PRO BONO ECONOMICS

The Economics of Community Asset Transfers

An Economic Framework to define and measure Social Value in Community Asset Transfers

A Pro Bono Economics report for Power to Change

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power to change

Contents

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Power to Change

Power to Change (PtC) is an independent trust, established in 2015 to support and develop community businesses across England.

It was set up in response to growing recognition of the challenges faced by communities in maintaining vibrant local places with access to shops and services, opportunities for employment and skill development, a strong local fabric and a sense of positive future.

Core to this is a recognition of community business as a new model for local change. All of PtC's programmes are directed to achieving this. The Power to Change Research Institute evaluates Power to Change programmes against these long-term outcomes.

Power to Change has been established as a ten-year initiative. Its aim is to accelerate the growth and impact of community business. Its ambition is to create better places through community business. Success at the end of these ten years would mean that community business is a better recognised and more highly-valued approach to addressing local economic, social and environmental challenges.

Pro Bono Economics

Pro Bono Economics (PBE) is a charity supporting third sector organisations in measuring performance, improving services and tracking outcomes

PBE seeks to improve the effectiveness of the charitable sector, in particular when evaluating the impact of its activities, and when presenting these results to an external audience. It also aims to provide a mechanism by which the economics profession can contribute to a well-functioning charitable sector, both as an end in itself and as part of professional development for economists.

Through PBE, economists offer their services free of charge to charities who request help, mainly addressing questions around measurement, results, impact and value. Many charities are without the tools to do this, or to do it sufficiently well to satisfy funders and the public.

As Power to Change aims to support community businesses, local authorities and other commissioning bodies in appraising, implementing and evaluating CATs, with a specific focus on social value, its values and its mission are aligned with those inspiring PBE's projects.

This is why PBE is proud and enthusiastic to support Power to Change's activity with this report and hopes to make an impactful contribution to the CAT environment with this product.

Foreword by Sir Alan Budd

I am delighted to introduce this report on behalf of Pro Bono Economics, a charity of which I am patron, and Power to Change, the Big Lottery endowment trust that is supporting community businesses to create better places across England. I am pleased to see Pro Bono Economics and Power to Change embark on a strategic partnership beginning this year, which will see economics used to answer a number of important questions about community business in England.

This report is an excellent example of how Pro Bono Economics is helping charitable organisations drive policy objectives using economic evidence. Our volunteers spanning five government department [1] have established an economic framework for developing, appraising, implementing and evaluating Community Asset Transfers (CATs). This pioneering framework, aimed at supporting Local Authorities (LAs), as well as community businesses and third sector organisations, will enable them to unlock the potential of local assets that Power to Change estimates could be as high in value as £7 billion in England alone (Sunday Mirror, 2017).

Community businesses are driven by a desire to benefit the communities in which they exist. They have the potential to empower local people and develop spaces, places and communities for the better; ultimately improving the social and economic prospects of local livelihoods.

Community businesses are relying more and more on CATs; their business models often driven by the assumption that community assets can be accessed to build their business. A CAT is the transfer of the ownership and/or management of an asset from the public sector to a community organisation for less than the asset's market value, to achieve social, economic or environmental outcomes in the local community. An example of a typical asset transfer is public land or buildings owned by a local authority given to or leased by a community business or group.

At a time when many parts of the country face cuts, neglect and social problems, Power to Change wants to make sure local areas survive and stay vibrant. This report will help Power to Change to do just that – enable local communities to grow and flourish, even in a rapidly changing economic climate, by harnessing the value of local assets that might otherwise be left empty or unused to stimulate local activity, regeneration and growth.

I am extremely excited about the potential results of the practical application of the findings of this report and commend Pro Bono Economics for mobilising its highly skilled, professional volunteers in pursuit of such an interesting and pertinent cause.

[1] *Department for Work and Pensions, Department of Health, Office for National Statistics, Cabinet Office and the Valuation Office Agency.*

Executive Summary

Community businesses are locally rooted businesses driven by a philosophy of community benefit, enterprise, inclusiveness and community control. The community business market has grown steadily in recent years reaching a peak of around 7,000 businesses in 2016, employing over 36,000 staff, engaging nearly 200,000 volunteers and generating more than £1 billion of income each year in a wide range of sectors.

A common feature across community businesses in different sectors is for their business model to be heavily reliant on and/or driven by Community Asset Transfers (CATs). A CAT is the transfer of the ownership and/or management of an asset from its public-sector owner (usually a local authority) to a community organisation for less than market value. These transfers are made in order to achieve social, economic or environmental outcomes in the community in which the asset is located.

Both the community business and the CAT markets are experiencing significant levels of growth: more than 60% of councils have a CAT policy in place, and more than 70% have an up-to-date asset management strategy (Gilbert, 2016). Data on Local Authorities' (LAs) surplus assets suggests that the potential size of the CAT market could be above £2bn, with the main opportunities concentrated in big county and city councils (Audit Commission, 2014 and NHSE, 2017).

CATs have the potential to deliver significant social and economic benefits. But the evidence on benefits delivered by CATs to date is very limited. In addition, there is limited guidance on how to develop, appraise, implement and evaluate CATs. Public authorities – typically local authorities and clinical commissioning groups – considering CAT projects need to be able to understand how best to appraise the value these projects could deliver.

This report addresses this gap by providing guidance for public authorities and community businesses on developing, appraising, implementing and evaluating CATs. It sets out:

1. A robust decision-making framework for assessing community business and CAT projects (section 1);
2. Guidance on how to define social value in the context of CATs (section 2); and
3. Guidance on how to measure social value in the context of CATs (section 3).

Economic framework for assessing CATs

When considering the opportunities offered by CATs, we recommend that the community business sector strengthens its focus on evidence and analysis. This is so that public authorities can make evidence-based decisions on how to allocate assets efficiently and effectively to enterprises capable of delivering the best value to local communities.

To support these decisions, we propose a structured economic assessment framework that clearly defines the objectives of the CAT, transparently identifies different options for the use of the asset, and rigorously assesses the costs and the benefits associated with each of these options. The framework provides a robust method to ensure that decisions have the best chance of promoting the public interest.

The assessment framework that we propose recommends that public authorities and community businesses:

- Foster the development of constructive, open and transparent relationships at the beginning of the CAT process.

- Research the context in which the CAT will operate and identify a rationale underpinning the transfer.

- Outline the scope of the project, think about desired outcomes, necessary actions to meet objectives and targets to measure success. These targets should be SMART and consider constraints and dependencies.

- Create a comprehensive list of alternative options, eliminating unviable options and those that fail to meet the SMART objectives, to create a shortlist of preferred options.

- Always consider a 'do minimum' and/or a 'do nothing' scenario accounting for what would happen in the absence of the CAT. This is to provide a benchmark for appraisal.

- Create a list of everyone affected by the project, list all of the costs and benefits that will impact them, attempt to estimate a monetary value for each one, and compare cost to benefits ratios across different options.

Defining social value
Measuring social impacts requires a definition of social value. In the context of CATs, we define social value as the wider social, economic or environmental benefits generated by a CAT. We recommend public authorities and community businesses:

- Continue to consider social value in the context of CATs, even when it is not required by the Social Value Act or General Disposal Consent Order.

- Use a non-prescriptive definition of social value, in line with the current literature on the topic. Social value must link to the intended outcomes. Any attempt at a precise definition would exclude its use in a number of contexts and would be inconsistent with the main objective of social value legislation.

Measuring social value
Having considered different approaches to measuring social value, we recommend using cost benefit analysis, and supplementing it with other approaches as required.

- We believe that the rigour and the robustness of cost-benefit analysis (CBA) should always be the starting point when attempting to measure the social value of CATs. Even when it can't accurately capture all of the social outcomes that a CAT is expected to deliver, CBA provides decision makers with a robust, tested and widely recognised conceptual framework.

- When decision-makers do not have the resources to conduct a full cost-benefit analysis, the "valuing worth tool" developed by Birmingham City Council represents a valid and cost-effective support for decision makers.

- When conventional cost benefit analysis tools are not able to capture some of the social outcomes expected from a CAT, LAs and commissioners should be clear and transparent about the reasons why CBA tools are not fit for purpose. Commissioners can use the three stages well-being valuation tool developed by HACT[2] to estimate the monetary value of the soft outcomes that conventional cost benefit analysis tools have not been able to capture.

- We recommend using Social Return on Investment (SROI) only in exceptional circumstances, as it is often not fit for purpose in the CAT context, it is very resource intensive and two different SROI measures cannot be compared.

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[2] The Housing Associations' Charitable Trust (HACT) works with housing providers and their partners to support their work in neighbourhoods and with local communities

We recommend a flexible and balanced approach to appraising CATs. Evidence should be used at both an operational and decision-making level. Organisations should be clear and transparent in recognising what this evidence is telling them and what it is not, and should have the intellectual courage to acknowledge these limitations and address them using intuition and creativity.

INTRODUCTION

Purpose of the Report

The objective of this report is to set out an economic framework for developing, appraising, implementing and evaluating community asset transfers (CATs). The report provides local authorities (LAs), commissioning bodies, community businesses and policy-makers with:

1. An economically sound decision making process for assessing community business and CAT projects (section 1);
2. Guidance on how to define social value in the context of CATs (section 2);
3. Guidance on how to measure social value in the context of CATs (section 3);
4. References to other useful documents and resources in Annexes and throughout the report.

This report has been written for LAs' finance officers and estate managers as well as for community businesses and other third sector organisations involved in CATs. It is also relevant for policy-makers and third sector organisations working on and with the Public Services (Social Value) Act to inform current and future policy decisions in the sector. As such, it aims to be accessible to professionals and volunteers without previous experience in policy appraisal and economics. At the same time, the framework presented in this report aims to be thorough, evidence based, consistent with the principles outlined in HMT's Green Book (i.e. the official guide to policy appraisals published by the Treasury), and with the concepts underpinning the Public Services (Social Value) Act.[3] Whilst the introduction and the first two sections are more discursive and tend to focus on the big picture, section 3 and the annexes are more technical and detail-oriented.

The report aims to provide complete, accessible and easy-to-navigate high-level guidance on the most appropriate way to appraise proposed CATs. The examples and case studies included in the report should be used for illustrative purposes only. They briefly illustrate how the framework could be applied, but they do not aim to replace a full economic appraisal of different asset management options.

The report is complemented by a short guide to the economic appraisal of Community Asset Transfers, which sets out in less than ten pages the key steps that a public authority should make when appraising the economic impact of CATs.

This report is positioned in a relatively new stream of economic literature aiming to improve and strengthen existing approaches to cost-benefit analysis and policy appraisals in general. The paper on infrastructure valuation recently published by the Institute for Government (IfG, 2017), the conference organised by the What Works Centre for Wellbeing (WWCW) on the role of well-being in policy-making (link) as well as the upcoming publication of an updated version of HMT's Green Book (link) highlight the growing interest in this topic as well as its relevance to the policy-making process at both a national and local level.

