those changes that are less easily reversed if required. Determining the appropriate importance of the decision to the organisation, and its stakeholders, is essential as this will influence issues such as the depth or breadth of assessment, the level of completeness required, and which stakeholders and outcomes are material to the assessment. This ensures that techniques and resources invested are commensurate with the level of decision to be informed.

How complex will the valuation be to conduct

In part, this is about access to stakeholders and other resources, as well as how much the assessment will cost, and will likely influence the willingness of decision-makers to obtain, and the confidence to make use of the valuation evidence.

Again, mapping stakeholders that are material to the analysis will help provide necessary information on the boundaries of accountability for any social impact assessment, and each of the different types of decision-making. The selection of different approaches that are proportionate to the decision, need to consider issues including the size and nature of the population, availability of existing evidence, and any geographic restrictions. In some cases, where the level of complexity is particularly high, the available skills and knowledge to apply valuation approaches will also impact on the decision, as some techniques, if applied to high levels of precision, may require specialist input.

The value range - how different are the valuations that arise?

Where there are a small number of values, and where the difference between these values is high, there may be less risk that any errors in these valuations would result in a different decision being taken. Alternatively, where values are relatively close, then an error in valuation may be more likely to result in a different decision being made.

Where high levels of rigour is required, representative samples, and in some cases, statistical analyses are required to ensure that an appropriate selection of

¹⁷ Natural Capital Protocol (2016; page 26) '*Natural Capital Protocol*'. Available at; <http://naturalcapitalcoalition.org/protocol/>

stakeholders are involved in defining the value of a change, which accurately reflects the worth for all appropriate stakeholders.

Sensitivity analysis is one way of assessing the risk of different decisions made when valuing social outcomes. It can help to determine the tipping point between options. So, for example, if a small alteration in value affects the result significantly, there may be the need for further stakeholder engagement, and/or triangulation with existing evidence to increase confidence in the value. Alternatively, if they do not change significantly, or are unlikely to, then decision-makers will be more confident that results aren't materially misleading, and will be more likely to use the evidence to inform decision-making.

As highlighted, this report focuses primarily on monetising social outcomes. However, Table 3 highlights both different monetary and quantitative valuation methods available to assess the relative importance of social outcomes. Further discussion of the monetary approaches is also provided, and Table 4 outlines specific detail about each option, including indication of the data and skills required, as well as consideration of associated advantages and disadvantages. Table 4 builds on the Social Capital Protocol, Natural Capital Protocol, and the WBCSD's (2011)¹⁸ work on corporate ecosystem valuation, with additions for approaches that are specific to social outcomes. However, it is not the purpose of this report to duplicate detailed guidance available elsewhere, and references are included in Appendix B. Whilst there is not a universally agreed taxonomy of approaches, the tables below outline established and emerging approaches, and is a useful basis for considering the different methods.

Table 3: Taxonomy of Approaches to Quantifying Relative Importance

Monetary	Non-monetary
Revealed Preference	QALY (for outcome of retaining and improving life) *
Cost-based approaches	DALY (for outcome of retaining life) *
Stated Preference	Visual Analogue Scale
Choice Experiments (including Valuation game and Auction game)	Points Based and similar weightings
Benefit Transfer	Multi-Criteria Analysis
Wellbeing Valuation	Most Significant Change
Hybrid Stated Preference / Wellbeing Valuation	Rankings and weightings
	Capability approaches
	Choice Modelling; Contingent ranking and rating, and paired comparisons

*These quantitative approaches are often subsequently monetised, and are discussed below.

¹⁸ WBCSD (2011). Guide to Corporate Ecosystem Valuation; A framework for improving corporate decision-making. See Table 7.1 from page 84

Revealed Preference techniques examine the way in which people reveal their preferences for goods or services through market production and consumption, and the prices that are therefore given to these goods (explicitly or implicitly). Where direct markets for goods or services exist, the value people place upon it is revealed directly using **Market Prices**, either for that or a similar good (**Substitute Prices**). Where an impact causes a change in production (for example, loss of fishery output from damaging coral reefs, or increased income following a training course), **Effect on Production** (or **Change in Productivity**) can be used. For more information see Fujiwara and Campbell (2011)¹⁹.

Within these techniques, values can also be revealed by analyzing data on the time and costs (**Travel Cost Method**). Alternatively, they can be based on analyzing how the price of an asset changes with different attributes, such as housing prices for access to favoured schools, ecosystems view, or the number of bedrooms (**Hedonic Pricing**). This approach can also use wage differentials between similar jobs to value environmental quality differences between regions, or increased risk of personal harm.

Cost-based approaches consider the market trade-offs, or costs avoided by maintaining outcomes arising from goods and services. For example, this may include building a man-made replacement for a degraded ecosystem (**Replacement Costs**), such as filtration of drinking water, or shoreline protection from storm damage. Another approach involves estimating the cost of damages to property or businesses that may be avoided due to the existence of an ecosystem service (**Damage Costs Avoided**). Within this approach there are also those instances where it would be unrealistic to state a cost-saving, standard there is potential for the re-allocation of resources. For example, a service that reduces criminal re-offending rates does not create immediate savings to criminal justice departments, as the costs associated with maintaining the service are already allocated. However, it does provide the potential for resources to be re-allocated to other demand in the system, or alternatively additional priorities that can now be serviced. For more information see the Natural Capital Coalition (2016)²⁰.

Stated Preference approaches ask people to “state their preference” for a good or service, often using questionnaires. For example, **Contingent Valuation** surveys ask respondents directly for the equivalent value through their **Willingness To Pay** (WTP) for a good or service, or their **Willingness To Accept** (WTA) as a compensating value for its loss. As the name suggests, **Contingent Valuations** are contingent on specific characteristics. For example, this could include the **Willingness To Pay** for a specific increase in personal health, or an improved local

¹⁹ Fujiwara, D. & Campbell, R. (2011). ‘*Valuation Techniques for Social Cost-Benefit Analysis: Stated Preference, Revealed Preference and Subjective Well-Being Approaches*’. HM Treasury. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209107/greenbook_valuationtechniques.pdf

²⁰ Natural Capital Coalition (2016). ‘*Natural Capital Protocol*’. Available at: <http://naturalcapitalcoalition.org/protocol/>

ecosystem, or conversely the **Willingness To Accept** a reduction in health, or damage to an ecosystem.

Choice Experiments are also a form of **Stated Preference**, although rather than ask directly for a WTP, values are inferred by asking respondents to choose between several scenarios that combine different levels of attributes, and/or different types of services provided (landscape, species biodiversity etc.), as well as an associated financial value for each combination. Choice Experiments can also be quantitative in the form of contingent ranking or rating, and paired comparisons. For more information see Fujiwara and Campbell (2011)²¹.

The **Valuation Game** is a recently developed type of **Stated Preference** approach, and asks respondents to value outcomes by comparing them to goods or services which have a known market value. These techniques can be especially useful in determining non-use values (such as changes in confidence, or the existence of a species). The approach is most alike a **Choice Experiment**, which as a form of choice modelling would always display a financial value to participants. However, those taking part in the Valuation Game are not necessarily shown corresponding values of the good or services, rather their key characteristics are provided to provide a clear understanding of what an outcome is being compared to. Values are subsequently identified through secondary research, or can be further verified with stakeholders by highlighting the prices of the identified goods/services. For more information see <http://www.valuegame-online.org/index.php/faqs>

Similarly, **Auction games** ask participants to place bids, either through silent or group-based auctions to identify WTP or WTA for outcomes, or different characteristics of things. For more information see Hayes *et al.* (1995)²².

Benefit (Value) Transfer involves transferring value estimates based on **Revealed Preference**, **Stated Preference** or **Wellbeing Valuation**, from existing studies, making any appropriate adjustments. This technique is increasingly used as it is relatively inexpensive and quick to implement, but must be carefully and transparently applied to avoid significant errors. Initially referred to as **Benefit Transfer**, as the values transferred may also be costs, it is increasingly referred to as **Value Transfer**. There are a number of accepted means of conducting **Benefit (Value) Transfer**, including **Unit Value Transfers**, whereby fairly homogenous divisible units such as hours of travel saved are transferred from a similar previous study. Alternatively, **Benefits Function Transfer** is used when a function from one study, such as WTP is used to estimate WTP for a different context where there is

²¹ Fujiwara, D. & Campbell, R. (2011). 'Valuation Techniques for Social Cost-Benefit Analysis: Stated Preference, Revealed Preference and Subjective Well-Being Approaches'. HM Treasury. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209107/greenbook_valuationtechniques.pdf

²² Hayes, D.J., Shogren, J., Shin, S.Y. & Kliebenstein, J.B. (1995). 'Valuing food safety in experimental auction markets'. *American Journal of Agriculture Economics*, 77 (1), pp. 40 - 53

less homogeneity between previous studies. For more information see Johnston *et al.* (2015)²³.

