**Get Real with Mission Economics: Simplifying Social Value**

UK Treasury guidance couldn’t be clearer for those of us involved in estimating social and public value. Values must be “real terms” and “present values” to be credible and business case ready.

Why should you care?

* With proper adjustment, you can accurately compare your social benefits to the costs investment – that’s crucial, to generate your Social Return on Investment (SROI).
* Without proper adjustment, you’ll damage your credibility with central and local government, or other key funders.
* Inflation has been high in recent years, so you could be undervaluing your social impacts by a substantial amount. For example, if you’re relying on values estimated five years ago, then you’re SROI could be around 20% higher than you’re currently claiming.

**Non-technical explainer**

Inflation

Prices tend to go up over time. The speed at which they’re changing is the rate of inflation. When people say spending has gone up or down in “real terms” it means they’ve controlled for inflation, so that you can make better comparisons on how the real value of goods and services had changed.

The Green Book states that social values should always be expressed in “real” prices. In most cases, the Treasury recommends adjusting for ‘whole economy’ inflation using their own published inflation index, called the ‘GDP deflator’. You may have heard of other popular inflation measures like the Consumer Price Index (CPI) – if you’re using the CPI for social values then you should probably switch to using GDP deflators, to follow best practice.

There are price indices that apply to specific types of goods and services. This recognises that some prices rise by more or less than the average across the economy. For example, Information

Technology has become relatively less expensive over time, whereas land used for development has become relatively more expensive. You can use these specific measures but the Treasury say that they must be justified, “based on objective evidence…transparently set out in the business case and assumptions agreed with the approving authority”.

Again, if you use the GDP deflators in Get Real then you can’t go far wrong - it’s best to treat exceptions to the rule as exactly that.

You’ll see that we provide a couple of specialist options. Hover over the tooltips (question marks) in the calculator if your like to learn more about those. Or delve into the technical guidance.

Present Values

Imagine I offered you £100 today, or £100 in a year’s time. Which would you take?

People generally prefer benefits now rather than in the future. Discounting is the process of determining how much future money is worth today, based on society’s preference for present benefits over future ones.

Discounting is solely concerned with adjusting for social time preference and is a completely separate concept from inflation. So, we need to apply the Treasury discount rates to real values,

with the effects of general inflation already removed.

If you expect your social costs and benefits to all take place in the present year, then you don’t need to use discounting. But if your social values accrue in year 1, 2, 3… then discounting is important so you can estimate your social return on investment in ‘present values’.

**Technical Guidance**

Technical guidance is based on the core HM Treasury Green Book. You can see where inflation and discounting appear in the social value appraisal process here [pop out a png clipped from Green Book].

Adjustments for inflation

Costs and benefits in appraisal of social value should be estimated in ‘real’ base year prices. This means the effects of general inflation should be removed. The effect is to inflate nominal values estimated in years before the base year, and to deflate values in years after the base year

**F**or short time horizons, whole economy inflation (the “GDP deflator”) is taken from the most

recent forecasts by the Office for Budget Responsibility (OBR). Since this will cover most applications in social value analysis, we stick to these in Get Real. But it’s worth being aware that for long time horizons, forecasts of the GDP deflator published in the OBR Fiscal Sustainability Report (FSR). And for even longer time horizons, beyond the end of the OBR’s FSR, the GDP deflator should be

extrapolated using the growth rate in the final year of the OBR’s projection

For some goods or services the Green Book notes that there may be a relative price effect i.e. the movement of a specific price index (e.g. construction) may differ significantly from the general inflation (such as the GDP deflator). Where there is historical evidence and an expectation this will continue in the future, different rates of inflation can be used to reflect the relative difference. For example, Information Technology has become relatively less expensive over time and land used for development relatively more expensive. Where prices or values are expected to grow in real terms, these assumptions must be based on objective evidence, for example, long term trends in relevant indices. These assumptions should be transparently set out in the business case and assumptions agreed with the approving authority.

Discounting and Social Time Preference

Discounting is a technique used to compare costs and benefits occurring over different

periods of time on a consistent basis. Discounting should be applied to all future costs and

benefits. Discounting in appraisal of social value is based on the concept of time preference – that

generally people prefer to receive goods and services now rather than later.

For individuals, time preference can be measured by the real interest rate on money lent or

borrowed. Amongst other investments, people invest at fixed, low risk rates, hoping to receive

more in the future to compensate for the deferral of consumption now. These real rates of return

give some indication of their individual pure time preference rate. Society as a whole, also prefers

to receive goods and services sooner rather than later. This is known as ‘social time preference’.

The discount rate used in the Green Book is known as the ‘social time preference rate’ (STPR). It is

the rate at which society values the present compared to the future.

The STPR has two components:11

¨ ‘time preference’ – the rate at which consumption and public spending are discounted

over time, assuming no change in per capita consumption. This captures the preference

for value now rather than later.

¨ ‘wealth effect’ – this reflects expected growth in per capita consumption over time,

where future consumption will be higher relative to current consumption and is expected

to have a lower utility.

The STPR used in the Green Book is set at 3.5% in real terms, with exception for health and wellbeing

values which use a lower rate of 1.5%. The derivation of the discount rate can be found in Annex 6 of the Green Book.

The Table below shows the present value of £1,000 declines in future years with a discount rate of 3.5%.

**Present Values and Discount Rate**

**Year 0 1 2 3 4 5 6 7 8 9 10**

**Value** £1,000 £966 £934 £902 £871 £842 £814 £786 £759 £734 £709

The main role of discounting is to put interventions with different time spans and benefit

cost profiles on to a common “present value” basis. In the longer term (over 30 years), the STPR

declines in a series of steps to allow for future uncertainty in the value of its constituent parts,

as explained in Annex 6 of the Green Book. Get Real also adopts these longer-term values.