The remainder of this section introduces Power to Change and Pro Bono Economics. Next, we provide an overview of the community business sector and CATs. We then describe expected CATs' outcomes, and evidence on these outcomes.

[3] The framework proposed by this report will not replace or integrate any part of the existing government's public procurement policy framework nor any section of the existing guides to appraisal and evaluation in government (i.e. Green Book, Magenta Book and related guidance).

The Community Business Sector

This section provides a definition of community businesses, and an overview of the scale of the sector. Community businesses are locally rooted businesses driven by a philosophy of community benefit, enterprise, inclusiveness and community control. They present a unique way of truly empowering local people, giving people from all corners of their local community the power to change their spaces and places, and improve the social and economic prospects of their community in the long term (RSA, 2017).

Community businesses differ from charities because they generate revenues and profits. Community businesses are a particular type of social business in which commercial and social goals are combined with an emphasis on delivering social value in the local community to which the business belongs.

From a legal perspective, community businesses can take many different forms. The majority seem to have adopted one of the following 3 legal structures[4]:

- **Company Limited by Guarantee (usually with charitable status) or (since 2013) Charitable Incorporated Organisation**. In this case, the charitable benefit is locked into the organisation and there is a strong presumption of delivery of local social value in all activities. This legal form does not have a direct implication for the distribution of ownership, which may be very limited or may involve widespread membership and engagement.

- **Industrial and Provident Society (IPS) or Community Benefit Society**. In this case, there is a presumption of widespread engagement and democratic accountability (one member one vote), which typically generates dispersed and equal ownership. IPS can exist either to benefit its own members or the wider community, with community businesses normally focusing on the latter.

- **Community Interest Company.** This legal form does not have a direct implication for the distribution of ownership and is usually chosen as a structure for organisations with more restricted membership and control, with limited community accountability and engagement. It is used for companies delivering social value as part of their core mission (but which are not charitable in nature).

The community business market has grown steadily in recent years, reaching a peak estimate of around 7,000 businesses in 2016 (Power to Change, 2016). Community businesses operate in a wide range of sectors with most growth observed in sport and leisure, where a strong policy direction towards sport for social impact has emerged.

Many community businesses are seen as successfully preserving or developing important services for the local community, with the potential to deliver benefits across a number of areas. Often, community businesses are seen as the only type of organisation whose model can support the sustainable continuation of service provision. They can mobilise volunteers, which enables them to then deliver a positive impact in a more efficient way.

Community based organisations can be much more effective at engaging people than other types of organisation because they are close to and directly accountable to their community (Sport England, 2015). As a result, communities that come together to plan and deliver services are found to often deliver more inclusively and responsively than state run services.

Recent evidence suggests that community businesses employ over 36,000 staff, engage nearly 200,000 volunteers and generate more than £1 billion of income each year. Moreover, the

[4] based on PtC grantee data, which is available on our website here http://www.powertochange.org.uk/research/power-change-grants-2015-2016/).

research has identified a strong growth potential in sectors such as housing, health and social care (Power to Change 2016).

Community Asset Transfers (CATs)

This section defines community asset transfers (CATs) and outlines the scale of the opportunities for CATs. It also makes recommendations on building the evidence base in order to make the most of these opportunities.

Recommendation: Building evidence to maximise opportunities for community businesses
For community businesses to make the most of the significant opportunities offered by CATs, they need to demonstrate their capabilities and contribution to commercial and social value in their communities. To do this, we recommend the community business sector strengthens its focus on **evidence and analysis.** This is so that community businesses can support public authorities in making evidence-based decisions on how to allocate assets efficiently and effectively to enterprises that are capable of delivering the best value to local communities.

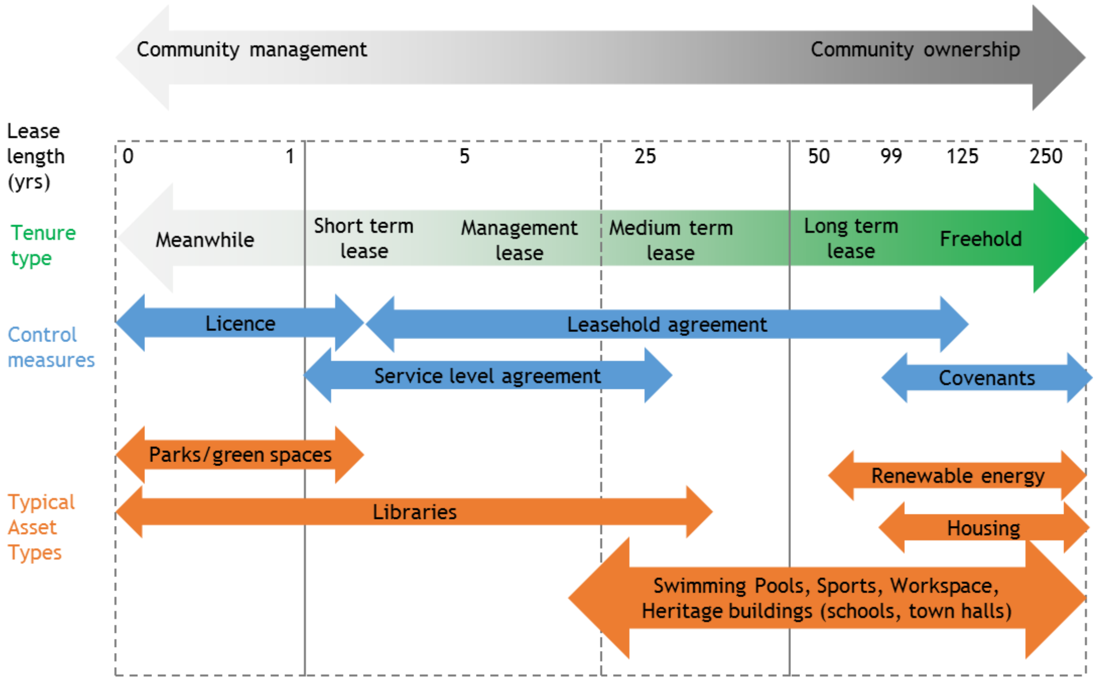
A common feature across community businesses is for their business model to rely on and/or driven by CATs. A CAT is the transfer of the ownership and/or management of an asset from its public sector owner to a community organisation for less than market value, in order to achieve social, economic or environmental outcomes in the community in which the asset is located. A typical example is a transfer of public land or buildings from a local authority or clinical commissioning group to a community business.

Thousands of buildings and spaces across the UK, such as community centres, swimming pools, town halls, libraries and parks, have been transferred to and successfully managed by community businesses aiming to deliver a combination of commercial and social value for the benefit of their local community.

There are several legal options for CATs, but most tend to be long term leasehold arrangements (25+ years at a 'peppercorn' rent) to enable external funding to be secured, although a shorter term arrangement might be more appropriate as a 'stepping stone' to a more substantial agreement in the future (Locality, 2017).

As shown by the diagrams in Annex C, community involvement in the ownership and management of an asset can take different forms. This report focuses on the forms of community ownership outlined in the right-hand side of figure 1 below, namely medium and long term (25+ years) leasehold and freehold arrangements and to assets with an estimated value of more than £1m.

FIGURE 1: SPECTRUM OF ASSET TYPES SUITABLE FOR CAT DEPENDING ON LEASE LENGTH AND TENURE TYPES



The principles outlined in this report can clearly be applied to less valuable assets and to less durable forms of community ownership, especially when these are seen as a 'stepping stone' towards a more long-term agreement in the future.

Evidence suggests that both these types of CATs are playing an important role in the community business sector and have a significant potential to grow over the next decade.

For example, a recent survey of LAs in England showed that most LAs have experience of CATs: more than 60% of councils have a CAT policy in place, and more than 70% have an up-to-date asset management strategy, to which community businesses can refer when expressing an interest in taking over a publicly owned asset in their local area (Gilbert, 2016).

In 2014, LAs have reported more than £2.5bn of assets deemed surplus (Audit Commission, 2014). In 2017, NHSE reported £280m of surplus land (NHSE, 2017).

These figures show the great potential for expanding CATs in future. To benefit from this potential, community businesses need to demonstrate their unique capabilities and tangible contribution to commercial and social value in their local communities.

LAs, clinical commissioning groups and other public sector organisations will play a crucial role in making community enterprise projects successful, by ensuring that assets are allocated efficiently and effectively to enterprises capable of delivering the best value to local communities.

Expected CAT Outcomes

This section outlines the expected outcomes of CATs, and makes recommendations for distinguishing between the different types of benefits that CATs can deliver.

Recommendation: Identifying benefits delivered by the CAT
Commissioning bodies should clearly distinguish between the benefits delivered by the CAT and those delivered by the services provided through the transferred asset. Commissioning bodies and community businesses should ask themselves: what would happen if the services provided by the community business were delivered in a different asset?

The Quirk Review (2007) highlighted the importance of allowing communities to own and manage community assets. Since then, a number of research studies have tried to explore the potential value that this emerging business model could deliver.

Many of the benefits expected from CATs are centred around the idea that asset transfers lead to community empowerment (Quirk Review, 2007; Hothi, 2008), which in turn results in an increase in wellbeing within the local community. This is believed to transmit itself through two main channels (Power to Change 2016a):

1) stronger feeling of having an impact/ability to influence decisions in the area (e.g. through active involvement in the design and delivery of services);

2) better connection and interaction with neighbours (e.g. through strengthening resilience to shocks and allowing for well-coordinated emergency responses).

It is important to distinguish between the benefits delivered by the asset transfer itself and the benefits delivered by the services provided through the transferred asset.

For example, the value generated by a “CV and skills” training centre hosted in a LA owned building transferred to a community organisation can deliver benefits through two different channels: the training programmes themselves and the possibility for trainees to actively participate in the management and maintenance of the building, providing the opportunity to develop and apply the new skills and competencies learnt during the programme. Whilst the benefits delivered through the former channel could be delivered by a comparable training centre under a different management and ownership structure, the value added through the latter channel is delivered by the CAT itself.

We recommend that commissioning bodies clearly distinguish between the benefits delivered by the CAT and those delivered by the service. Commissioning bodies and community businesses should ask themselves: what would happen if the services provided by the community business were delivered in a different asset?

In synthesis, public authorities should always establish, together with all stakeholders involved, whether the services provided by the community business could be delivered in a different asset or in the same asset under different ownership and management structures. This exercise will generate three categories of benefits.

First, benefits delivered solely by the community ownership of the asset (e.g. innovation and entrepreneurship generated by the involvement of the community in the ownership and management of the asset). Second, benefits delivered by the services delivered in or through the assetthat would not be delivered under different ownership or management structures. Third, benefits delivered by the services delivered in or through the asse that would be equally delivered under different ownership or management structures.