Wellbeing Valuation uses statistical analysis of large questionnaire datasets to value changes in life circumstances. This is done by calculating the increase in income that would be necessary for an equivalent increase in wellbeing. For example, if the change in income of £2,000 increase life-satisfaction by 1 point, and a change in mental wellbeing increases life-satisfaction by 2 points, there is a value of £4,000.

A combination of the **Wellbeing Valuation** and **Stated Preference** approaches can also be used (**Hybrid Stated Preference / Wellbeing Valuation**), whereby respondents are asked to state the amount of compensation they would be **Willing To Accept** for a particular loss, in order to maintain their current level of wellbeing. For more information see Fujiwara (2013)²⁴.

Albeit not a form of monetising outcomes, **Quality-Adjusted Life Year (QALY)** can be monetised by applying an approach such as **Stated Preference**, and represents the value of one year of life spent in full health. This is adjusted for the quality of life experienced, so that a year of life spent at 50% health, will be valued at only half that of a year spent at full health. This method is particularly useful for assessing the relative benefits and cost-effectiveness of different health interventions that involve trade-offs between improvements in quality and quantity of life. When monetised, **Disability-Adjusted Life Year (DALY)** similarly places a value on the quantity of life lost across a population due to disability or poor health.

Table 4: Comparison of techniques to monetise social outcomes

Category	Technique	Description	Data required	Time/Budget	Skills required	Advantages	Disadvantages
	Market prices	The price of a good or service that best reflects what we want to value.	Market price of goods or services. The costs involved to process and bring the product or service to market (e.g. processed timber, or a training course).	Days / Low	Basic	+ A readily transparent and defensible method based on market data. + It reflects an individual's willingness to pay (WTP).	- Only applicable where a market exists for the goods or services and this data is readily available. - Risk of undervaluation as people will often value things more highly than the price paid.

²³ Johnston, R.J., Rolfe, J., Rosenberger, R.S. & Brouwer, R. (2015). 'The Economics of Environmental and Resource Values'. Vol.14.

²⁴ Fujiwara, D. (2013). 'A General Method for Valuing Non-Market Goods Using Wellbeing Data: Three-Stage Wellbeing Valuation'. Available at: <http://cep.lse.ac.uk/pubs/download/dp1233.pdf>

Revealed preference approaches

Effect on production	Changes in the output of a marketed good or service to a measurable change in goods.	Data on changes in the output of a product. Data on cause and effect relationship (e.g. loss of fisheries due to loss of seagrass or coral habitat, or increases in employment or income relating to training).	Days / Low	Knowledge of the production function of the good	+ If data is available, it is a relatively straightforward technique to apply.	- Necessary to recognize and understand the relationship between marketed goods or services and the output of the product.
Travel costs	The amount of time and money people spend visiting a habitat or facility for recreation or leisure, per visit.	The amount of time and money that people spend visiting habitat or facilities for recreation or leisure purposes. (e.g. the number of hours and cost of fuel to attend a nature reserve). The motivations for travel.	Weeks – months / High	Questionnaire design, interviewing and economic analysis	+ Based on actual behavior (what people do) rather than a hypothetically stated WTP. + The results are relatively easy to interpret and explain.	- Approach is limited to direct use of recreational benefits. - Difficulties in apportioning costs when trips are to multiple places, or are for more than one purpose. - Considering travel costs alone ignores the opportunity cost of time while travelling. - Risk of undervaluation.
Hedonic pricing	The difference in property prices or wage rates that can be ascribed to the different qualities of a property or position.	Usually data relating to differences in property prices or wage rates that can be ascribed to the different qualities (e.g. a landscape view of a property, access to better school results).	Weeks / Medium	Economic analysis	+ Readily transparent and defensible method since based on market data and WTP. + Property markets are generally very responsive so are good indicators of values.	- Approach is largely limited to benefits related to property. - The property market is affected by a number of factors, so the effect needs to be isolated or it may be overvalued.

Cost-based approaches	Replacement costs	The cost of replacing an ecosystem, good, or service, with artificial or man-made products, infrastructure or technologies, or the cost of providing statutory services to replace preventative action.	The cost (market price) of replacing an ecosystem, good, or service, with a man-made equivalent (e.g. replacing sea grasses as a juvenile fish nursery with fish farms). The price of providing private or public health / social care services (e.g. replacing therapeutic services with GP visits).	Days – weeks / Low	Basic	+ Provides surrogate measures of value for regulatory services (which are difficult to value by other means). + A readily transparent and defensible method when based on market data. - Relevant for ecosystem values where social outcomes are societal wide.	- Can overestimate values. - Does not consider social preferences for services, or behavior, in the absence of the services. - The replacement service probably only represents a proportion of the full range of services provided by the service or natural resource.
	Damage costs avoided	The costs incurred to property, infrastructure and production when ecosystem services that protect economically valuable assets are lost, in terms of expenditures saved.	Data on costs incurred to property, infrastructure or production as a result of loss of ecosystem services (e.g. insurance claims made as a result of flooding after removal of natural flood defenses). Damages under different scenarios including “with” and “without” regulatory service.	Weeks / Low	Engineering and bio-physical processes	+ Provides surrogate measures of value for regulatory services that are difficult to value by other means (e.g. storm, flood and erosion control). - Relevant for ecosystem values where social outcomes are society wide.	- The approach is largely limited to services related to properties, assets, and economic activities. - Can overestimate values.
	Wellbeing valuation (WV)	Wellbeing valuations assess the relationship between life circumstances (e.g. employment status, health status, levels of volunteering, safety of local area) and levels of self-reported wellbeing, and what level of income change would provide the same level of change in wellbeing.	Large statistical datasets (e.g. the British Household Panel Survey).	Weeks / Low	Economic / statistical analysis	+ Necessary datasets publicly available. + Additional datasets can be created.	- Data needed may not be publicly available for either the outcome or for a specific stakeholder group in which case costs will be higher.

Wellbeing	Hybrid stated preference / wellbeing valuation	Respondents asked directly for their willingness to accept (WTA) compensation for a loss such that their level of wellbeing does not change.	Large statistical datasets (e.g. the British Household Panel Survey). Stated value that people place on the wellbeing associated with a good or service (e.g. access to a library service); demographic and biographical information on survey respondents obtained through survey questionnaires.	Weeks – months / High	Questionnaire design, interviewing and economic / statistical analysis	+ Avoids the need for willingness to pay (WTP) scenarios which rely on hypothetical entrance fees. + Produces values per visit similar to willingness to pay (WTP) valuations.	- Data needed for wellbeing valuation may not be publicly available in which case costs will be higher.
	Stated preference approaches	Contingent valuation (CV)	Infer values of outcomes by asking people directly what is their willingness to pay (WTP) for them, or their willingness to accept (WTA) compensation for their loss.	Stated value that people place on a good or service (e.g. existence of a species, increased confidence); demographic and biographical information on survey respondents.	Weeks – months / High	Questionnaire design, interviewing and economic analysis	+ Captures both use and non-use values. + Extremely flexible - it can be used to estimate the value of virtually anything.

