



International  
Valuation  
Standards  
Council

**PERSPECTIVES PAPER**

# DEFINING AND ESTIMATING SOCIAL VALUE

PART II

July 2022

# Defining and Estimating Social Value

## Part II

The IVSC issues Perspectives Papers from time to time, which focus on pertinent valuation topics and emerging issues. Perspectives Papers serve a number of purposes: they initiate and foster debate on valuation topics as they relate to the International Valuation Standards (IVS); they provide contextual information on a topic from the perspective of the standard setter; and they support the valuation community in their application of IVS through guidance and case studies.

Perspectives Papers are complementary to the IVS and do not replace or supersede the standards. Valuers have a responsibility to read and follow the standards when carrying out valuations.

By: Alexander Aronsohn and members of the IVSC's **Social Value Working Group**

The IVSC has issued this Perspectives Paper as the second in a series designed to initiate discussion and debate on the topic of Social Value. Share your thoughts and perspectives with us through LinkedIn.

### Introduction

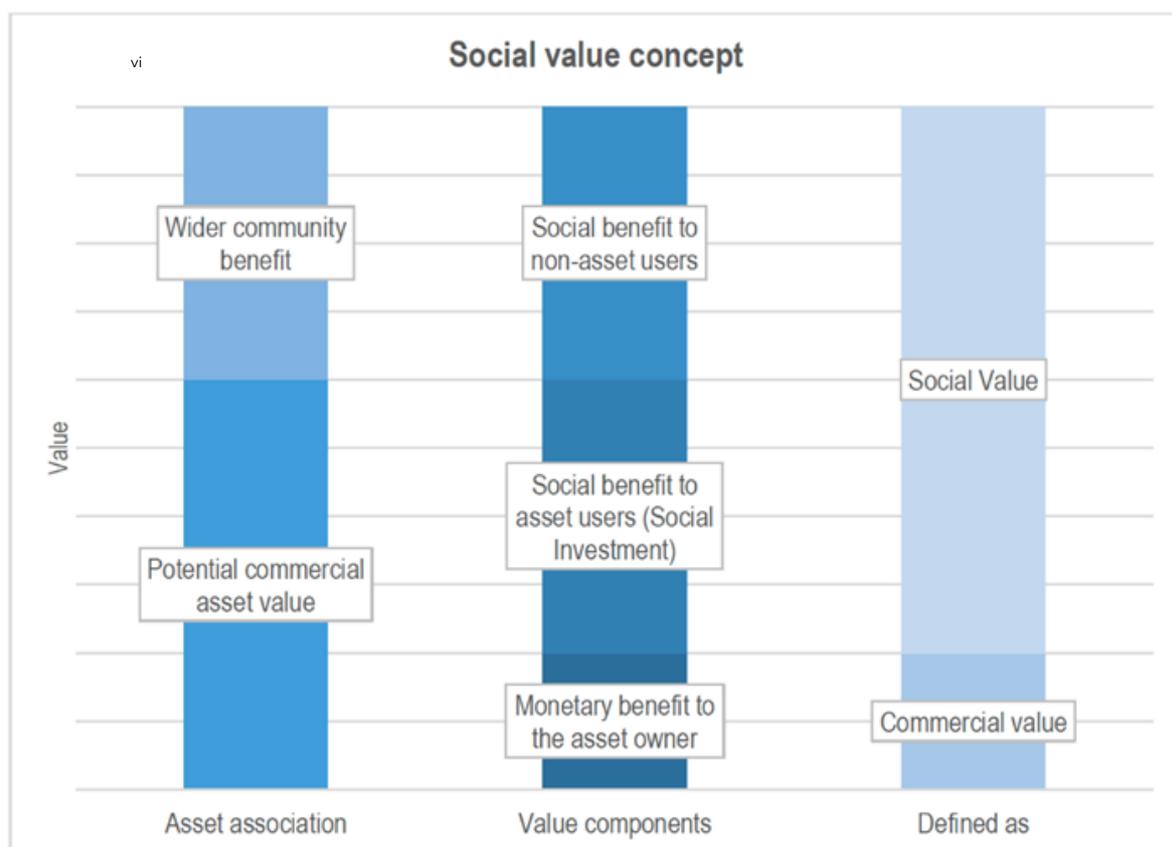
Further to the publication of the IVSC Perspective Paper on “*Defining and Estimating Social Value*” and the responses received from the questions attached to that paper, the IVSC Social Value working group has been working on a second perspective paper in the series to further explore many of the issues raised. This second paper in the series examines whether Social Value can be a basis of value, the difference between Social Value and the Social component of ESG, and whether the existing valuation principle of highest and best use can apply to Social Assets and Social Value.