Whilst the first two types of benefits should be included in the economic appraisal of a CAT, benefits belonging to the third typology should clearly be identified and excluded from the analysis as it would significantly bias the result of the appraisal and would make it impossible for the public authority to assess whether a specific CAT could deliver value for money for the local community and, ultimately, for the taxpayer.

The boxes below list the most frequently cited benefits in relation to the community and the economy respectively. These benefits are directly attributable to CATs and need to be considered in relation to the services that are provided in the asset.

Summary: Anticipated community benefits of CATs

- Community empowerment
- Social inclusion/ reduced social isolation
- Safeguarding of social services
- Social cohesion
- Strengthening of community networks
- Increased sense of belonging to the local community
- Enhanced heritage and cultural identity of the local area
- Stronger relationship of trust in community
- Improved quality and user satisfaction
- Improved participation and use

Source: Gilbert, (2016a); Davies et al. (2017); Sports England (2017)

A large proportion of the community benefits of CATs relate to improvements in the social status and mental wellbeing of local residents. For example, existing literature on the benefits of community pubs suggests that the diverse social functions of a community pub mean that it can play an important role in contributing to social cohesion, social capital and reducing social isolation (Dunbar, 2016; Co-operative Pubs, undated).

Given that the community business model may sometimes be the only sustainable way to preserve a particular social service, a CAT could prevent the loss of social services that are highly valued by the community. Being a representative of the service recipients means that community businesses are better able to understand local residents' values and needs, which could in turn be very helpful when it comes to improving the quality of a service and customer use/participation. Moreover, allowing the community to directly influence decisions is believed to contribute to a stronger sense of accountability and empowerment.

As highlighted in the box above, most of the benefits expected from CATs at a community level are personal and subjective outcomes. As such, they are particularly difficult to define and measure. Section 2 and section 3 aim to support community businesses and public authorities in addressing some of the issues created by these two challenges, focusing on social value definition and measurement respectively.

Summary: Anticipated economic benefits of CATs

- Increasing community's self-sufficiency
- Training opportunities
- Employment opportunities
- Generating and keeping income streams in the local area
- Stimulating local entrepreneurial and social activities
- Reduced crime and vandalism allowing for savings for local police
- Fewer people suffering depression allowing for savings for NHS
- More confident volunteers become more employable as a result
- Increase participation and use of assets and services

Source: Gilbert, (2016a); Davies et al. (2017); Sports England (2017)

In contrast, the economic benefits listed in the box above are relatively less complex to define and measure and public authorities are typically better equipped to account for these factors when making both strategic and operational decisions.

By preserving the provision of a social service, community enterprises can contribute to maintaining or improving training and employment opportunities for local residents. This could in turn have a positive impact on the local economy.

Moreover, further spill-over effects could include savings from reduced crime, violence, or health treatment of people suffering from depression in the area. In terms of profitability, successful community businesses are found to be able to create their own demand via community engagement and support.

Once again this highlights the economic benefits that could be specifically attributed to the business model. In addition, the possibility for local people to choose local suppliers of services or products means they could directly stimulate local entrepreneurship and contribute to keeping income streams in the local area.

Finally, CATs can be transformational, particularly at the ownership end of the spectrum. Asset ownership can create a new level of community engagement and can transform community pride and well-being ("WE own it"). It can be an important statement of the ambition and planned longevity of a community business ("we're around for the long haul") and the balance sheet strength and organisational heft that can come with asset ownership can both facilitate further growth in the good times and can provide a safety net in the lean times.

Evidence of CAT Outcomes

This section outlines the evidence on the outcomes of CATs, and makes recommendations on the approach that should be used to assess CATs.

Recommendations: Assessing CATs
• Public authorities should adopt a structured project assessment approach that clearly defines the objectives of the CAT, transparently identifies different options for the use of the asset and rigorously assesses the costs and benefits associated with each of these options. • The community business sector should strengthen its focus on evaluating and measuring the commercial and social value it delivers to local communities and to society as a whole.

There is a large literature exploring the potential outcomes of CATs in general, and of allowing community businesses to own and manage community assets in particular. However, very few studies have tried to quantify the magnitude of these outcomes and the extent to which they can be replicated in other contexts.

To the authors' knowledge, the only ex-post evaluation of a CAT programme that includes some quantitative information on its impact on the local community has been conducted in Kirklees (Icarus Collective, 2016).

The study found evidence that many community businesses have become stronger as they have progressed through the CAT process. More specifically, they attracted new people to their boards and they have gained more confidence in and control of the decisions that affect the future of their organisation.

It also highlighted the importance of timely advice and support from public authorities. Although evidence of the benefits associated with asset transfer for some local communities has emerged already, it seems too early to assess with a reasonable amount of certainty whether these benefits have actually been generated by the CAT process.

In 2010, the Big Lottery Fund commissioned a longitudinal evaluation of the CAT Programme they developed and implemented. The evaluation accompanies the programme over eight years in order to capture what outcomes and impacts are achieved through the 16 funded projects. The third of four evaluation stages focused on end of programme outcome evaluation (Thomas and Trier, 2016). A more detailed post programme impact evaluation will be published in 2018.

Again, there seems to be early evidence of some positive outcomes in most cases, but it is too early to assess whether a causal link exists between the CAT programme and these outcomes and, more importantly, whether the investment in the programme represented good value for money.

In particular, the programme has been found to have generated greater confidence and enthusiasm for CAT projects and processes within public sector organisations and the majority of CAT projects, enterprises and activities have been launched broadly as planned.

Finally, a recent study of community ownership through small groups of volunteers conducted between 2014 and 2016, clearly showed that the positive impact that volunteers' ownership can have on the operation and the management of a community business. Indeed, volunteers have demonstrated a commitment to increase local involvement and expand the range of service users, highlighting the importance of attracting volunteers that are representative of community (Findlay-King et al., 2017).

Summary: Evidence on outcomes of CATs

Published evidence on the outcomes of CATs shows the following impacts:

- Strengthening business capability of community organisations;
- Attracting new people to their boards;
- Increasing the level of control community organisations have over their decisions;
- Strengthening relationship of trust and support between public authorities and community businesses;
- Greater confidence and enthusiasm for CAT projects; and
- Incentive to increase local involvement and attract volunteers who represent the community.

Apart from these few exceptions, the quantitative and qualitative evidence of benefits delivered by CATs appears to be anecdotal and not sufficiently robust to draw sound conclusions.

This lack of evidence seems to be caused by three main factors:

- difficulties measuring social benefits (e.g. social cohesion);
- a lack of consistent and accessible guidance on appraising, monitoring and evaluating performance of CATs;
- the very local nature of some of the outcomes delivered by CATs.

This report aims to address these factors.

More specifically, in order to ensure a fair allocation of assets, we recommend commissioning bodies to adopt a structured project assessment approach that clearly defines the objectives of the CAT, transparently identifies different options for the use of the asset and rigorously assesses the costs and the benefits associated with each of these options. The key principles of this approach are outlined in section 1.

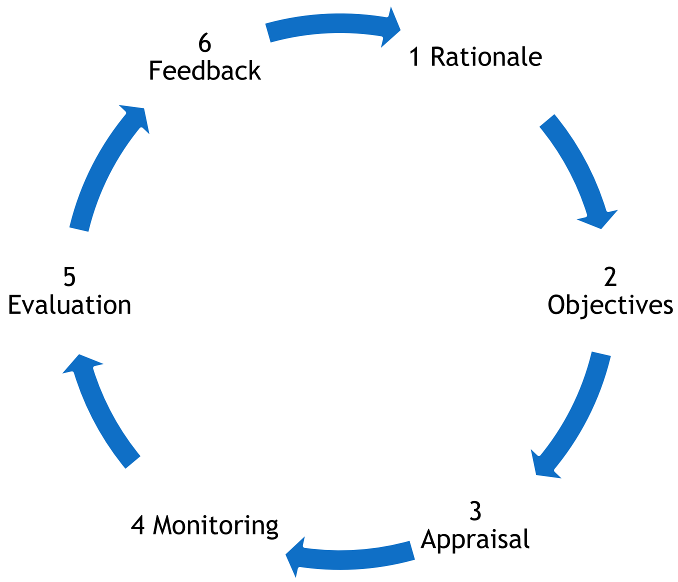
Given the lack of robust evidence, we believe that an increased focus on monitoring, feedback and robust evaluation will be crucial to the success of future community businesses and CATs. We recommend community businesses further strengthen their efforts in collecting data and in evaluating and measuring the commercial and social value they deliver to local communities and to society as a whole.

1. AN ECONOMIC FRAMEWORK FOR CATs

As discussed in the introduction, in order to assure a fair allocation of assets, public authorities, through constructive engagement with community businesses, should adopt a structured project assessment approach that clearly defines the objectives of the CAT, transparently identifies different options for the use of the asset and rigorously assesses the costs and the benefits associated with each of these options.

This section of the report presents a framework for doing this, using the policy cycle, which we call the CAT cycle in this context (see figure 2 below). We discuss each step of the cycle in turn, from rationale to feedback. To illustrate the steps, we use a fictional case study, representing best practice in the fictional LA of Ameliaville. It looks at the CAT cycle from two different perspectives: the community business' (in this case, Ameliaville Community Group, ACG) and the public authority's (in this case, Ameliaville City Council, ACC).

FIGURE 2: CAT CYCLE



The framework presented in this section relies heavily on established guides published by HM Treasury. These include The Green Book (HMT, 2011), which covers appraisal and evaluation of government policies, programmes and projects, and The Five Case Business Model (2015), which provides guidance on effectively implementing the appropriate processes.

These best practice guides aim to make appraisal and implementation of decisions more consistent and transparent across government. Using a robust framework to analyse projects and proposals ensures that decisions have the best chance of promoting the public interest. We believe that public authorities considering CATs will benefit from adopting this framework.

The case study demonstrates how the CAT Cycle can help decision makers to assess whether a proposal is worthwhile and how things can go wrong when using less robust frameworks. It also underlines the following two key features of a robust decision-making process in this context.

- **Co-operation between public authorities and community businesses.** This case study stresses the importance of developing constructive, open and transparent relationships between the public authority and the community business. The reason why the CAT implemented in Ameliaville was successful is because the City Council and the Community Group proactively co-operated and supported each other throughout the process. By comparing the perspectives of these two different organisations in the case study, it appears obvious that co-operation is crucial to success.

- **Importance of defining and measuring social value.** This case study also highlights the fundamental role played by the definition and the measurement of social value in the decisions made by both Ameliaville City Council and Ameliaville Community Group. From both organisations' perspectives, the decisive factor behind the decisions they made was social value. Had these organisations ignored social value or simply failed to define it or measure it adequately, they would have made a different decision.

The remaining sections outline each step of the CAT cycle in turn.