	Choice experiments (CE), or Multi-Choice Experiments (MCE)	Presents a series of alternative resource or use options, each defined by various attributes set at different levels (including price), and asks respondents to select which option (i.e. sets of attributes at different levels) they prefer (e.g. numbers of species present and percentage coral cover).	As for CV above, although CE contrasts several different scenarios. An appropriate set of "levels" are required for the different parameters (e.g. ranging from 0% coral cover to 100%).	Weeks – months / High	Questionnaire design and interviewing and economic analysis	+ Captures both use and non-use values. + Provides theoretically more accurate values for marginal changes (e.g. values per % increase in coral cover). + Gives a much more accurate outcome than benefit transfers. +	The results are subject to numerous different biases from respondents. - Can be mentally challenging for respondents to truly weigh up the alternative choices given to them in the time available.
	Valuation game (as a form of CE). This has been included as an example of an innovative approach	Participants asked to place value on outcomes by comparing preferences, or by comparing goods or services which have known market values.	Relative values that people place on goods or services or preferences to outcomes. Demographic and biographical information.	Days / Low	Questionnaire design, interviewing	Extremely flexible and useful for defining outcomes, and recognizing subgroups of stakeholders. Order of magnitude valuation for service design. + Captures both use and non-use values.	- The results are subject to numerous different biases from respondents. - Preferences need to align with market costs where more than one outcome is being valued for service design purposes.
	Auction game (as a form of CE)	Involves participants bidding to determine their maximum WTP for an outcome, good, or service.	As for CV above	Days / Low	Questionnaire design and interviewing	+ Captures both use and non-use values. + Extremely flexible - it can be used to estimate the economic value of virtually anything.	- The results are subject to numerous different biases from respondents.
Benefit (Value) transfer	Benefit transfer	Involves transferring value estimates from existing economic valuation studies to the study site in question, making adjustments where appropriate.	Valuations from similar studies elsewhere. Data on key variables from different studies (e.g. GDP per person).	Days / Low	Economic analysis, possibly meta-analysis	+ Relatively low-cost when there is a similarity between that which is being valued.	- The results may not be relevant to the stakeholder group for which the value is being calculated. - Existing valuation studies may be more robust and numerous for some services than for others.

2.4. How to monetise

Whilst most guidance on valuation techniques assumes a need for high-levels of rigour, taking account of the factors that affect the choice of technique, such as the audience and purpose, along with the importance of the decision, we understand that in some situations, lower levels of rigour are sufficient.

It is important to remember that the purpose of applying monetary valuations is not to select the highest possible value to present an overly positive picture of activities. It is about identifying financial proxies that reasonably represent the value of social outcomes, a process that intends to support decisions between options, and stimulate further discussion as to how to improve, and ultimately maximise social value.

This section identifies the key steps that are consistent to the approaches to monetising social outcomes (further detailed guidance to the various approaches is provided by the references in the discussion below in Table 3). All approaches have consistent steps to monetise social outcomes, the only significant difference is to what extent stakeholders themselves are involved in the valuation. Stated and revealed preferences, and choice experiments, do involve stakeholders directly, whereas cost-based, wellbeing valuation and benefit transfer make use of existing evidence.

The seven Social Value Principles need to underpin all valuation approaches, and each assessment of social impact should apply them to create meaningful evidence of social value - again, it is the level of rigour applied to each Principle that creates the difference in approach taken. Central to all options is the need to engage with stakeholders to understand what has changed. Only then can we value the outcomes. The remaining Principles to not to over-claim, be transparent, and verify the result, then need to be applied to consistent degrees of rigour.

Varying options of assuring the results are included for each approach, and it is again the nature of the decision being supported that guides the form(s) of assurance required. Conducting sensitivity analysis to results can create the parameters for which assurance is needed (see section 4 for more detail). For example, where some valuations have a low value-range, there will be increased need for assurance, as well as in situations whereby a relatively small change to a valuation creates significant levels of change in the results. The below section outlines the key steps required to implement each approach.

Key steps to monetizing social outcomes

1. Understand change from stakeholder perspective
1. Identify appropriate values from stakeholders with experience of changes / or identify appropriate values from existing research
2. Conduct appropriate sensitivity testing
3. Assure evidence (options provide increasing levels of confidence):
 - a. Verify the values with stakeholder sample/population, and/or;
 - b. Internal quality control and governance structures, and/or;
 - c. Peer review academic process, and/or;
 - d. Independent external source.

The steps may seem like a very simplified series of actions to valuing social outcomes. However, regardless of how much rigour is required, the steps are consistent, and show how it is predominately the level of precision required that creates differences in which approach is fit-for-purpose.

3. Choosing Techniques to Apply Monetary Value

This section provides an overview and approximate visual display of the levels of accuracy the various approaches can provide, as well as examining some of the key associated risks.

3.1 Accuracy of different techniques

As highlighted, many of the valuation approaches can be applied at different levels of rigour – and could therefore produce different representations of value. It is the responsibility of the decision-maker to appreciate the level of accuracy required to inform the choice between options. The risks of inaccuracy are discussed later in this section, but essentially the risk is that we make a wrong, or sub-optimal decision, thereby impacting on resources, costs, and possibly people's lives. To maximise the social, and/or financial value of activities, it is important to understand the relative worth of different changes in people's lives from the perspective of those with direct experience. Therefore, if approaches are used that are reliant on secondary evidence, and do not directly involve those people or organisations, or the sample size is relatively small, we increase the risk that we will make sub-optimal decisions.

Some approaches do have limitations to the level of rigour they can provide, thereby having a direct impact on the level of resources required. Illustration 1 provides an approximate visual display of each approaches' capacity, based on key interrelated factors that can influence the choice of valuation approach. This is intended (as is much of this document) to stimulate further discussion and debate. For example, for an organisation making resource allocation decisions that affects a small number of people, an approach based on triangulation of third party researched values (with corrections, to account for differences in the affected population, temporal, and currency considerations), or a small sample of stakeholder-defined values may be adequate to inform debates and decisions. This is especially true where the relative values being compared are significantly different to one another, as any potential inaccuracies of valuing each outcome will not unduly affect the decision being made.

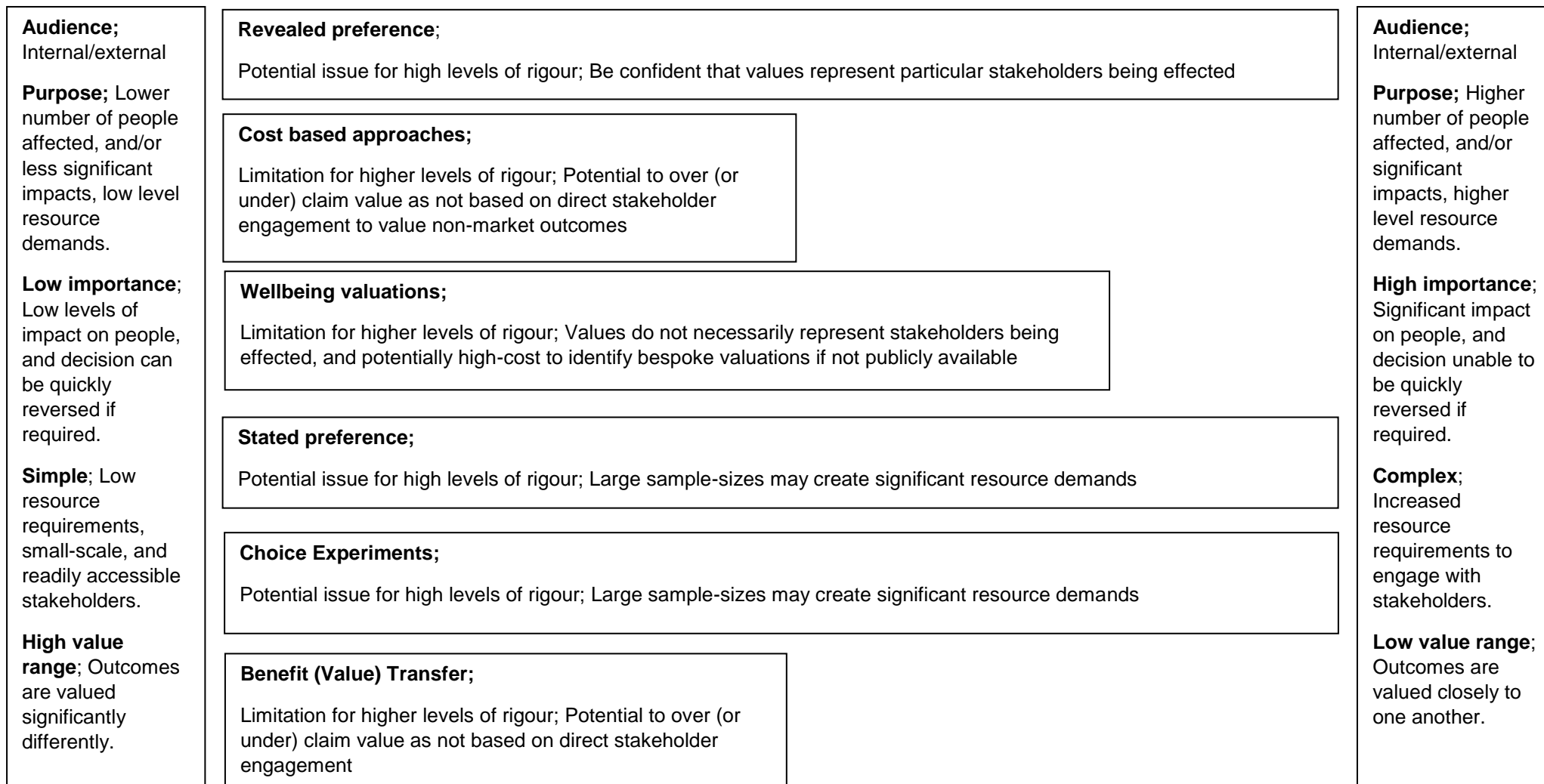
Alternatively, for an organisation making resource allocation decisions that will affect large numbers of people, and where the decision between one approach and another is close, large scale studies involving primary research, using more sophisticated techniques, such as contingent valuation surveys, along with sensitivity analyses may be required.