### Is Social Value a Basis of Value?

When we consider Social Value we are assessing the value accruing to users and non-users of the asset(s) in question, which is far broader than the providers of capital alone.

A number of respondents raised the question whether Social Value<sup>1</sup> should be considered a Basis of Value.<sup>2</sup> However, the concept of Social Value, does require a Basis or Bases of Value to be specified to convey, to a prospective user, the parameters used in the assessment of value, for example, from whose perspective Social Value has been assessed.

The Perspectives Paper identified a number of different components that fall within the Social Value concept or framework, some of which may meet the definitions of existing Bases of Value, such as Market Value, Fair Value, etc., however other elements may not fit within any existing Basis of Value. This is predominantly a function of the fact that Social Value is intended to capture elements of value from the perspective of non-owners, whereas value as its traditionally known typically only considers the benefits to the owner. (See diagram below).



[1] 'Social Value' includes the social benefits that flow to asset users (social investment) and the wider financial and non-financial impacts including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users - IVSC Perspectives Paper: Defining and Estimating "Social Value".

[2] Basis (bases) of Value: The fundamental premises on which the reported values are or will be based (in some jurisdictions also known as standard of value) - IVS Effective 31 January 2022.

The Working Group have also met with key stakeholders such as the International Public Sector Accounting Standards Board (IPSASB) who published an exposure draft on Measurement published in 2021. The object of this was to define “measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities.” The paper examines “operational value”, which is defined as the “value of an asset used to achieve the entity’s service delivery objectives at the measurement date.”

IPSASB are in the process of considering “current operational value” as an alternative basis of value to “fair value” for financial reporting of public sector assets.<sup>3</sup> The Working Group noted some synergies between the two concepts as “the objective of a current operational value is to estimate the value of a non-financial asset in achieving the entity’s service delivery objectives at the measurement date.”

However, though there are some synergies between these terms the Working Group felt that the concept of current operational value was slightly more limited.

This is because the concept of Social Value can potentially be used to help users identify and (potentially) measure the positive (and negative) impacts on society of investments in all Assets, whilst acknowledging that it is likely to be most relevant to Social Assets. Some of these impacts are measurable in terms of their direct monetary impact (such as discounted medical services), while others are obviously non-monetary in nature and may include more intangible elements such as social cohesion or wellbeing.<sup>4</sup>

Because social benefits often flow principally to a community or asset users, rather than the asset owner, the Working Group has described these elements as Social Investment. For these reasons the Working Group believes that each of these elements should be considered in their own right, within the overall framework of Social Value. The Working Group therefore continues to hold the position that Social Value should be considered a valuation concept or framework in which a number of different Bases of Value and other elements play a part rather than a single Basis of Value.

[3] International Public Sector Accounting Standards Board (IPSASB) exposure draft on Measurement, published in 2021: <https://www.ipsasb.org/publications/exposure-draft-ed-77-measurement>

[4] Although it may be possible to ascribe a notional monetary measure of ‘value’ to some or all of these intangible elements.