1.1 Identifying the Rationale for Change

Recommendations: rationale for change

- Research your situation and your context;
- Think about and record:
  - Where are we now?
  - Where do we want to be?
  - How do we get there?
- Consider the rationale behind the CAT, is it to:
  - Improve existing services?
  - Save money?
  - Re-distribute services in a fairer way?
- Ensure plans align to mission statements, strategies, and policies; and
- Identify impacts on people and organisations not directly involved in the CAT (i.e. externalities).

When thinking about a CAT, a local authority, CCG or other public sector body is essentially thinking about making an investment in the community. Even when the CAT is not accompanied by a grant to the community organisation that will manage the asset, the public authority is giving up either a capital receipt (or a proportion of it) if the asset has a potential buyer or is giving up a figure on its balance sheet if the asset is included in its statement of financial position. As a consequence, as with every other type of public sector intervention, CATs need to be underpinned by a rationale for change: a credible reason why the public sector is investing in the community.

There are three main reasons why a public authority might want to consider CATs:[5]

- To make existing services run more smoothly. This is what economists call **allocative efficiency**: community organisations might know best how to deliver a specific service in an efficient and effective way;

- To save money. This is what economists call **technical efficiency**: community organisations might be able to provide resources (e.g. volunteers, grants from other third sector organisations) that the public sector is not able to provide;

- To distribute services or resources more fairly across society. This is what economists call **equity**: community organisations might be able to deliver value to parts of the population that the private and the public sector alone are not able to reach.

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[5] A detailed review of the rationales for government intervention is outside of the scope of this report - see section 3 in the Green Book or this Khan Academy video for further discussion.

These rationales for intervention are not mutually exclusive: a CAT could be considered for two or three different reasons. When this is the case, public authorities and community businesses need to be clear and transparent about what part of the CAT is underpinned by what rationale.

Beyond the three elements outlined above, CATs are often, if not always, underpinned by another rationale for intervention: CATs are expected to have a positive impact on people and organisations that are not directly involved in the services provided by the community business.

For example, a community business that buys derelict properties to refurbish them and train unemployed people and ex-prisoners will have an impact not only on those directly involved in the programme, but also on the local community and economy as a whole.

This is what economists call **positive externality**: a positive effect that "spills over" from those involved in a specific project and third parties not directly involved in it. CATs are often expected to deliver positive externalities, which often take the form of social value. Whilst section 2 will provide more detail on how to define social value and section 3 on how to measure it, it is important to identify right at the beginning of the CAT process what are the key externalities expected from the CAT.

In synthesis, when thinking about a CAT, the first step the organisations involved should make is a careful consideration of the rationale for change: the reason why the LA, CCG or other public sector body is considering a CAT.

Best Practice Case Study: Rationale for Change in Ameliaville[6].

Park Road in Ameliaville had an Open Market of 30 stalls. Over time the market had become less attractive and there was a poor sense of ownership and pride in this once vibrant space. The Ameliaville Community Group Association (ACGA) had an interest in revitalising the market and they recognised the market's current condition created a problem, so they needed something to change.

The market was owned by Ameliaville City Council (ACC), but the ACG believed that community ownership would have provided the market with the leadership, the innovation and the local participation needed to revitalise the asset. More specifically, they expected community ownership to empower the community, enhance the heritage and cultural identity of the local area and improve quality and user satisfaction.

From an economic perspective, community ownership was expected to improve participation and use, to provide training and employment opportunities and to stimulate local entrepreneurial and social activities.

The Association decided to approach the council with a proposal: They would need initial set-up funding, which could come from the council or other sources, but once the necessary construction work was completed, they were determined to make it sustainable as a business. The group found the Green Book and its related documents online and they decided to follow the guidance.

They began by outlining where they were, where they wanted to be, and how to get there, as recommended by the Five Case Business Model. They also carried out initial research by researching consumer tastes, economic trends and how other locations had successfully dealt with similar situations. They noted:

[6] The authors took inspiration from Brighton Open Market (link) for this fictional example, but in fact almost all of the features described in the case study are fictional and don't directly relate to the Brighton experience.

- **Where we are now:** The market has been in decline for several years with a decreasing number of trading businesses. The area is no longer attractive, the signage is bad, and it suffers from a bad layout with a lack of a central identity or sense of space. Despite that, crafts and small businesses are thriving in Ameliaville. Demand for workspace and prime retail locations is high.

- **Where we want to be:** We want to create a vibrant space with a sense of community cohesion. As well as serving the community, the project should be sustainable as a business and bring in revenue from more than one source, so it should be mixed use – providing space for market traders as well as services for residents and other local businesses.

- **How we get there:** We require a community-led organisation that can liaise with businesses and the local residents to find ways to serve the needs of both. The area needs to be rejuvenated and, in order to ensure it is sustainable, it requires buildings that can be rented for purposes other than retail. These services will be a benefit to the local area and that is why the Association is approaching the City Council.

This process created a **case for change** and a result they could strive towards. The rationale behind the Association's project as a whole and behind the CAT from the ACC to the Association is to provide services to the community that are not being met by existing businesses (this is what economists call **allocative efficiency**: the community group has more knowledge of the community's needs and will be able to better meet these needs in an efficient and effective way).

The service is also expected to have some **positive externalities**: the mixed-use centre will make the local environment more appealing, which will have a positive impact on residents and local businesses. Furthermore, by creating a community-led organisation, it opens possibilities for events that would benefit the community, such as seminars and school visits.

1.2 Setting Objectives

Recommendations: setting objectives

- Outline the scope of the project – this will keep things manageable;
- Think about and record:
    - Desired outcomes (i.e. benefits)
    - Necessary actions to meet objectives
    - Targets to measure success
- Identify SMART objectives: Specific, Measurable, Achievable, Relevant and Time-Bound;
- Consider constraints and dependencies – they will highlight priorities; and
- Develop positive, open and constructive relationships between the public authority and the community business at the very beginning of the project.

Once a clear rationale for intervention has been established, the next step is to outline the scope of the work. Deciding what is in and out of scope helps focus efforts on what is important. It also provides a tool to keep projects on track – as they progress there's often a temptation to make projects larger to achieve more goals (scope creep). But this greatly increases the risk that a project will become over - ambitious and fail to achieve anything.

When thinking about a CAT, a community business, LA, CCG or other public sector body should think about the **outcomes** it wants to achieve. In other words, the final results that the CAT aims to achieve. For social value to be realised it's important that both sides in the transfer, as well as all stakeholders involved, understand the outputs through which the CAT is expected to deliver social value.

It can be helpful to work backwards from outcomes, as described below.

- What you want to achieve: **outcomes** – high-level benefits to society, e.g. reduction in avoidable A&E admissions of elderly living alone;
- What actions are required to get there: **outputs** – steps on the way, e.g. community café for elderly individuals at high risk of fall;
- How you can measure success: **targets**, e.g. % of preventable hospital admissions, number of people attending the community centre.

These factors can be brought together into clear stated objectives. To ensure the organisation meets these objectives, it's important to make sure targets are SMART:

- **S**pecific: reduction in preventable A&E admissions is specific, health improvements is not;
- **M**easurable: the number of people attending the café can be easily measured using receipts, the number of alone elderly attending a GP is more difficult to measure;
- **A**chievable: organising activities to entertain attendants at the café two hours a day is achievable, offering different activities throughout the day might be more complex;
- **R**elevant: reduction in preventable A&E admissions is relevant, while reduction in ambulance calls in general has to do with many other factors beyond the community café; and
- **T**ime-bound: 100 attendants a day by the end of the first year is a time-bound objective.

Framing objectives within the SMART typology is important because:

- Specific and measurable objectives provide quantifiable definitions of success;
- Achievable and realistic objectives engage and motivate actors; and
- Time-bound objectives ensure all stakeholders agree are on the same page with regard to when change should be achieved.

In order to ensure that targets are achievable, it can be helpful to consider what might hinder the project and the factors required to make it succeed (constraints and dependencies). Thinking about these elements allows for more time to either mitigate these factors or effectively plan for them. It can also inform how much time the process might take.

This early work provides a good foundation on which to build, but also helps inform the evaluation of the project and subsequent feedback into future projects.

Best Practice Case Study: Setting Objectives in Ameliaville.

The ACG, supported by officers in the ACC, continued to follow published guidance by thinking about their objectives. The group discussed how it was going to be a lot of work to create a sustainable project and they decided that reaching financial sustainability would be the first step (within the first year after construction), creating community-related events would come later (over the second, third and fourth year).

They decided to initially focus on constructing buildings that were currently in demand as this would create better opportunities for generating revenue for the project as a whole. Their research had highlighted a lack of workshops for crafts and rents for housing were high in the area, so these provided two possible opportunities.

Next, they used the Case for Change to determine an outcome and an output, and then they added a measure of success:

- **Outcome:** to assist retail and other businesses generate sustainable profits in an area that improves community cohesion;
- **Output:** to provide space for retail and other businesses; to run events that benefit the local community; to create a space that people want to visit and spend time in;
- **Target:** number of businesses that can survive over time; number of people visiting; number of community-related events; covering all costs by revenues.

The team discussed this framework and came up with three SMART objectives:

- To create bring at least 20 new businesses to the area within six months of the rejuvenated market opening: it is specific (there is a number), it is measurable (businesses will have to pay for space), it is achievable (considering the demand for business space), it is relevant (bringing in new businesses is core to the project), it is time-bound.
- To create space for at least two different purposes (such as housing or unrelated businesses) that could support the sustainability of the market: it is specific (there is a number), it is measurable (the purposes will have to be significantly different), it is achievable (considering the need to business space and housing), it is relevant (different revenue streams makes the project more sustainable), it is time-bound.
- To provide three different community events per month by the end of the first year: it is specific (there is a number), it is measurable (events will be logged), it is achievable (considering the project will be run by a community-led group), it is relevant (community events are the very core of the project), it is time-bound.

They followed the Five Case Business Model's advice by considering dependencies and constraints for their project. They identified two key dependencies:

- Ensuring they could find effective management capabilities for the project;
- Ensuring the projects attracts enough local businesses and residents to generate sustainable profits.

The second dependency was absolutely central to the success of any proposed plan, so it was a **critical success factor**.

From the City Council's perspective, it was crucial to be involved in the process since the very beginning. Some of the SMART objectives of the community group were in line with the objectives of the Council. Their three SMART objectives relevant for this CAT were:

- Improve the economic performance of the town centre;
- Provide development that is well serviced by public transport, therefore reducing the need to travel by private car; and
- Promote the vitality and viability of the town centre through providing economic growth in the existing centre by way of improving the range of services and consumer choice in an attractive and safe environment.

1.3 Creating Options

Recommendations: creating options

- Create a long list of options;
- Eliminate unviable options and those that fail to meet the objectives;
- Take the best from the remaining options to create a short list; and
- Add a ‘do minimum’ and/or a ‘do nothing’ option to provide a benchmark for your appraisal.