In many, if not most cases, it is likely that organisations will be somewhere between these two positions, with the answers to the questions on key factors central to the decisions made. Illustration 1 outlines the levels of rigour that each approach to valuation can be applied to. Limitations are highlighted for approaches with restricted capacity, and potential issues to consider when providing higher levels of rigour.

Illustration 1: Approximate visualization of the rigour different techniques to monetise can provide

Low rigour (accuracy)

High rigour (accuracy)



3.2 Risks

As with all issues relating to choosing between options, there are risks. This is true for social accounting, as it is for financial accounting. The major risk in the valuation of social outcomes is that the impact of activities will be different than expected. This is influenced by the level of accuracy in the valuation of changes, although this is preceded by the completeness and relevance of evidence. It is therefore important that those making decisions are aware of the risks, and the potential impacts of selecting incorrect, or sub-optimal choices, including the speed by which poor decisions can be reversed. This should guide their risk-appetite, and influence the level of rigour that is required to inform their choices, and ensure valuation is fit for purpose.

Incompleteness of what is being valued

If decisions are being made based on an incomplete set of evidence, or inaccurate (too high, or too low) magnitude of impacts attributed to the activity, there is a risk that less (or more) value will be created than expected. This is also more likely if the organisation has decided not to account for what happens as a result of its activities, or makes poor decisions on what is material. Similarly, it is more likely if the organisation decides to exclude changes that are considered too difficult to value either by their nature, or by the uncertainty of the outcome. It is always recommended that supportive qualitative, and/or quantitative evidence should be presented with any valuations, and where there is incompleteness, the need for such transparency is even more significant.

Inaccuracy of valuation

Assuming completeness and accuracy in the identification of outcomes and causality, there remains the risk of inaccuracy, if valuations do not accurately reflect the perspective of those with experience of the changes. This means that valuations may under- or over-value changes, and make sub-optimal decisions. This is more likely if stakeholders are not directly involved in the valuation of social outcomes. The reliance on secondary evidence alone creates the risk that valuations identified elsewhere do not accurately represent those stakeholders affected by activities. The same risk applies to situations where stakeholders are involved in the process, whereby regardless of sample size, if they are not sufficiently representative, or the approach has not been effectively conducted, there is the potential for inaccuracy.

4. Assurance of valuations

This section is not intended to be an assurance guide, framework or standard; but instead to set out a number of issues that will need to be considered during an assurance engagement that examines data that values²⁵ impacts (referred to herein as 'valuation data'), and which should be addressed in the future should an assurance framework or standard be developed for valuation data. This paper is intended to start a discussion, and not to be an exhaustive analysis of all relevant issues.

This section sets out:

- 4.1 Definition of assurance and assurance engagements
- 4.2 Scope for assurance engagements that examine valuation data
- 5.3 Purpose of assurance engagements that examine valuation data
- 4.4 Process of an assurance engagement that examines valuation data
- 4.5 The form of assurance statements

4.1 Definition of assurance and assurance engagements

The common language definition of assurance, available in any dictionary, can be stated as a "declaration intended to give confidence"²⁶. But assurance means different things to different people. For the purpose of this document, this could be thought of as a spectrum; with formal Assurance opinions issued by qualified practitioners resulting from Assurance Engagements at one end; and less standardised technical reviews, designed to provide some level of assurance or trust at the other.

In the context of organisational governance, or accounting, such a declaration can be provided as the result of an Assurance Engagement. This is the process by which users of information are given some level of formal Assurance that they can use a given set of information, produced by a responsible party, for an intended purpose; and may be achieved through an Assurance Engagement carried out by an internal or external Assurance Practitioner, resulting in a conclusion of some kind that is shared with the users of information²⁷.

Several institutions have formally defined what is meant by an Assurance Engagement within standards relating to both financial and non-financial information, including sustainability data. These may serve as precedents when defining an

²⁵ In monetary terms

²⁶ <http://www.oxforddictionaries.com/definition/english/assurance>

²⁷ This summary is based on the elements of an assurance engagement included in the Internal Framework for Assurance Engagements, set out by IAASB

Assurance Engagement in the context of valuations. Two examples, which we believe are most relevant to this discussion, are:

- The International Auditing and Assurance Standards Board (IAASB), who have published a number of assurance standards, including the International Standards for Assurance Engagements (ISAEs); define an assurance engagement as *“an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria”*²⁸.
- The organisation AccountAbility, in its AA1000 Assurance Standard for sustainability information, defines assurance as *“An engagement in which an assurance provider evaluates and expresses a conclusion on an organisation’s public disclosure about its performance as well as underlying systems, data and processes against suitable criteria and standards in order to increase the credibility of the information for the intended audience”*²⁹.

But assurance, in a less formal sense that is outside of formal Assurance, can also be obtained through other means than the use of formal frameworks or standards. Users of information may gain some form of confidence or trust without the use of assurance standards; through professional opinions or less formal reviews by ‘critical friends’. These might range from an informal view expressed by a qualified professional; an opinion from an accredited professional (such as the valuation of assets or liabilities); through to a report that formally sets out the work performed and conclusions drawn, but which may not use an assurance framework³⁰.

When assurance is desired over new kinds of information – such as valuation data - it can be challenging to identify the best kind of assurance framework. Indeed, it has been suggested³¹ that the established assurance model is not as supportive as it could be of innovation and experimentation, for the following reasons:

1. The need for robust ‘suitable’ criteria for defining measurement techniques can discourage experimentation, particularly in external reporting;
2. The assurance provided is often limited to the more developed aspects of reporting;
3. Because the information is often ‘softer’, reports will more frequently need to include caveats on the information itself or on the conclusions on that information;
4. There is still a perceived stigma associated with a qualified opinion when reported information fails to fully meet the criteria, or when it wasn’t possible to obtain sufficient appropriate evidence;

²⁸ <http://www.ifac.org/system/files/downloads/b003-2010-iaasb-handbook-framework.pdf>

²⁹ <http://www.accountability.org/standards/aa1000as/index.html>

³⁰ Such work may be carried out in situations where the relevant information doesn’t meet the requirements set out by existing assurance frameworks; meaning that these frameworks cannot be applied.

³¹ ‘Inspiring trust through insight’, PricewaterhouseCoopers LLP (2014), <https://www.pwc.com/gx/en/audit-services/publications/assets/trust-through-insight.pdf>

5. Although assurance reports in some new areas have included more narrative (e.g. AA1000 reports), the primary focus on a 'pass/fail' conclusion provides little scope for recognising ongoing improvement as an organisation innovates and experiments with its reporting.

It will be important to agree what is meant by assurance over valuation data - and the assurance engagements that support this - to ensure alignment between and among the parties responsible for producing valuation data, those practitioners carrying out assurance work and, perhaps most importantly, the users of the valuation data. The definition is likely to be linked to any decision about whether a formal Assurance framework is required; and, if so, whether existing assurance framework(s) or standard(s) can be directly applied in the short term, or whether a new framework or standard is necessary in the longer term.