## The difference between Social Value and ESG

In the responses received from recent IVS consultations it was noted that there was some confusion between the difference between Social Value and the Social element of ESG, which can generally be seen as comprising the following components: -

- Community relations
- Conflict
- Customer satisfaction
- Data protection and privacy
- Development of human capital (health & education);
- Employee engagement
- Gender and diversity
- Health & safety
- Human rights
- Working conditions

In the previous perspectives paper on *“Defining and Estimating Social Value”* it was stated that *“Social Value includes the social benefits that flow to asset users (social investment) and the wider financial and non-financial benefits including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users.”*



Whereas ESG can be defined as *“the criteria that together establish the framework for assessing the impact of the sustainability and ethical practices of a company or asset(s) on its financial performance and operations.”*

ESG comprises three pillars; environmental, social and governance, all of which collectively contribute to effective performance, with positive benefits for the wider markets, society and world as a whole.

There is crossover between ESG and Social Value however the two concepts are separate. The social component of ESG can include elements of Social Value such as community relations, but viewed from the owner’s perspective.

Social Value is about the contribution of the asset viewed from a non-owners perspective, in a broader context, such as the contribution made by community facilities or other Social Assets to the wider community.

The social component in ESG, when effectively managed, is generally value accretive or at the very least value preserving. For example, if a company does something within the social element of ESG, it may have a positive effect on the value of the company, or at the very least will restrict negative effects on the valuation through mitigation of future risks and liabilities. Moreover, the components within ESG are often interlinked and therefore the social component of ESG may also be linked to the quality of governance.



Social Value can be seen as an amalgam of benefits that accrue to a range of stakeholders and the breadth of perspectives for Social Value is vast. An asset may have a different Social Value to different stakeholders and to quantify this the perspective will need to be clearly defined in the scope of work, basis or bases of value in the valuation assignment.

Moreover, when looking at the value components of Social Value, though the monetary benefit to the asset owner and the social benefit to asset users (Social Investment) will often form part of the potential asset value, in most markets the social benefit to non-asset users currently lies outside the valuation process despite being a component of Social Value. However, in some markets such as Australia, the Social Investment element is largely encompassed in a Fair Value context, when considering the valuation of Social Assets. Finally, whilst the concept of Social Value has relevance to both for-profit and not-for-profit-entities, it is largely related to public sector and charity assets held by entities with a not-for-profit focus (Social Assets).



## Can the Highest and Best Use apply to Social Assets and Social Value?

In respect of Social Value, it can be inappropriate to use commercial highest and best use as defined and understood from a financial reporting and/or secured lending perspective. In the first Social Value perspectives paper we considered “highest and best use” in relation to land converted into a cemetery in an example:

---

*“The permitted use of the land is subsequently amended to the specific public use as a cemetery. On one interpretation of highest and best use principles, this has the effect of materially diminishing the value of the land (from a commercial perspective), because those alternative uses are no longer permissible.”*

---



The “interpretation” of commercial highest and best use referred to in the example is the classical interpretation taken from the perspective of the asset owner. Such an interpretation is inappropriate when considering Social Value. This is perhaps obvious for governments, not-for-profit-entities and other social organisations who exist to serve a group other than their providers of capital, however the same applies when assessing the Social Value of a for-profit activity or organisation.

This point of view is also supported by some of the responses received following the previous IVS Social Value Perspectives Paper and as highlighted in the IPSASB Measurement Exposure Draft, where several respondents raised concerns in relation to the relevance of adopting the principle of highest and best use for public sector assets.

When considering Social Value, we must put aside the commercial interpretation of highest and best use as applied in financial statements for for-profit entities. In this instance, financial statements are prepared to show the financial position of a specific legal entity.