When thinking about a CAT, community businesses and public authorities should consider a wide range of options for meeting the objectives.

A good start is to list all of the potentially variable factors within the project. For example, is it possible to complete the project at different speeds? Are there different uses for a building?

Once a list of variable and relevant factors has been drafted, a list of options for each factor can be developed. Once this is complete then theoretically a team can create a way forward by taking one option from each of the factors. Detailing all of the different combinations would create a **long list** of options.

Once a long list has been generated, the list should be reduced to the best few options. The first step is to consider which options are unviable: if it’s impossible to complete a project properly in six months, take that option off the list. Next, the options should be compared to the objectives. Any option that will not meet an objective should be taken off the list. The third step is to choose the best options for each factor and to highlight any close seconds.

This will provide a **preferred way forward** and a second, third, or even fourth option.
Lastly, it is important to consider a couple of low-impact strategies. The first is a **do nothing** option – i.e. take no action. Including this firstly provides a base-line from which to compare any project and secondly ensures that starting a project is better than not starting.

The second is a low-impact (and usually low risk) option: the **do minimum**. Sometimes, one of these options is unviable, so it can be dropped, but at least one of these two options should be included in the analysis to ensure the project is worth doing.

This process should be conducted by the community business on all the aspects of the project (including the CAT) as well as by the public authority involved on different asset disposal options.

Best Practice Case Study: Creating Options in Ameliaville.

The Association wrote a list of factors the business case should consider along the top of a table and considered different options for approaching each factor. The list looked like this:

Building/location	**Revenue generation**	**Partnerships**	**Options for market during disruptions (such as construction)**
Rejuvenate current area	Letting residential space	With other market associations	Temporarily rent central space for the market
Construct in a new area	Start-up hub	Other community organisations	Move to a temporary out-of-town location
Cover the current market	Workshops	No partnerships	Temporarily close the market
	General offices		Stagger any disruptions so the market can still part-function

They could then create numerous options from different combinations of factors (i.e. taking a different set of rows from each column to create each option). So they used the table to demonstrate a **long list** of options.

They crossed out (in red below) unviable approaches under each factor and compared the others to their objectives, highlighting in each column the best approach (in green) and sometimes a second best that was still worth exploring (in yellow).

In terms of types of building/location, constructing in a new area was excluded because the market would lose its central location, which would make it difficult to meet its other aims. The best approach was to rejuvenate the current area to make it more likely the project would meet all of its objectives.

In terms of revenue generation, there was unlikely to be enough space for large offices, which would limit the number of potential tenants. Residential space provided the most secure revenue stream and would meet some of the city's housing needs. The second best option was workshops as these were in demand in the area.

In terms of partnerships, other market associations were ideally placed to provide relevant resources, advice, and learning opportunities. Other community groups were the second best option as they could ensure the events were relevant and we supported.

Finally, in terms of how to deal with any period of disruption, closing the market would have harmed traders' incomes, so was unviable. The best option was to rent space centrally, although relocating the market out-of-town was a second best option as staggering disruptions would delay construction.

This process allowed the team to reduce the number of options to one or two per factor. The new combination of factors created a **short list** that they could analyse. It was also obvious from the list that they had a **preferred way forward**, as well as alternative options.

Building/location	Revenue generation	Partnerships	Options for market during disruptions (such as construction)
Construct in a new area	Letting residential space	Other community organisations	Temporarily rent central space for the market
Cover the current market	Start-up hub	No partnerships	Move to a temporary out-of-town location
Rejuvenate current area	Workshops	With other market associations	Temporarily close the market
	General offices		Stagger any disruptions so the market can still part-function

The community business used the table above to shortlist three options: (1) do-nothing; (2) rejuvenate the current area funded by letting residential space, temporarily renting central space during construction; (3) Cover the current market and create workshops to fund the space, moving the market out-of-town during construction.

At the same time, Ameliaville City Council wrote a list of factors the business case should consider along the top of a table and considered different options for approaching each factor. The list looked like this:

Owner of the asset	Manager of the asset	Duration of the contract	Type of contract
LA	LA	Five years	Leasehold
Private Developer	Private Developer	50 years	Freehold
Community business	Community business	250 years	Rent

In terms of ownership, the Association was made up of business people, although they had not yet demonstrated that they had the capability from both a financial and operational perspective to own a relatively expensive asset. The best option from the LA's perspective was to maintain LA ownership. The second best was to sell it to the private sector.

In terms of management, the LA did not have the resources to manage the building at the moment, whilst a private contractor would be expensive and would be willing to manage the asset only if it could run a profitable business in it. The community business was considered to be the best approach.

In terms of duration, the mixed-use approach of the proposal created a level of complexity, which suggested that 50 years was the most appropriate option. 250 years was too long considering consumer tastes and community needs are too difficult to predict for such a long period of time. On the other end of the spectrum, 5 years would have made the CAT more similar to a rent with additional ownership rights than to an actual asset transfer.

In terms of contract type, the LA was interested in maintaining the long-term ownership of the building. As such, rent was the preferred way forward.

Owner of the asset	Manager of the asset	Duration of the contract	Type of contract
LA	LA	5 years	Leasehold
Private Sector	Private Sector	50 years	Freehold
Community business	Community business	250 years	Rent

At the end of the process, the LA short-listed three options: (A) do-nothing; (B) 50 years peppercorn rent to the community business; (C) 50 years leasehold to the private sector.

1.4 Analysing Options

Recommendations: analysing options

- Create a list of everyone affected by the project;
- List all of the costs and benefits that will impact them;
- Try to estimate a monetary value for each one;
- Do this for each option, including the do minimum;
- Extrapolate the analysis to the number of years the project is likely to run for; and
- Adjust numbers to account for risk, optimism and depreciation.

The next step is to consider costs and benefits. A key factor when deciding whether to continue holding an asset, transfer it to private ownership, or transfer it to community ownership, will be the social value created from different options. For instance, a LA may choose to transfer an asset to a community business at a lower capital value than a private organisation, in order to achieve social benefits from community business, e.g. increased social cohesion (see the introduction for further examples).

Social value will have to be balanced against the financial benefits and costs to LAs and communities when conducting CATs. Financial benefits and costs occur through asset transfers raising revenue for LAs, and community businesses having a commercially viable business case. For example, selling an asset on a long term lease brings in a capital receipt in the short term to LAs, which is a financial benefit, but then the specific use of the asset will generate social value that could support the LA in the long term.

To ensure the list of social and financial costs and benefits considered is comprehensive, it is helpful to think about all of those affected by the project and to consider the effects on those people. Some of these costs and benefits will have a monetary value. For others, it is helpful to estimate a monetary value so that all costs and benefits can be compared. There are numerous techniques to do this, and for smaller projects it can be useful to use estimates derived by academics and various organisations, including government departments (see section 3 and Annex A and D for more details).

For example, in 2008, the Treasury published easy-to-navigate guidance on the valuation of public sector assets (Lowe, 2008), providing information on how to value surplus land. It also provides guidance on calculating the social value of using assets (such as buildings) that could be used for other purposes, thus making the use of these assets by community businesses more comparable with a for-profit alternative. Section 4 and 5 of the short guidance for LAs cover this topic more in detail.

Estimating the life of the project is essential. It will depend on the type and the nature of the asset, the CAT and the community business involved. As a rule of thumb, the expected duration of a conventional building is around 60 years, but this could vary significantly depending on the type of asset and the type of activities conducted within it.

Costs and benefits should then be extrapolated across the life of the project. Costs can be subtracted from benefits in order to estimate the net value of the project, or benefits can be divided by the costs in order to create a benefit to cost ratio. In the case of the latter, the value estimated will represent the return on a pound spent, so anything above one is a worthwhile project in terms of value for money.

This process can be repeated for each option, to assess the option that delivers the best benefit to cost ratio, and for the do minimum and do nothing options, to ensure the project is worthwhile.

It is possible to make this analysis more robust by thinking about how much we value the project over time and by adjusting estimates based on sensitivity and risk analysis. These adjustments are described in more detail in Annex B.

Best Practice Case Study: Analysing Options in Ameliaville.

The Association started their analysis by listing all of the people who would be affected then listing the costs and benefits each might expect, including indirect costs and benefits. This was a quicker process than they imagined it would be because many of the costs and benefits applied to more than one option.

The three shortlisted options were: (1) do-nothing; (2) rejuvenate the current area funded by letting residential space, temporarily renting central space during construction; (3) cover the current market and create workshops to fund the space, moving the market out-of-town during construction.

They then made estimates for the different factors. They started with the costs: how much the construction would cost etc. It looked like this:

Community business perspective	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Building refurbishment option 2	£200,000			
Building refurbishment option 3	£40,000			
Building maintenance option 2		£1,000	£1,000	£1,000
Building maintenance option 3		£300	£300	£300
Relocation costs for existing market option 2	£6,000			
Relocation costs for existing market option 3	£4,000			
Staffing costs for community-led company options 2 and 3	£70,000	£70,000	£70,000	£70,000
Computers and equipment options 2 and 3	£7,000	£500	£500	£500
Total option 2	£283,000	£71,500	£71,500	£71,500
Total option 3	£121,000	£70,800	£70,800	£70,800

While some costs were high on an annual basis, such as staff, these would be ongoing costs that would be much lower on a per month basis (see section 4 in the short guidance document for more details).

Estimating benefits was a little trickier. They came up with a list that included:

- Revenue from stalls, workshops and residential units
- Employment benefits
- Community events
- Economic benefits from construction
- Improving community cohesion

They could estimate revenues from stalls, workshops and residential units, but they were unsure of how to value some of the other benefits.

On employment benefits they estimated the number of employment opportunities based on similar projects and used the expected (average) wage in the region (£400 pw), using ONS data.

For community events, they used a **stated preference method**. In other words, when they engaged with local residents, they sent them a very brief survey to understand whether they valued community events. Using this method, they estimated that different events were valued differently – for example, school trips were valued more highly than seminars.

They found improving community cohesion the hardest to value. They thought they could find this out by asking people how much they valued these benefits, but because this required a complicated survey it would be costly and time consuming. They discussed whether this would decrease crime and whether the savings from less crime would be a good proxy. At the end they decided to use the estimates provided by HACT using three stages well-being valuation (see section 3.3 and Annex D for more details). These estimates suggested that feeling part of a social group is valued ~£2k outside London. As option 2 was likely to attract fewer people, only 100 residents are expected to feel more part of the community as a result. This expectation increased to 400 for option 3 because it was more appealing and it would include residential units in the project which would automatically join the community. A deadweight of 50% has been applied to reflect the fact that half of the attendants would have experienced a similar improvement in the absence of any project.