The accompanying tables in Annex 6 and associated tables

on the Green Book web pages show both the discount rate and discount factors that can be used

to calculate a present value.

Discounting is solely concerned with adjusting for social time preference and is separate

from adjusting for inflation. The recommended Green Book discount rate applies to real values,

with the effects of general inflation already removed.

To promote transparency the best practice approach is to first convert costs or benefits to a real price basis, and then perform the discounting adjustment. The inflation rate and discount rate should not be added and applied to costs and benefits.12 that;s why Get Real provides separate calulators for inflation adsjustment and discounting. By default we populate ‘Get Present’ with your real terms values from ‘Get Real’, and ask you to give the present year (default is 2024) and year in which the value will be realised.

In appraisal, discounting should never be applied retrospectively to costs and benefits that

have already occurred. Values do not increase simply because activities took place in the past

(although of course the value of some assets may tend to increase over time). So if you’re seeking to adjust a social value from the past, you only need to use Get Real

Discounting and the calculation of NPSV are illustrated further in Box 15.

**5.39** Costs to government of raising funds (either through taxation or borrowing) are not a

decision variable because the planned level of public spending is decided in advance when the

budget is decided. It is at this macroeconomic stage that borrowing costs are considered. The

decisions that are the concern of the Green Book are about the allocation of the given funds to

meet government objectives in way that optimises social (that is public) value for money. The STPR

is therefore not linked to the costs of raising funds (either through taxes or borrowing).

Time horizon

Once inflation has been removed, your values will be in the correct ‘price year’. This may be sufficient for social value analysis where you are valuing social impacts in the current year only.

However, if you’re comparing costs and benefits over a project lifetime should be calculated over the lifetime of an intervention. As a guideline, a time horizon of 10 years is a suitable working assumption for many interventions. In some cases, up to 60 years (or possibly longer) may be suitable, for example for buildings and infrastructure. This would usually be agreed with the “approving authority”, so whoever is making a decision whether your project should go ahead.

Since Get Real calculates values for a single year only, you probably wouldn’t use this to estimate real terms and present values over multiple years. But you can download the CSV file which has all the relevant deflators and discount rates to do your own calculations. You can then use Get Real to quality assure your estimates.

**Tooltips**

Calendar years or financial years? This doesn’t matter a great deal but the Treasury provide GDP deflators for both, and they do differ a bit in value. It’s good to check which of these your unadjusted social values are CY or FY. If you’re preparing an investment case, you might also need to check whether the decision makers have set a preferred base year in FY or CY.

Standard social values or wellbeing values? Most social costs and benefits can be adjusted using the standard GDP deflator series. There is a special set of social values based on changes in ‘wellbeing years’ (WELLBYs), a measure of changes in overall life satisfaction. If you’re using WELLBYs then inflation adjustments are a bit more complex. We need to account for the fact that - the more money we have as a society - the less happiness we gain from a bit more. See technical guidance for details.

Why should I trust Get Real? What’s Mission Economics and who’s behind this app?

Mission Economics is, well, just me - Allan Little, a freelance economic consultant with a passion for social value analysis. I worked in Government for 18 years. Doing award-winning cost benefit analysis. Building widely used web applications for major departments. Sitting on the Green Book’s Chief Economist Advisory Group for more than a decade. And co-authoring the Treasury Wellbeing Appraisal Guidance.

I has a slight bug bear in Government that we didn’t make it easy for social value practitioners to do the basics – like price adjustments. The guidance was hidden away in the Annexes of 300+ page pdf guides. Every analyst was expected to search for inflation data on the Government’s websites and then repeat the same spreadsheet calculations. Often making mistakes because it’s easily done, when you’re a little unsure or up against a deadline.

Well, having founded Mission Economics, the civil service shackles are off! My Mission is to demystify social value analysis and make it much easier to access and follow best practice. There’s lots about social value analysis that is hard. But inflation adjustment is a fairly simple process that we all need to follow - so let’s make this accessible, repeatable and consistent across public, private and social sectors.

Get Real is completely free and open access. No logins. No paywalls. No data collection. Think of it like that online exchange rate calculator you used before you last holiday, to work out how many Euros you needed to take.

Don't let imprecise valuations undermine your impact. Get Real with your social value analysis. Get ready for your next investment case to impress your funders. Try the app today.

Mission Economics. Analysis to propel your mission.

Even trained social value practitioners delete prices yet as trained practitioners know these must be in real terms and present values this matter because otherwise we cannot compare manifests benefits with costs we might undervalued important benefit from your social impact report as that becomes stated stated.and you will lose all credibility with the Treasury government departments and other informed funders there’s a simple fix, let’s get real with mission economics new app to adjust your values in just a few clicks Stop get help get real and get ready for your next business case

In today's world, the true worth of social impacts is often overlooked. Transitioning from narrow government metrics to a broader understanding of social value has been a revelation. Social impacts are often quoted in varying terms, making it challenging to present them accurately. However, as seasoned practitioners know, these values must be expressed in real terms and present values to ensure they are meaningful and comparable.

Why does this matter? Without proper adjustment, we cannot accurately compare the benefits and costs of different initiatives. This oversight might lead to undervaluing crucial benefits from your social impact report, ultimately damaging your credibility with the Treasury, government departments, and other key funders.

But there's a simple fix. Our new app, "Get Real with Mission Economics," allows you to adjust your social value figures in just a few clicks. This tool is grounded in the principles of the Green Book, ensuring technical accuracy while remaining user-friendly for non-economists.

Don't let imprecise valuations undermine your impact. Get real with your data, get ready for your next business case, and maintain the trust of your stakeholders. Try our app today and make your social value assessments credible and compelling.