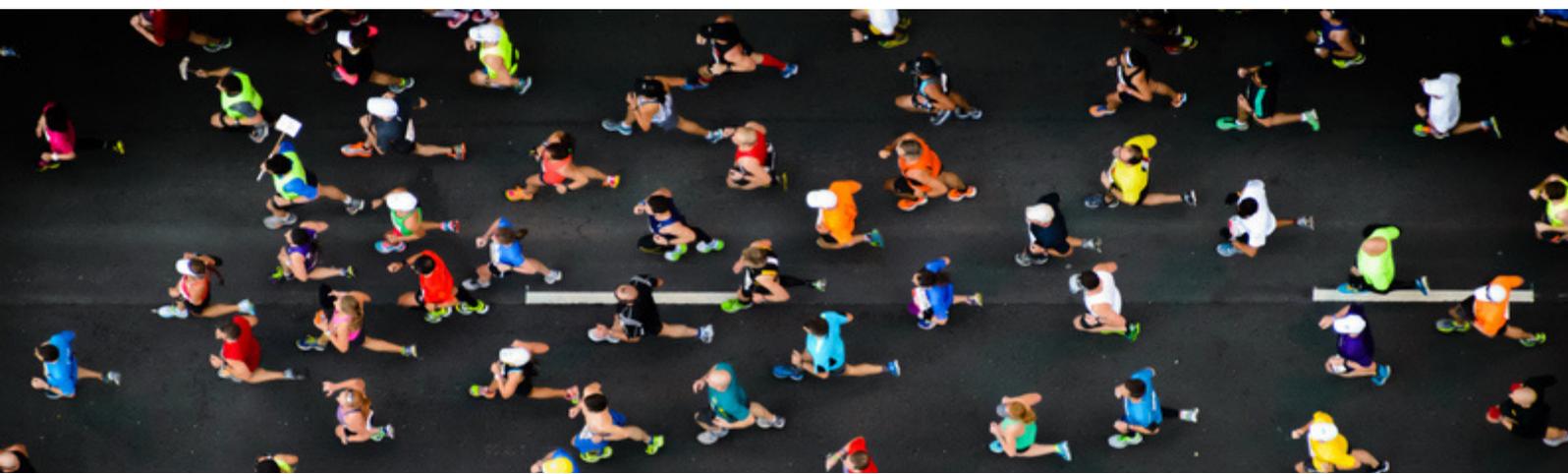
The definition of Market Value under General Standards *IVS 104: Bases of Value*, section 30.4 states:

---

*The highest and best use is the use of an asset that maximises its potential and that is possible, legally permissible and financially feasible. The highest and best use may be for continuation of an asset’s existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid.*

---

The first two sentences of this commonly used definition are agnostic to whom the benefits accrue. Maximising potential is a matter of perspective and will vary from party to party. Furthermore, we might readily anticipate that a non-owner, or non-profit motivated owner might have a different opinion of the best use to a profit-driven owner.



It is in the third sentence we consider from whose perspective; maximising potential is considered. A market participant will normally include all potential providers of capital, but not the non-owner users or non-users who may be impacted positively or negatively by the existence or operation of the asset(s). An example of this may be with the purchase of land for use as a cemetery, this may not apply.

In the case of Social Value, we have to determine the highest and best use from the perspective of a wider group as social value considers all elements of value from the perspective of non-owners, for example users and the local community. This brings us again to the importance of determining the Basis of Value used as the foundation for assessing the Social Value of an asset.

Perhaps the most important element of a Basis of Value for the assessment of Social Value is determining the stakeholders (e.g. users and non-users living within 20km) to be considered. This requires greater consideration than for a commercial basis of value as stakeholders are likely to significantly outnumber owners.

When considering highest and best use this raises two important questions:

1. Which population(s) should be considered in a highest and best use assessment?
2. How does one ascribe a value to the positive and negative impacts arising from the asset in question?

We address each of these in turn below.

### **Population Selection**

The selection of the population can result in very different highest and best use determinations, as the examples below illustrate:

#### ***Example (i) Polluting chemicals plant***

Town planners in City A have a choice. They have a plot of land that can be designated either for organic farming or developed into a chemicals plant. The chemicals plant would create more jobs and has offered to fund infrastructure improvements in the City. The chemicals company however has a track record of discharging its toxic waste into rivers. City B is directly downstream of City A.