Community business perspective	**Year 1**	**Year 2**	**Year 3**	**Year4**
Start-up Grant option 2	£230,000			
Start-up Grant option 3	£50,000			
Revenue from stalls and residential units option 2	£30,000	£180,000	£180,000	£180,000
Revenue from stalls and workshops option 3	£40,000	£60,000	£60,000	£60,000
Reducing unemployment option 2		£145,600	£145,600	£145,600
Reducing unemployment option 3		£208,000	£208,000	£208,000
Community events options 2 and 3	£15,000	£15,000	£15,000	£15,000
Economic benefits from construction option 2	£160,000			
Economic benefits from construction option 3	£32,000			
Improving community cohesion option 2		£400,000	£400,000	£400,000

Improving community cohesion option 3		£100,000	£100,000	£100,000
Total option 2	£205,000	£740,600	£740,600	£740,600
Total option 3	£87,000	£383,000	£383,000	£383,000

The Association tallied all their estimates for a total of four years as this was the time horizon they established when they defined SMART objectives at the very beginning of the process. They entered all of this information into a spreadsheet and adjusted it to reflect discounting, risk and optimism bias as suggested in Annex B.

This cost-benefit analysis provided them with a discounted and risk-adjusted benefit to cost ratio for the three options: the do-nothing options ratio was 1, option's 2 ratio was 2.7 and option 3's 2.6 (please see Annex B for more details). Option 2 seems to deliver the best value for money, when accounting for both economic and social benefits.

The City Council was engaged throughout the process: it provided the community business with some of the costs included in the analysis and supported them in estimating the benefits that their activity was expected to deliver. This early engagement was crucial because it helped the Council conducting an options appraisal on their shortlisted options: (A) do-nothing; (B) 50 years peppercorn rent to the community business; (C) 50 years leasehold to the private sector. They created a cost benefit analysis tables for the different options the Association was contemplating. The one focused on option 2 looked like this:

LA Perspective	**Year 1**	**Year 2**	**Year 3**	**Year4**
Council maintenance Costs options A, B and C	*£300*	*£300*	*£300*	*£300*
Legal Costs option B	*£2,000*			
Legal Costs option C	*£8,000*			
Rent Income option B	*£1*	*£1*	*£1*	*£1*
Leasehold Income option C	*£40,000*	*£40,000*	*£40,000*	*£40,000*
Employment and construction benefits	*£160,000*	*£145,600*	*£145,600*	*£145,600*
Grant	*£230,000*			
Improving community cohesion	*£0*	*£400,000*	*£400,000*	*£400,000*
Benefits - costs option A	*-£300*	*-£300*	*-£300*	*-£300*
Benefits - costs option B	*-£72,299*	*£545,301*	*£545,301*	*£545,301*
Benefits - costs option C	*-£38,300*	*£585,300*	*£585,300*	*£585,300*

The council tallied all their estimates for a total of four years as this was the time horizon they established when they defined SMART objectives at the very beginning of the process. They entered all of this information into a spreadsheet and adjusted it to reflect discounting, risk and optimism bias as suggested in Annex B.

This cost-benefit analysis provided them with a discounted and risk-adjusted benefit-cost ratio for the three options: the do-nothing options ratio was negative, option B's ratio was 7 and option C's 7.4 (please see Annex B for more details). While option C delivered the best value for money, it also constrained the Council's options with the lease for a long period of time. They discussed this element and decided the return to a 50-year lease was not large enough to forgo these options, so they opted for option B.

1.5 Implementing and Monitoring Options

Recommendations: implementing and monitoring

- Add the best parts of the options not chosen to the preferred option;
- Consult with those affected by the project and provide feedback from those consultations;
- Seek partnerships with other organisations;
- When procuring goods and services, consider service requirements and payment mechanisms;
- Use established project management techniques wherever possible; and
- Collect data to assess how well the project meets its objectives.

Once a preferred option has been identified, it is helpful to consider the good parts of the other options that can be incorporated into the final plan. It is also important to consult with groups affected by the project so that they understand the justification for the project and can provide their views. Consultation documents should:

- Be clear, concise, and focused;
- Highlight key assumptions, the options, and any implementation issues;
- Be easy to respond to; and
- Consider statutory obligations.

Teams should consider the most effective method of communication (letters, emails, meetings, visits, street-based questionnaires etc.) and this might differ for different groups. Furthermore, consideration should be given to how the team will feedback the results of consultations and subsequent decisions.

This is also a good time to contact local organisations, including charities, community groups, and businesses, to determine the scope for various partnerships or procurement agreements.

If there are procurement agreements, then it is important to consider service requirements, charging mechanisms and possible risk transfers in such arrangements, as recommended by the Five Case Business Model. There are several options for procurement: buildings can be leased, rented, or bought, and goods can be purchased on a sale-or-return basis, for example.

At this point, it might be clear who should take a project manager role, although if not then the group should appoint a project manager. In the CAT context, we recommend using Agile project management techniques.

It is also important to set up a financial plan. This should include sources and levels of funding, a balance sheet and income statement, and capital and revenue requirements. It is also helpful to consider cash flow as this will be affected by different needs and resources available at particular times. We recommend using the tools provided by Power to Change specifically tailored to start-up community businesses.

As the project progresses, it is helpful to have periodic reviews. They can assess whether the objectives are still relevant, if the project is effectively meeting those objectives, and where it can improve on its successes. This requires information on project performance, so it is helpful to systematically collect data to measure financial management and outcomes.

Reviews should focus on whether:

- The project has defined targets and outputs;
- Ownership of the delivery of benefits remains with the programme manager;
- Outputs are consistent with changing objectives;
- Targets and outcomes are measured, reported and communicated;

- Costs are closely monitored and managed; and
- Forecast costs and benefits are frequently reviewed.

As new information about costs and benefits becomes available, it can be incorporated into the initial analysis to provide insights into how good the original assumptions and analysis were, as well as how well the objectives are being tracked.

It is important that this information is collected by the public authority and the community business so that they can both learn from and review progress.

Best Practice Case Study: Implementing Ideas in Ameliaville.

Before implementing their chosen approach, the Ameliaville team assessed their other options to see what good parts could be incorporated into their leading option. They thought about the option of adding workshops as well as residential units: the outcome was positive for both options and the additional cost was quite small. They discussed this with the council and decided it was better to narrow the focus initially.

They then used the list of those affected by the project that they had created in their analysis and made plans to consult with those groups. They visited local businesses and colleges and those working with the unemployed, then they asked local people by conducting surveying in the centre of town. They also spoke to several potential donors and presented their analysis of the project and their plans.

The consultations provided interesting insights into what initiatives had previously worked or failed and why, which helped inform their own implementation. They put this information together and emailed those they had spoken to of their findings and their amended plans.

These consultations also led to several partnership discussions. Local businesses and other organisations were eager to get involved in the process.

The team put together a list of commercial agreements they would require: they would need to discuss their plans with architects and construction companies, among others. They drafted their requirements first then went to several providers to determine who could meet these requirements at the best price.

During the course of the planning, one individual had taken a leadership role and the team made it official that she should be the project manager. The others would form the board that would support her. With all their additional information, they were able to create more robust financial plans. They planned their cash flow over the first three years to ensure the business would be sustainable. The outcome looked like this:

	January	February	March	April	May	June…
Revenue						
From residential units	£12,500	£12,500	£12,500	£12,500	£12,500	£12,500
From market stalls	£2,500	£2,500	£2,500	£2,500	£2,500	£2,500
…						
Costs						
Computer software and supplies	£42	£42	£42	£42	£42	£42

Staffing costs	£5,850	£5,850	£5,850	£5,850	£5,850	£5,850
…						

As they started the project they tracked financial metrics and collected lots of information about the businesses involved, how well they were doing, the number of visitors and customers… They refined some of this information over time to get a better idea of how they could serve the community and they tried to track who received job offers for positions where they would use the training they had received.

1.6 Evaluation and Feedback

Recommendations: evaluation and feedback

- Decide what questions to answer, based on the SMART objectives;
- Determine the resources, including time, devoted to the evaluation;
- Determine who should be consulted;
- Compare the actual outcomes to the initial analysis and the other options analysed;
- Present and disseminate the results and recommendations; and
- Determine what lessons were learned and what improvements can be made.

Projects can benefit from a robust, continuous and well-thought-out evaluation process, especially when there is a significant level of uncertainty around the extent to which a project delivers social value.

Firstly, public authorities and community businesses should decide:

- The questions that should be answered – these should relate to the SMART objectives initially set for the project;
- How to resource the evaluation (both in terms of staff and time);
- Who should be consulted;
- Exactly what is to be evaluated and how past outturns can be measured;

The evaluation should:

- Consider the alternative states of the world and/or alternative management decisions as counterfactuals. The counterfactual can either be the 'do nothing option' or one of the other options analysed in the appraisal stage.
- Compare the actual outturn with the target outturn, and with the effects of the chosen alternative states of the world and/or management decisions;
- Present the results and recommendations; and
- Disseminate and use the results and recommendations.

The Magenta Book is the key reference document for evaluations in the public sector. When writing an evaluation report, it is useful to consider:

- Reasons why the outcomes differed from the projected outcomes in the initial analysis;
- Feedback on how effective the project was at achieving its objectives (including testimony from those affected);
- The cost effectiveness of the project; and
- What the results imply for future management decisions.

Best Practice Case Study: Implementing Ideas in Ameliaville.

The Market Traders Association had collected data over the course of the project although their data collection methods had changed over time as they learned more about what information was the most valuable. Even so, they were able to use this data to evaluate the project.

They compared their outcomes to the initial objectives. They met their objective of creating a sustainable mixed use space with a market and residential units, although their other objectives were more difficult to assess. The number of businesses had fluctuated initially as some ventures were unsuccessful, although on average they did maintain more than 20 new businesses over the first year. As for community events, they found these worked best in clusters over the summer, with fewer activities in the winter, which meant they had to average the number of events over a year to meet the initial aim of three a month.

They also chose to survey visitors and customers to determine how valuable they found these events. This process was enlightening: some were extremely positive, while others were critical. Some of the critiques were constructive, others less so.

The board took several lessons from the evaluation and these were then used to further improve the events and the market in general. They then used all the information collected to go back to their funders – they had new plans to build those workshops.

2. DEFINING SOCIAL VALUE

'The trade-off between selling assets and CATs needs to be seen from social value and from a long-run perspective' (Birmingham City Council)

As explained in the introduction and section 1, social value is a key part of CAT proposals and impactful community businesses. Many LAs have recognised this, and now 24% of them have a social value policy, and 33% of councils actively consider social value when procuring or commissioning (Social Enterprise UK, 2014). Considering social value - as well as financial value - will lead to the best value for money decision for CATs. To do this well a definition of social value is needed.

This section defines social value, first describing the Social Value Act, then considering how it applies to CATs, what this means for defining social value in CATs, and finally briefly exploring other definitions of social value. It also makes recommendations on considering social value in relation to CATs.

2.1 Social value in legislation: The Social Value Act (2012)

Recommendation: including CATs in the Social Value Act
We recommend that the Social Value Act is broadened to include CATs, so that all LAs must consider social value when appraising CATs.