4.2 Scope for assurance engagements that examine valuation data

As already discussed in earlier sections; impact valuation seeks to measure the impacts that activities have on people, planet and economy; in terms that can be compared relative to one another. This can be achieved in a variety of ways. One way is monetary valuation, which can do this by measuring the changes in peoples' wellbeing in terms of monetary value, by applying impact valuation approaches that are grounded in the principles of welfare economics.

This document considers the scope of assurance engagements, which examine valuations, to cover: (i) the valuation approach; (ii) the practices used to implement that approach (i.e. the calculations); and (iii) the accuracy of data used as inputs to those calculations.

For the purposes of this document, we do not consider within the scope of the assurance engagement:

- Whether a report has identified and considered all material impacts³²; and
- The approaches used to quantify these impacts (i.e. the measurement of the impacts prior to their valuation, where this is a separate step in the process); though it should be noted that gaining assurance over these areas is likely to be an important part of providing assurance over a valuation analysis in full.

Because the majority of data used as inputs to the estimation of social value³³ (such as impact quantities, statistical information, data from existing studies) is additional to that already reported in the financial accounts, it is unlikely that very much – or potentially any – of this information will already be assured through an organisation's

³² In formal Assurance frameworks, determining what information is disclosed is the responsibility of management

³³ Value to society; which may arise as a result of activities that affect the economy, environment, or society directly

existing risk assurance processes. But, it is possible that there may be some overlap, depending on the data used as input to the valuations.

4.3 Purpose of assurance engagements that examine valuation data

A report to users

Traditionally, the purpose of Assurance Engagements examining financial statements can be thought of as enhancing the degree of confidence that there are no material³⁴ misstatements in the financial information, among the users of that information; principally investors, but potentially also other users like the general public. An Assurance report is used to set out information such as the work performed and the conclusion it supports, with reference to the relevant Assurance frameworks.

The users of publicly reported impact valuation data are also likely to include investors. But in this case, the principle users of valuation data may be much broader; since the information describes how various stakeholder groups are impacted by activities. Indeed, it could be argued that, where the purpose of valuation data is to support decisions that minimise negative impacts on society whilst maximising positives; its communication to wider society may be valuable for transparency and accountability.

The purpose of an Assurance Engagement examining valuation data could also be understood as being to enhance the degree of confidence, held by these users, that there are no material misstatements in the *valuation* data. But what do 'material misstatements' mean in this context? This is another issue that would need to be agreed in an Assurance Engagement. Applying this concept to valuation data may not be straightforward given the inherent use of judgement involved in its production (see discussion below) and so it is not something we will try to address here.

For the avoidance of confusion, and in acknowledgement of the above, we instead use the term 'fit for purpose' for now. Valuation data that is fit for purpose is likely to possess such qualities as being:

- Well-grounded in the relevant literature;
- Unbiased and internally consistent in its assumptions;
- Producing data with 'enough precision for the decision' or purpose (such as spatial and temporal granularity);
- To have been implemented consistently; and
- To use input data that is, itself, free from material misstatement.

³⁴ Materiality is a key concept in assurance and elsewhere such as in SROI

We note an analogy with these qualities and the financial statement assertions that are used in financial auditing³⁵ (such as that financial data is complete, accurate, comparable, etc.). Some of these assertions may also be readily applied to valuation data and so added to the list above.

In an analogous way to a traditional Assurance report; this enhanced confidence could be facilitated through a conclusion of some kind, reported to the users of the valuation data by an assurance practitioner, about the valuation process that has led to the valuation data. The purpose of the Assurance Engagement would therefore be to allow the practitioner to justify such conclusions. In this sense, the assurance provider is acting on behalf of the users of the valuation data, which could be interpreted as widely as all those whose impacts are valued and hence are being assured.

Responding to risks that the valuation is not ‘fit for purpose’

Conventionally, assurance engagements seek to identify risks that information is materially misstated. As already discussed, a common understanding should be reached as to what a ‘misstatement’ would mean in the context of valuation data and, in lieu of this, we have used the term ‘fit for purpose’. The overarching risk for valuation data could be described as being if a different decision would have been made with information that was more ‘fit for purpose’³⁶. This means that more ‘fit for purpose’ data would change the ranking of the relative importance of different outcomes as revealed in the valuations and, in particular, the relative direction of a value (whether it is valued as positive or negative in relative terms). Where values of different outcomes are close to one another the risk that more ‘fit for purpose’ data might reverse the ranking increases.

However, to return to our previous point, an Assurance Engagement over valuation data should consider whether, or how, the concept of a material misstatement applies to the valuation information it examines. For instance, it may be straightforward to identify objectively what constitutes a misstatement: valuation processes will include calculations that can be examined for errors and use information that can be examined for attributes such as its accuracy or completeness.

But, for other elements of the valuation process, a ‘misstatement’ may be more subjective and involve the use of professional judgement. For example, the approaches used to produce valuation estimates are often complex and yet to be standardised or agreed and, even for those that may be widely agreed, the context-specific nature of many valuations still requires bespoke refinement. Similarly,

³⁵ IAS 315 (Revised) ‘Identifying and assessing the risk of material misstatements through understanding the entity and its environment’ (IAASB, 2012)

<http://www.ifac.org/system/files/downloads/a017-2010-iaasb-handbook-isa-315.pdf>

³⁶ We deliberately avoid describing misstatements as being ‘incorrect’ in the context of valuations since, due to the use of estimates and, where necessary, assumptions; it would be misleading to suggest that valuations can be ‘correct’. But they can be appropriate, consistent, complete, etc.

professional judgements may be required when selecting the appropriate input data to use in a valuation calculation.

This more subjective element may make it difficult to distinguish a 'misstatement' from a 'difference in professional judgement'. The ability to make this distinction may be important in determining which, if any, assurance framework can be used under the current assurance model.

Responding to the risks posed by professional judgement – 'the smell test'

Because the more subjective risks posed by the use of professional judgement may be more troublesome to address when considering whether to apply an assurance framework, they are worth considering in more detail.

The use of professional judgement creates the risk of inconsistency between the approaches used, which may limit the comparability and reliability of different valuation data by its users. This increases the risk that valuation data is not fit for purpose. For example, when aggregating valuations derived using inconsistent approaches within the same analysis; or, when comparing it with other analyses done at different times or examining different activities or organisations. Judgements are by their nature subjective. And different 'professionals' – or even the same professionals in different situations – may have different judgements based on their technical knowledge, experience and even their ideological standpoint or bias.

For the valuation process, this risk may be managed to some extent by developing agreed valuation standards (as mentioned above), or by introducing accreditation or qualification of practitioners such as through a professional body. But some degree of professional judgement will remain and any assurance process – or any future Assurance framework or standard for valuation data – should acknowledge this. A response could be to require sufficient work to allow a conclusion to be reached as to the suitability of such judgements. Or to require that all assumptions and judgements are fully disclosed along with their likely impact on the valuations, so that the user can see the valuation approach that has been taken and so that the Assurance practitioner can apply this when examining the valuation data.

Whatever professional judgements are used to develop an approach, there are also risks to the reliability of valuations from inconsistency between what is disclosed in the approach and how this is implemented in producing the valuation data. These kinds of risks are considered in existing frameworks, such as ISAE 3000³⁷, which place great importance in the examination of subject matter information against subject matter criteria.

The potential difference in professional judgement between the producer of the valuations and the assurance provider can be seen as positive, both for improving

³⁷ ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' (IAASB, 2013)

the credibility of information and in developing practice in the future. In this sense, the purpose of assurance can be seen to facilitate learning and action.

4.4 Process of an assurance engagement that examines valuation data

General issues

Normative basis of valuations

As discussed in the introduction section, valuation techniques may have different normative positions and those used should take a consistent approach. A pragmatic approach to such epistemological issues would be for the assurance process to be limited to commenting on the normative position taken, and whether this raises any issue in relation to the stated purpose for the valuations.