Highest and best use likely varies significantly depending on the population considered. The negative impacts felt in City B from a chemicals plant may well outweigh the positive impacts in City A.

From City B's perspective an organic farm would be the better use. The result of a highest and best use assessment would be different if it only considered the population of City A versus both Cities together.

#### ***Example (ii) Global warming***

A country has a choice between abolishing a project or supporting it for another 10 years. The project produces a vast amount of global warming gasses (CO<sub>2</sub>, N<sub>2</sub>O and CH<sub>4</sub>) but is helping lift the population out of poverty. There are no other negative effects of the project.

From the perspective of everyone in the country and indeed the surrounding countries who would benefit from their wealthier neighbour there is a strong positive Social Value and no better use. However, globally the contribution to greenhouse gasses while minute for any one individual or population, in aggregate would cause the project to have a net negative Social Value. From a global perspective there are many better projects the country could pursue.

These two simplified examples illustrate the importance of careful selection of the population considered when assessing Social Value. The valuer should consider the various potential impacts arising from the asset and identify the potentially affected populations.

## Impact Value

The second question, assuming the population(s) included in the assessment have been identified, gets to the heart of the question of highest and best use. In a commercial assessment of highest and best use “the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid” is likely to be a function of their expected returns on the asset.

As highlighted above when considering Social Value, only some of the impacts have a directly measurable monetary impact, such as improved healthcare outcomes arising from the introduction of a new healthcare facility or reduced transport costs arising from the introduction of a new rail link. Many, such as welfare improvements may have indirect benefits that are harder to quantify. Nonetheless the value attributable to all impacts must be determined in order to rank the net value of different potential uses, and hence identify the highest and best use.

Having regard to each of the above, in a Social Value context the highest and best use concept may need to be expanded or reframed.

## The future of Social Value

In recent years the concept and quantification of Social Value has become prominent on the community agenda, particularly in developed and emerging markets, with increasing accountability of governments and charities when using public funds to construct and manage assets as trustees on their behalf. As the world continues to develop in a digital and increasingly connected world, this does not look like abating.

Whilst strategic project evaluation, capital allocation, prudent budgeting and timely auditing of capital expenditure are always under the microscope, so too is the expectation that trustees account for and accurately measure value associated with these assets on an ongoing basis. In many countries, this is now expected by the community and associated stakeholders to ensure that public funds are appropriately managed and periodic value measurement forms a key pillar of these asset management frameworks.

But along with this expectation is also the need for value measurement associated with Social Assets to be transparent, comparable and principles based, all of which requires the development of appropriate standards under which Social Value can be measured consistently across borders.

We hope that this series of perspectives papers has helped to provide an insight into the concepts, challenges and opportunities that Social Value presents. As always, the IVSC would be interested to hear any further thoughts on the topic, and the following series of questions may guide you in providing this feedback:

1. Do you think that the definition for Highest and Best Use within a Social Value context needs to be expanded or reframed, and if so, how would you revise the existing definition?
2. Should governments and charities be maintaining a Social Value balance sheet in addition to their traditional balance sheets?
3. Do you consider that the current discussions on ESG adequately addresses Social Value concepts in both a for-profit and not-for-profit world? If not, what would give this discussion more prominence and stimulus?
4. With the information that is presently available, is it possible in most situations to accurately quantify and measure Social Value? If yes how, and if not, what is missing?

The IVSC will continue to consider the topics in this article, and feedback outside our formal consultations is always welcome. You can share your thoughts with the Board or contribute to the discussion through the [IVSC website](#) or [LinkedIn group page](#).

You can contact the authors through the IVSC at: [contact@ivsc.org](mailto:contact@ivsc.org)





International Valuation Standards Council  
20 St Dunstan's Hill  
London  
EC3R 8HL  
United Kingdom  
[www.ivsc.org](http://www.ivsc.org)