The key legislation relating to social value is the Social Value Act (2012). The Act relates to the decision of how to commission a public service. Specifically, it requires commissioning bodies to think about how they can secure wider social, economic and environmental benefits, at the pre-procurement phase, for services worth more than the Official Journal of European Union (OJEU) threshold of €209,000. Importantly, as a result of this legislation, up to 23% LAs now have a culture of assessing social value for all procurements and in other areas of activity (Social Enterprise UK, 2016).

For example, if a LA wants to deliver a transport service to a remote area (costing over €209,000), it may have to choose between a local bus service or allowing a community lift share to operate. As a result of the Social Value Act, LAs must now consider not just which option can deliver financial value for money, but also the *social* value for money. This matters because social value can affect the decision scores, and therefore choice, between procurement options – e.g. the choice between the local bus service or community lift share.

The Social Value Act Review (2015) recommended a lowering of the threshold for mandatory consideration of social value, and a broadening of the scope of the act to make it applicable to more aspects of public service. In future amendments of the Act, CATs could be included for mandatory consideration of social value. The authors of this report recommend the consideration of social value across all CATs (see the box below), butwe acknowledge the impact of the Act so far has shown that changes can occur through cultural change without the need for an administrative burden through legislation.

Summary: The Social Value Act and its impacts
Social Value Act in Practice (Social Value Hub, 2012) • Public services contracts must now consider social value as well as financial value above €209,000. • The definition of social value is not prescriptive so it can be decided locally. • Prior to Brexit - the legislation does not supersede European procurement rules. **Impact of the Act** (Social Enterprise UK, 2014) • The Social Value Act Review recommended the eventual expansion of the Act to cover a broader range of activities. • 33% of councils now routinely consider social value in their procurement and commissioning. • Of these councils that actively use social value, they give a 5-10% - and often higher - weighting to social value in the tender process.

2.2 The Social Value Act and Community Asset Transfers

Recommendation: considering the social value of CATs
We recommend LAs consider social value for all community asset transfers, even when it is not required by law (Social Value Act or General Disposal Consent Order).

'The transfer of an asset can support the delivery of service outcomes which otherwise would be unaffordable in the current climate of austerity.'
(Locality, UK)

The Social Value Act is important in bringing social value into legislation. It's also quite limited; only applying in the specific circumstance of delivering a public service. CATs sometimes involve the delivery of a public service. When a transfer does involve a public service being delivered, or assist in delivering a public service, then there is a legal obligation to consider social value under the Act. When it doesn't, it's not a legal requirement, but could be considered best practice, given that the wide-reaching benefits of CATS will be factors of social value.

For an example of when it is legally required, we could consider how a LA may look to procure library services within its locality. A community library is one business model which could achieve this, and the model may require an asset transfer from the LA to the community library. In this case, the CAT is conducted in order to procure a service, and therefore legally social value must be considered in the tender process.

The cultural and legislative shift generated by the Social Value Act means that social value is now often considered throughout the CAT cycle, regardless of legal requirements. Moreover, the General Disposal Consent Order (2003) requires LAs to consider social value (or in the terminology of the time, "promotion of economic, social or environmental well-being") when justifying any under-value transfer. As a significant proportion of CATs involves under market value asset transfers, social value is a constituent part of the decision-making process around CATs, beyond the prescriptions of the Social Value Act.

Leeds City Council provide an example of a LA framing CATs around social value. They launched their Social Value Charter (2016) in response to the Social Value Act, which makes clear their social objectives for any potential CAT. In consultation with the authors of this report, Leeds council discussed how the charter would also help them solve the political obstacles to completing CATs at below market value.

Summary: Social value and CATs
• Under the Social Value Act if the asset transfer involves the delivery of a public service then social value must be considered • The General Disposal Consent Order (2003) requires LAs to consider social value when justifying any under-value transfer • The emerging best practice across LAs is to consider social value more broadly to maximise social benefits for their community

2.3 Defining Social Value for Community Asset Transfers

Recommendation: defining social value for CATs
In line with the current literature on the topic, we recommend a non-prescriptive definition of social value. Social value must link to the intended outcomes. Any attempt at a precise definition would exclude its use in a number of contexts and would be inconsistent with the main objective of social value legislation.

To consider and use social value, the first step is to define it. This is difficult because social value is a complex and broad term; a precise definition would exclude its use in a number of contexts. Social Enterprise UK (2012) interpret the definition used in the Social Value Act as deliberately non-prescriptive, in order to give the procuring official freedom over its use. Social value must link to the outcomes that are trying to be achieved. These will vary across CATs depending on the type of business and sector it operates within.

In a CAT, a definition of social value must bear in mind variations in the following:

- **Outcomes.** The diversity in possible uses of community assets and community business means that outcomes could range from ‘harder’ outcomes like health improvements or employment opportunities, to ‘softer’ outcomes such as improved social cohesion or reduced sense of loneliness;

- **Beneficiaries.** There is a range of beneficiaries across different CAT proposals; a transfer of a pub in a rural community would affect different individuals to the transfer of a pier that brings tourism into a community; and
- **Local authority strategies.** Different LAs have different strategies and aims within their communities and different targets by which to achieve their social value aims (NCVO, 2017).

This means that there won't necessarily be one definition that is suitable for all. Yet for consistent practice – given the legislative environment emerging around social value – there should at least be *consistent criteria* for definitions to achieve the best use of social value. We outline these criteria below.[7]

In this context, we recommend a non-prescriptive definition that gives LAs the freedom to tailor identification and measurement of social value to local needs, whilst remaining in line with legislation.

Summary: A definition of social value for CATs
Definition: • Social value is the wider social, economic or environmental benefits from a CAT. **Key question for appraisers:** • For each £1 of capital value gained from the CAT how much additional value will the asset transfer bring the community in terms of social, economic or environmental benefits?

2.4 Alternative definitions of social value

Social value must be defined in order to practically apply it, but the definition will vary depending on the context. Social value sometimes has alternative definitions across the following:

- **Policy and government.** The Department for Communities and Local Government (DCLG) define social value as being the 'wider social, economic or environmental benefits'. This is in line with the Social Value Act and this report.
- **Community business networks and organisations.** There are clear similarities with the definitions above; they often refer to non-financial, non-market impacts and additional benefits beyond the initial service delivered:

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[7] There is an on-going debate on whether there should be a mandated national definition of social value or the freedom for local authorities to choose (Social Enterprise UK, 2014; Wood and Leighton, 2010).

The authors think that having a national "prescriptive" definition has some advantages (e.g. consistency across local authorities, possibly leading to comparable metrics; improved understanding and use; acceptance and broader use of social value) but also many limitations (it inhibits innovation, it limits the set of possible outcomes, it is less bespoke to communities needs and imposes more bureaucratic burden).

'The additional benefit to the community from a commissioning/procurement process over and above the direct purchasing of goods, services and outcomes'
(Social Enterprise UK, 2014)

'Social value is the quantification of the relative importance that people place on the changes they experience in their lives'
(Social Value UK, 2017)

- **Academic institutions.** Because academic debate may inform future definitions of social value, LAs should be aware of the ongoing debate on social value in academic institutions. This is rooted in the economics of value itself and includes ideas about whether value is subjective or comes from the exchange of a good. More practical approaches have thought about value from a development perspective providing capability for local communities (Sen, 1999). We advise against these definitions being used in this context, because it's useful for a definition to be in line with current legislation. Hence the definition provided is consistent with the Social Value Act.

LAs may want to choose their own definition of social value, in order to focus on outcomes that best fit within their strategies and community needs. A bespoke definition should fit the following criteria:

- Measurable;
- Achievable;
- Outcome focused; and
- Compatible with legislation.

3. MEASURING SOCIAL VALUE

The challenges facing LAs and other commissioning bodies when trying to measure social value are directly related to the complexity of defining social value itself, described and analysed in section 2.

This section starts by summarising the literature on the challenges of measuring social value. Sections 3.1 to 3.5 provide the reader with a short summary of the strengths and the limitations of different approaches available and with recommendations on when and how to implement each methodology. Section 3.6 concludes this section and summarises these recommendations, whilst Annexes A, D and E include a more detailed description of the methodologies proposed.

3.1 Literature on measuring social value

Especially when financial pressures are significant, LAs and other public sector commissioners do not always have the resources and the capability to appraise the pros and cons of these different methodologies nor to robustly implement them. Moreover, social value often takes the form of "soft" outcomes, which are difficult to measure, require expensive and time-consuming surveys to be identified and are often complex to convert into a monetary value (Power to Change, 2016).

Most of the literature produced by academics and policy experts on social value measurement focused on the difference between market value and social value (Burdge, 2003). Market value can be easily quantified by analysing consumers' willingness to pay for a specific good or service and producers' willingness to sell the same good or service and by observing resulting market prices (Cheridito et al., 2007). In contrast, social value is rarely traded in the marketplace and is seldom delivered solely through price-driven market mechanisms (Nicholls, 2007).

The "blended value proposition", asserting that true value is non-divisible, consisting of a blend of economic, social, and environmental components (Emerson, 2003) represents a significant step forward in the theoretical literature on social value. Nonetheless, it does not address the crucial issue of measuring social value.

This focus on the misalignment between social and market value can be explained by the fact that most of the literature on social value measurement has been developed in the context of private enterprises' corporate social responsibility initiatives (Pearce, 2005; Owen and Maunders, 1987; Olsen and Galimidi, 2008).

To the authors' knowledge, Dufour, 2015 and Florman et al., 2016 are the most comprehensive and recent contributions to the literature on social value measurement. The former summarises the history of social impact measurement, reviews 20 existing social impact measurement methodologies and proposes a framework to categorize these methodologies using a new public management lens. The latter critically evaluates the strengths and weaknesses of 8 general social impact assessment methodologies and 12 specific social impact assessment methodologies.

Whilst a detailed analysis of the existing literature on social value measurement is out of the scope of this report, it is important to highlight that most of the contributions to the literature in the field come to the conclusion that **all existing methods have advantages and disadvantages and that the choice of a specific methodology will depend on the specific features characterising the context under analysis** (Maddocks, 2015).

With specific regard to CATs, to the authors' knowledge, the most recent and comprehensive analysis of social value measurement has been published by the Development Trust Association in 2009 and tested four different approaches to measuring the social value of asset transfers (BCC, 2009):

- **Social return on investment** (SROI) (Social Value UK),
- **Measuring added value** (a derivative of SRoI developed to help social enterprises in commissioning) (Wood and Leighton, 2010),
- **"Change check"** approach developed by BASSAC (Locality)
- **Social value and assessment tool** developed by Devon County Council as part of the DTA-led Advancing Assets Demonstration Programme (Devon CC, 2012).