Existing Assurance frameworks

A number of Assurance frameworks are already established, relating to both financial and non-financial information. These frameworks each seek to give confidence, in their own way, to the users of the information that is being assured. We will not attempt to list them all here, but select a number of those that appear most relevant to this discussion. We also provide an example of where 'sustainability data' has been reviewed with the aim of building trust or confidence to users of information without reference to an Assurance framework. The choice of whether or not gaining assurance of information requires reference to a formal Assurance framework, which framework that is, and which level of assurance within a given framework, will each depend on the audience for, and the purpose of, the valuation data.

The Assurance frameworks produced by IAASB have been developed in the context of accounting and include specific Assurance standards, covering the Assurance of both financial and non-financial data, but share common objectives, definitions and principles, set out in the International Framework for Assurance Engagements (IFAE³⁸). These include, among other things, specifying the kind of Assurance conclusion the practitioner can express (which may be 'Reasonable Assurance' or 'Limited Assurance').

Of these, the standard which may initially appear to be most applicable to the assurance of valuation data (or at least components of the data) is the standard governing 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' (ISAE 3000). For example, in the UK, this is the Assurance standard used by many FTSE 100 companies to gain Assurance over their corporate social responsibility and sustainability data. Amongst other things, ISAE 3000 sets out characteristics that are required of the information being assured (the 'subject matter information') against 'criteria' that sets the context within which

³⁸ <http://www.ifac.org/system/files/downloads/b003-2010-iaasb-handbook-framework.pdf>

the data is understood by users. A conclusion would therefore need to be reached about the extent to which the valuation data met these requirements, before this standard could be used.

Outside of accounting, there exist various assurance frameworks that have been developed for specific types of data.

For example, an Assurance framework that has been used for the reporting of 'sustainability' data (such as Greenhouse Gases³⁹) is the AA1000AS Standard developed by the organisation AccountAbility. This framework is specifically for gaining Assurance over the nature and extent to which an organisation adheres to the sustainability reporting principles it has itself developed; called the AccountAbility Principles. This framework also allows for an Assurance opinion to either be 'High' or 'Moderate'.

Another example is the assurance process developed by Social Value International, which tests Social Return on Investment (SROI) reporting for a good understanding and application of Social Value International's Principles and process. Similarly, to AA1000AS, this provides assurance that information has been produced in accordance with a set of principles. However, it only prescribes a single level of assurance.

Some key characteristics of these three Assurance frameworks are set out in Table 5 below.

Table 5: Some key characteristics of assurance frameworks

Framework	ISAE 3000	AA1000AS	SROI Assurance process
Objective	To provide Assurance that the information is free from material misstatement, with respect to the criteria it is being assessed against.	To provide Assurance on: - the nature and extent of adherence to the AA1000 AccountAbility Principles, and - where applicable the quality of publicly disclosed information on sustainability performance	To provide assurance among readers of SROI reports that they have been produced in accordance with SROI Principles
Levels of assurance	Reasonable Limited	High Moderate	Single level
Performed by	Professional accountants in public practise	Third parties	Accredited SROI practitioners

³⁹ The IAASB have also developed an assurance framework relating to Greenhouse Gases, ISAE 3410, which is also grounded on the principles set out in the IFAE.

It is also worth noting that reports that are not Assurance reports can be used to provide users of information with some level of 'trust' in data. Such reports are frequently used where data is not deemed 'mature' enough to allow formal Assurance frameworks to be applied. Such reports may instead focus on describing to users' issues such as any uncertainty in the way the data is measured, and what controls or processes may sit behind the production of the data. There are a number of forms such reports may take, and they are likely to be highly context specific.

An example of such a report is an 'Insight Report' published by UK business The Crown Estate, examining the data it reported on its 'Total Contribution' to society using a methodology to measure and communicate the impacts from its activities and operations⁴⁰. The Insight Report provided users with an independent and professional view on the maturity of the information underpinning a number of Total Contribution indicators published by The Crown Estate, their preparation and reporting. It did this by assessing each against 6 dimensions, including measurement certainty, consistency and transparency in performance measures; rating each as either 'embryonic', 'maturing' or 'mature'.

Overall Process

The process that might be followed in an Assurance Engagement examining valuation data is likely to be driven by whichever Assurance framework is followed. Table 6 highlights some general stages that are likely to be covered, along with the sorts of questions that may be addressed in each.

Table 6: Stages that are likely to be included in an assurance engagement

Assurance process is likely to include:	Questions to consider may include:
Define scope and purpose	<ul style="list-style-type: none"> • Who are the users of the information and what will they require assurance in relation to? • What data is included and what is not in scope? • What level of assurance is desired by the responsible party / users? • What assurance framework is appropriate given the scope and purpose?
Assess risk in relation to scope and purpose	<ul style="list-style-type: none"> • What is the methodology that has been used to generate outcome / impact valuations? • What is the process that has been followed to go from input data, implement the valuation approach, and produce valuation data? • In terms of the methodology itself, the process followed to implement the methodology, and the input data used in the process; what risks exist that may give rise to material misstatements in the valuation data (i.e. to valuation data that is not fit for the purpose of users)?

⁴⁰ <http://www.thecrownestate.co.uk/insight-report/index.html>

Design programme of tests	<ul style="list-style-type: none"> • Based on the risks identified, what tests are necessary to support a conclusion of the desired form (e.g. reasonable or limited assurance)? • How much information should be the subject of these tests in order to support a conclusion of the desired form? • Are these tests feasible given the available data, time and resources? • What skills and knowledge are required to complete these tests and are they available?
Carry out tests	<ul style="list-style-type: none"> • Have sufficient tests been carried out to respond to the risks identified? • Are the test and their results sufficiently documented?
Draw conclusions	<ul style="list-style-type: none"> • Are the results of the tests sufficient to justify an unqualified - or 'clean' – assurance opinion of the level desired? • Is the assurance opinion expressed in a way that is easy to understand by users and unambiguous?

Testing framework

One of the initial questions that will need to be addressed when embarking upon an assurance engagement that examines valuation data is precisely *what* information is the focus of the assurance exercise. So, this is considered separately here.

As already stated, considering whether a report has identified and considered all material impacts, and the quantification of these impacts, are both outside the scope of this document. However, it should be noted that assurance over the latter may be an important part of providing assurance over a valuation analysis.

As outlined, the valuation process is likely to include activities falling under each of the following headings, which are therefore each likely to require risks assessment and testing in order to gain assurance over the resulting valuation data:

- Identification of an appropriate valuation methodology;
- Design of systems, processes and controls to correctly apply the methodology to input data; and
- Identification and accurate use of appropriate input data.

It is worth noting that, in each of these stages, consideration should be given to the appropriate involvement of those whose values are represented by the valuations themselves, given the purpose of the valuation exercise.

Some of the issues that may need to be considered when designing appropriate tests for each element of the valuation process are discussed in Table 7 below.

Table 7: Some issues to consider when designing a testing approach

Element of valuation process	Issues to consider when designing testing framework
Identification of an appropriate valuation methodology	<ul style="list-style-type: none"> • For the purpose and audience will the method provide valuations with adequate precision / granularity? • What level of ‘misstatement’ in the valuations would be necessary to reverse the decisions made based on the valuations? • What is the risk and cost to users of making the wrong decision? • Are the techniques in the methodology (e.g. stated preference, revealed preference, subjective wellbeing valuation) appropriate given the focus and objectives of the analysis? • Are the assumptions in the methodology consistent with those used in other valuations in the same analysis? • Where assumptions are not consistent across valuation approaches, what is the likely effect of this when values are compared with one another or aggregated? • Where relevant, is the methodology consistent with recognized precedents and accepted approaches? • Are those whose values are being represented involved in the approach to an appropriate extent, given the purpose of the analysis?
Design of systems, processes and controls to correctly apply the methodology to input data	<ul style="list-style-type: none"> • Have systems, processes and controls been correctly designed to implement the methodology? • What is the effect on the risk of valuations being incorrect where there are any issues with how the method was applied? • Are the systems and processes operating as they were designed (e.g. are there errors in the valuation calculations)? • Is there an explanation of the process by which stakeholders’ views were taken into account in a way that is appropriate given the purpose of the analysis? • Where stakeholders have not been directly involved in determining value is there evidence that the values used are nonetheless representative?
Identification and accurate use of appropriate input data	<ul style="list-style-type: none"> • Was data obtained from reliable sources? • Do input data contain uncertainty and what is the risk that this uncertainty may lead to material misstatements in the valuations that result from its use? • Where proxy data is used (i.e. where context specific data was not available) is this data appropriate given the purpose of the valuation data? • Did the data collection process address risks (e.g. of sample bias)? • Was the level of data collected adequate (e.g. coverage, accuracy and detail)? • What steps were taken to determine whether input data was reasonable (e.g. use of peer review, triangulation of results from different methods, etc.)? • If so, and the results were not consistent, how was this addressed? • Does input data include information about the views of those whose values are being represented, to an appropriate extent given the purpose of the analysis?

4.5 The form of assurance statements

An assurance statement – or any statement about the conclusion of work designed to build trust in valuation data – should provide a clear conclusion to those using the information, based on the testing the practitioner has performed.

This could include:

- Details about the work that has been performed and whether it has been carried out with reference to an assurance framework;
- Exceptional items that the users should be aware of when considering the conclusion or the assurance opinion;
- Where a framework is used, the level of assurance justified by the work performed (i.e. whether 'positive' or 'negative'; 'high' or 'moderate');
- A commentary on risk of misstatement in relation to both valuations and to intended purpose;
- The extent of the director's responsibility.

5. Conclusion

This document has been written to provide guidance for all forms of organisation on the valuation of social outcomes. In particular, it has outlined how valuation through applying monetary values is key to understanding the relative worth of changes to people's wellbeing. This allows outcomes to be compared to one another, and the resources necessary for their creation.

The document highlighted how valuation can impact upon a range of business applications, such as improving the means of communicating both internally and externally, and the identification and management of risks and opportunities. Yet, notwithstanding these applications, we have argued that the greatest potential for valuation, is when it is used to influence decisions between options. This can provide meaningful evidence to support the allocation of resources in a manner similar to that of accounting for financial value.

A range of alternative means of monetising social outcomes was outlined, with a number of factors that will influence the choice of approach. These decisions will affect the level of rigour that is required and dedicated to valuation. By rigour, we mean that valuation accurately reflects the relative importance of changes to people's wellbeing, from the perspective of those effected. This affects the level of risk that is created by using data on the value of social outcomes that may be incorrect, and lead to a different decision being taken. Different requirements will create different demands for rigour on those conducting valuation, with an accepted trade-off against levels of risk that we make sub-optimal decisions. Perhaps the most significant issue is that of the audience and purpose for the valuations, with this factor central to the potential scale of impacts, and the ability to reverse decisions rapidly if required.

Other issues such as the need, and availability of resources, and the consistency and variability of the valuations, also have a significant impact on the choice. All of these issues will influence the choice of *what* and *how* to value, and those making decisions need to be provided with sufficient rigour, so as to reduce the risk of sub-optimal decision-making that is proportional to the decision valuation intends to influence.

However, unlike financial accounting, accounting for social value has few standards, and even less regulation or legislation. Yet, the social, economic, and political landscape is changing, and pressures to value social outcomes to effectively account for them is increasing. In response to this evolving situation, SVI's Principles of Social Value provide a framework that guides the *what* and *how* to value, and the Assurance Process provides external confidence that the Principles have been suitably followed, and that the results of valuation are in accordance with best practice.

This report started by outlining SVI's vision of a world that accounts for value differently, with the express intention to reduce inequality and environmental degradation; and it is our belief that to do so we need to understand not only the

direct and indirect effects of activities, but also their relative worth in relation to one another, and the costs of their production. Only by doing so are we able to meaningfully incorporate social impact evidence into decision making, whereby we are better able to make decisions for increased, and even maximised social returns. Only when decision-makers are equipped with such valuations of social outcomes, are we able to claim that activities are contributing to the reduction of inequality, and environmental degradation.

Appendix A – Definitions

Social Outcomes

The many definitions of social outcomes share two common themes. The differences arise from stated or unstated normative starting points:

- A change to people;
- A change which can be attributed to an activity.

Changes to people – type of change that will be included

The changes are sometimes defined as changes in people's lives or in their wellbeing. Some definitions are not limited to wellbeing, where wellbeing is not considered to include all the types of changes to people. Other definitions emphasize aspects of wellbeing.

Welfare economics refers to changes in wellbeing. SVI refers to changes in wellbeing but with a primary focus on inequality. Further, in some definitions, the change is to both people and to society where there are changes to society that are considered not to be, or do not lead to, changes to individual people. SVI refers to changes to the lives of groups of people.

Changes that can be attributed to the activity

Outcomes are generally recognised to be both positive and negative and result from the activity irrespective of the purpose of the activity, and can therefore equally include both intended and unintended changes.

Some definitions limit the focus to specific activities, for example outcomes caused by business or by organisations. Others do not impose a constraint, and also include outcomes caused by changes in the environment, or caused by the activities of individuals or groups of people.

Most definitions do not include a statement about the completeness of changes. Since it is not possible to include all changes experienced by all people that arise from an activity there are implicit definitions of materiality. The approach to materiality generally follows the normative starting point. Welfare economics starts by allowing whoever is responsible for delivering the activity to determine what is material. SVI starts by making those experiencing change responsible for determining what is material, although recognising that this requires judgements to make this feasible. Materiality decisions arise from a body of practice relating to the approach in which the ability of those responsible for the activity to decide what is material varies, but the judgement requires assurance that the decision is consistent with the body of practice. In financial accounting the organisation has no role in deciding what is material and the assurance of judgements is by reference to generally accepted standards and considerable body of practice.

Social Impact

Extending the idea of social outcomes, social impacts is the appropriate share of the change that is a result of the activity in question. Some state that the definition relates only to the intent of those responsible for delivering the activity, and generally focuses on intended positive outcomes and specifically excludes unintended positive or negative changes. Alternative perspectives acknowledge the importance of a broader inclusion of inputs and outcomes, and one that naturally leads to a more nuanced approach to understanding the impacts of activities, with key issues outlined below:

The first issue to consider is the duration to which an outcome will last. If, as a result of an activity, an outcome will last for more than a single year, it is appropriate to project the outcomes over a suitable timeframe, albeit with a suitable discount-rate incorporated to reflect the present value of changes.

Secondly, consideration of the extent to which outcomes would have likely occurred without the specific activities acknowledges the counterfactual, or deadweight. As with all considerations of valuations, the level of rigour to which this issue requires will depend predominately upon the purpose and audience of the evidence, with techniques ranging from pragmatic means that ask stakeholders for their opinion, to random control groups.

The contribution of other external factors such as individuals or organisations also requires inclusion so as not to over-claim the impact of the activity in question. The appropriate level of attribution to other sources will therefore potentially reduce the overall value that is the result of activities, although this also provides potential to better understand the role of other potential partners in the creation of value.

Activities have the potential to displace the creation of outcomes elsewhere, and as such need to be considered for a broad appreciation of impacts and accountability. Much cited examples of displacement include issues such as interventions to prevent crime that merely transport problems to other areas, and the employment of people, which unless is centred on the creation of wholly new opportunities will naturally mean others have not realised the same change.

Social Value

There are three main definitions of social value. In the first social impact and social value are synonymous.

The others include a definition of social impact, but then refer to the relative importance of different changes where this information will inform choices between mutually exclusive activities, which as discussed can only be realised by applying monetary values to social outcomes.

These split between those which relate to solely non commensurate description of changes to inform relative importance and those like welfare economics which

assign a measure to the outcomes that makes them commensurate. Welfare economics and the Principles of Social Value generally, but not exclusively apply monetary values to achieve this. The focus on inequality in SVI means that monetary values are always used as a means to express the relative worth of social impacts created by activities, in relation to other changes, and their costs of production.

Social Capital

Depending on the normative position, social capital is the stock. For welfare economics, this would be the stock of wellbeing at a point in time. This can also be valued and is then analogous to the stock of financial value in a balance sheet.

Alternatively, social capital is the value that can be placed on the relationships between individuals and communities, be it horizontal bonding between homogenous groups, or bridging to those outside of one's immediate group⁴¹, or vertical linking social capital to those with access to power and resources⁴².

The relationship between environmental and social outcomes

Some changes to the environment often lead to changes in the lives of people. These changes can be positive or negative and this is the social value that is being created or destroyed. Consistent with the definition of social value, where changes to the environment have effects on specific groups of people, they can be valued by those experiencing the change.

Other changes to the environment either do not lead to changes in the lives of people, or it is not possible to predict the change. These changes can only be valued by reference to the values of those people using the information to inform decisions.

Monetary values, financial proxies and valuation

Value is a measure of, or an approach to identifying the relative importance of a change, or to an object. Valuation is the process taken to determine the relative importance.

Financial proxies are estimates of value that act as a reference point to determine the relative importance of outcomes.

⁴¹ Putnam, R. W. (2001). Social Capital: Measurement and Consequences. Canadian Journal of Policy Re-search, 2 (1), 41–51.

⁴² Woolcock, M. (2001). The place of social capital in understanding social and economic outcomes. ISUMA, Canadian Journal of Policy Research, 2 (1), 225 – 249

Monetary values are the assigning of a financial proxy as a representation of value for an outcome, where there is not a market price for that outcome.

Materiality

Information is material if its omission has the potential to affect the readers' or stakeholders' decisions.

Assessments of materiality address the relevance and significance of stakeholders and their outcomes. This principle ensures that valuation addresses important issues, and prevents under- or over-claiming.

Appendix B – Resources

Resources on Specific Valuation Techniques

[Measuring the Social Impact of Community Investment: A Guide to using the Wellbeing Valuation Approach \(2014\) – Lizzie Trotter, Jim Vine, Matt Leach, and Daniel Fujiwara](#). This is a 42-page summary of Subjective Wellbeing Valuation, and how to apply it to a lightweight framework for measuring social impact.

[Measuring the Social Impact of Community Investment – The Methodology Paper \(2014\) – Daniel Fujiwara](#). This Paper goes into more detail about the Subjective Wellbeing Valuation approach.

[The Guide to Social Return on Investment](#). Pages 45 - 52 set out an introduction to valuing outcomes and some of the different methods such as hedonic pricing, travel cost / time value method etc.

[The Social Capital Protocol Toolkit](#). Provides links to a range of potentially useful tools and guidance

[Valuation Techniques for Social Cost-Benefit Analysis: Stated Preference, Revealed Preference and Subjective Wellbeing Approaches \(2011\) – Daniel Fujiwara and Ross Campbell](#). This 64-page report, produced in July 2011 for the UK's Department for Work and Pensions and HM Treasury, provides an introduction to some of the main valuation techniques used in cost-benefit analysis, and examples of their application.

[Value Game](#). The official website for the Value Game – a stakeholder-led valuation approach which uses stated preference.

Examples of Valuation from the Private Sector

Kering – Environmental Profit and Loss (E P&L)

Kering were one of the first companies to start valuing their environmental impact in monetary terms. They do this using a methodology they have named 'Environmental Profit and Loss (E P&L)'. To use their words, E P&L '[makes the invisible impacts of business visible, quantifiable and comparable](#)'.

In May 2015, Kering made E P&L [completely open source](#), giving other companies access to the methodology to enable them to apply it to their own practices.

Kering's E P&L resources include:

- [Online summary of E P&L](#), the thinking behind it and a summary video
- A [100-page report](#) on the E P&L methodology and the Kering Group results

BT – Valuing Digital Inclusion

As a follow up to an SROI assessment of their Get IT Together programme, BT produced an additional study: [Valuing Digital Inclusion](#). This assesses the value of being digitally included for individuals, and contains some useful summaries of different valuation techniques.

KPMG – True Value Methodology

KPMG have developed a framework called 'True Value', which '[helps organisations to understand and quantify the value they create and reduce for society](#)'.

To find out more about True Value, take a look at one of the following resources:

- [Introducing KPMG True Value](#). An 8-page summary of the methodology with brief examples and FAQs. See also their [three-minute video](#).
- [A New Vision of Value: Connecting corporate and societal value creation](#). A more complete, 116-page report on True Value which looks at drivers (internalisation of externalities), and provides detail of the methodology and in-depth case studies
- Case studies of the True Value methodology:
 - [Holcim / Ambuja](#) case study, and their [2014 Integrated Profit and Loss account](#)
 - [NS \(Dutch Railways\)](#)
 - [Volvo Group](#)

PwC – TIMM (Total Impact Measurement and Management)

TIMM is a [methodology developed by PwC](#) to help their clients attain a more complete understanding of value creation and destruction, incorporating economic impact, tax impact, social impact and environmental impact.

To find out more about TIMM, see the following reports:

- [Measuring and managing total impact – strengthening business decisions for business leaders](#)
- [Measuring and managing total impact – A new language for business decisions](#)
- [Measuring Tourism's Impact – a Pilot Study in Cyprus](#)
- [Measuring Tourism's Impact – a Pilot Study in Cyprus Methodology](#)

Miscellaneous Articles around the topic of valuation

[Why Wellbeing Should Drive Growth Strategies](#) – a 60-page report on the Boston Consulting Group's Sustainable Economic Development Assessment (SEDA). SEDA is a framework which measures how well a country converts wealth (measured by income levels) into wellbeing, compared to other countries.

[Social Capital in Decision-Making: How social information drives value creation](#) – this report from the WBCSD and KPMG explores how measuring social capital can be used to understand, demonstrate and manage business performance to ultimately create more social value.

[Towards a Social Capital Protocol – A Call for Collaboration](#) – this document outlines rationale and road ahead for the WBCSD's Social Capital Protocol program.

Appendix C – Social Value Principles

The Principles of Social Value provide the basic building blocks for anyone who wants to make decisions that take this wider definition of value into account, in order to increase equality, improve wellbeing and increase environmental sustainability. They are generally accepted social accounting principles

1. Involve stakeholders

Inform what gets measured and how this is measured and valued in an account of social value by involving stakeholders.

Stakeholders are those people or organisations that experience change as a result of the activity and they will be best placed to describe the change. This principle means that stakeholders need to be identified and then involved in consultation throughout the analysis, in order that the value and the way that it is measured, is informed by those affected by, or who affect, the activity.

2. Understand what changes

Articulate how change is created and evaluate this through evidence gathered, recognising positive and negative changes as well as those that are intended and unintended.

Value is created for or by different stakeholders as a result of different types of change; changes that the stakeholders intend and do not intend, as well as changes that are positive and negative. This principle requires a theory of how these different changes are created, which is informed by stakeholders and supported by evidence. These changes are the outcomes of the activity, made possible by the contributions of stakeholders. It is these outcomes that should be measured in order to provide evidence that the change has taken place.

3. Value the outcomes that matter

Making decisions about allocating resources between different options needs to recognise the values of stakeholders. Value refers to the relative importance of different outcomes. It is informed by stakeholders' preferences.

There are various ways of achieving this. One method is to use financial proxies which as well as revealing preferences, also means that the value can be compared with the cost of the activity. This can be an effective means of communicating value in order to influence decisions.

4. Only include what is material

Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.

One of the most important decisions to make is which outcomes to include and exclude from an account. This decision should recognise that there will be many outcomes, and a reporting organisation cannot manage and account for all of them. The basic judgement to make is whether a stakeholder would make a different decision about the activity if a particular piece of information were excluded. An assurance process is important in order to give those using the account comfort that material issues have been included.

5. Do not over-claim

Only claim the value that activities are responsible for creating.

This principle requires reference to baselines, trends and benchmarks to help assess the extent to which a change is caused by the activity, as opposed to other factors. Reporting on and managing the outcomes that have been determined with the affected stakeholders will enable other people or organisations to better understand how they can contribute to creating value, avoiding negative outcomes and encouraging a system or collective approach to achieving outcomes.

6. Be transparent

Demonstrate the basis on which the analysis may be considered accurate and honest, and show that it will be reported to and discussed with stakeholders.

This principle requires that each decision is explained and documented in relation to: stakeholders, outcomes, indicators and benchmarks; the sources and methods of information collection; the different scenarios considered; and the communication of the results to stakeholders. This will include an account of how those responsible for the activity will change the activity as a result of the analysis. The analysis will be more credible when the reasons for the decisions are transparent.

7. Verify the result

Ensure appropriate independent assurance.

Any account of value involves judgment and some subjectivity. Therefore, an appropriate independent assurance is required to help stakeholders assess whether or not the decisions made by those responsible for the account were reasonable.