The report outlined the complexity of identifying and measuring social value in the CAT context, highlighted that "approaches which use local people to assist in the identification of social impact make the process much easier and more effective" and concluded that "the four different approaches were all useful in different circumstances with a preference for the Devon CC approach being the only one that had been developed with asset transfer in mind" (BCC, 2009).

In synthesis, both the general literature on social value measurement and the sectoral literature on CATs suggest that **none of the existing methodologies to measure social value can be defined as a "silver bullet" approach in the CAT context.** Different methodologies have advantages and disadvantages, have been designed to achieve different objectives in different ways and they can often be considered complementary rather than alternative, as they can inform decisions made at different stages in the CAT process.

These conclusions are consistent with what has been discussed in section 2.1 and suggest that recommending a "one size fits all" methodology to measure social value would be inconsistent with the high-level objectives of CAT policies and would not allow decision makers to make fair and meaningful comparisons between different projects.

The challenge for organisations is knowing what method is most suitable for them (Stephenson et al.,2010). The sub-sections below outline in a brief and accessible way the advantages and disadvantages of the different methodologies available. This is in order to support LAs and other commissioning bodies in choosing the most suitable method to measure social value and, ultimately, in making evidence-based decisions when appraising and evaluating CATs.

3.1 Cost Benefit Analysis (CBA)

Recommendation: using cost benefit analysis
In general, we recommend LAs and commissioners use conventional CBA as a starting point for every appraisal of CATs. This should be complemented with other methodologies when CBA does not provide the tools to capture the breadth of outcomes expected by the CAT under analysis.

Cost Benefit Analysis (CBA) is the main methodology used by central and local governments around the world for estimating and comparing benefits and costs of a policy, programme or project. Although many LAs mention cost-benefit analysis in their CAT policy strategy (e.g. Leeds, Lambeth, Middlesbrough), no guidance has been produced yet to support LAs in the application of cost benefit analysis to CATs.

This is probably due to the widespread opinion that conventional CBA is not able to adequately capture the complex set of soft outcomes that CATs are typically expected to deliver, and that it is resource consuming. In fact, there are many aspects of "conventional CBA" that could support LAs and commissioners when appraising and evaluating CATs.

The economic framework outlined in section 1 is based on CBA (section 1.4 in particular) and we believe that following all the steps of conventional CBA is a key to the success of community businesses and CATs in particular. HMT's Green Book is the best-reputed reference document to conduct cost-benefit analysis and includes a series of techniques to measure non-monetary outcomes that could be very helpful when assessing the value delivered by a CAT (see Annex A for more details).

When these techniques are not able to capture some of the social outcomes expected from a CAT, public authorities and community businesses should be very clear and transparent about the reasons why CBA is not fit for purpose in that specific context. Public authorities could use the three-stage well-being valuation tool developed by HACT to estimate the monetary value of the soft outcomes that conventional cost benefit analysis tools have not been able to capture (see section 3.3 below).

Similarly, when decision-makers do not have the resources to conduct a full cost-benefit analysis, the "valuing worth tool" developed by Birmingham City Council represents a valid and cost-effective support for decision makers (see section 3.4 below).

We summarise the strengths and limitations of CBA, and when and how to apply it, below.

CBA	*Most rigorous and accepted methodology to compare costs and benefits of different policies, projects and programmes*
Strengths	• **Conceptual Framework:** It provides a robust conceptual framework in line with the recommendations made in section 1 and widely accepted by stakeholders in the public and private sector. • **Asset valuation:** It proposes different asset valuation techniques that can be directly applied to CATs (Annex 3, Green Book,2013 and Lowe, 2008). • **Non-market values:** It includes a series of techniques to measure non-monetary outcomes that could be very helpful when assessing the value delivered by a CAT (see Annex A for more details).
Limitations	• **Resources:** It is relatively time and resource consuming. • **Social outcomes:** Some of the social outcomes expected from CATs are not captured by this methodology (e.g. community cohesion). • **Large scale:** Designed with big public sector projects in mind and often unsuitable for very small projects.
When to use it	• In general, we recommend to always use CBA as a starting point to ensure the CAT is supported by a robust economic framework. • When the CAT is likely to be scrutinised by external bodies (HMT, NAO, LGA). • When measurable and monetisable outcomes are more relevant. • When risk and uncertainty are more relevant and need to be accounted for in the appraisal process.
How to use it	• Follow HMT's Green Book recommendations. • Be clear and transparent about what can be measured using conventional CBA, what can't, and why. • There are many courses on CBA available on the market (see links below) that can provide LAs and community businesses with the expertise needed to implement CBA.
Resources	HMT's Green Book CBA for Local Partnerships (includes an excel template for CBA) New Economy Manchester Unit Cost Dataset APMG portal for Better Business Cases courses European Commission's guidance to CBA

3.2 Social Return on Investment (SROI)

Recommendation: using social return on investment analysis
Given the resource intensive nature of the process and the incomparability between two different SROI measures, we recommend using SROI only in exceptional circumstances, as it is often not fit for purpose in the CAT context.

Social return on investment (SROI) is probably the best-known method to measure social value both before and after the implementation of a specific intervention. It is a stakeholder-driven method and aims to identify how change has been or will be created, to place a monetary value on that change and to compare it with the costs of inputs required to achieve it (Social Venture Australia Consulting, 2012).

SROI methodology is composed of 6 steps: identify stakeholders, map change and outcomes with stakeholders, evidence outcomes, establish impact, calculate SROI, report. These steps are underpinned by 7 principles: involve stakeholders, understand change from their perspective, value only things that matter, only include what is material, do not over-claim, be transparent, verify results.

The box below summarises the strengths and limitations of SROI, and when and how to apply it.

SROI	*Stakeholder-driven method identifying how change has been or will be created and to monetise it*
Strengths	• **Stakeholders:** The focus on stakeholder engagement ensures that the outcomes included in the analysis are relevant to those who will be involved in the CAT. • **Monetisation:** The focus on monetisation of outcomes provides a common language to compare different types of benefits delivered by the same CAT. • **Conceptual framework:** It provides a robust conceptual framework in line with the recommendations made in section D and widely accepted by stakeholders in the public and private sector.
Limitations	• **Comparability:** As the measures of outcomes are chosen and defined by different stakeholders, it is not possible to compare different CATs using SROI. • **Resources:** It is very time and resource consuming, not just for the organisation conducting the analysis, but also for stakeholders. • **Non-monetised outcomes:** The focus on monetisation of outcomes risks missing some of the social outcomes delivered by CATs.
When to use it	• In general, we recommend using SROI only in exceptional circumstances, as it is often not fit for purpose in the CAT context. • When comparing different projects is not necessary. • When the organisation and stakeholders are willing to invest significant resources in the process. • When stakeholder engagement is a key to the success of the CAT and some of these stakeholders have not been involved in the CAT process.
How to use it	• Think about how this methodology will be used and the information needed to implement it at the very beginning of the process.

	• Ensure that stakeholders are willing to be involved, understand the method and are comfortable with the approach. • Be honest and transparent about 'what would have happened anyway' and eventually correct the deadweight values provided in the tool to reflect that. • Don't overly rely on monetisation; think about the costs and the benefits that have not been monetised.
Resources	Social Value UK guidance to SROI NEF guidance NEF training courses

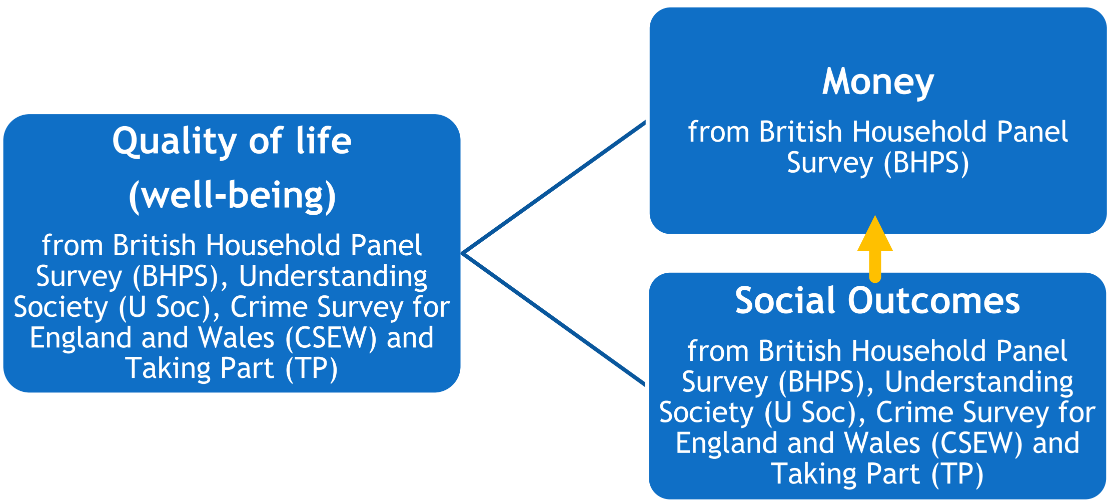
3.3 Three-Stages Wellbeing Valuation (3SWBV)

Recommendation: the three-stages wellbeing valuation approach
We recommend using 3SWBV as a complement to CBA. When conventional CBA is not able to capture all the social outcomes expected from a CAT, the social value bank and the value calculator can be used to fill this evidence gap.

This methodology draws heavily on the Green Book and its supplementary guidance on valuation methodology developed in 2011 (Fujiwara and Campbell, 2011). It has been extensively applied in the context of social housing, in order to estimate the social value created by community investment programmes run by housing providers.

Whilst the econometric techniques underpinning this methodology are relatively complicated, the conceptual intuition behind this approach is very simple. As shown in Figure 3 below (Fujiwara, 2013), this approach is composed of three steps and is based on responses to large national surveys.

FIGURE 3: GRAPHICAL REPRESENTATION OF 3SWBV



First, the responses to these surveys are used to calculate the impact of a social outcome (e.g. how regularly do you talk to your neighbours?) on an individual's quality of life (e.g. overall, how satisfied are you with your life nowadays?). Second, questions on lottery wins are used to calculate the impact of a specific amount of money on quality of life. Third the improvement in quality of life associated with a specific outcome (e.g. feeling an active part of your neighbourhood) in the first stage is matched with the amount of money needed to generate the same improvement in quality of life in stage 2.

The result of this 3-stages process is a list of monetary values attached to a huge variety of social outcomes collected in a social value bank (link), that can be easily included in a CBA or SROI analysis or analysed on their own. The social value bank is linked to a series of surveys that can be administered by public authorities and community businesses to measure the impact of their interventions, as well as a simple cost-benefit model that accounts for impacts not caused by the CAT or community business but that would have happened anyhow (i.e. deadweight, see section 1.4 for more details on how to apply it). An extract from the social value bank has been reported in Annex D. However, we recommend using the full Value Calculator Tool available online.

We summarise the approach and when to use it below.

3SWBV	*Statistical method to associate social outcomes with a monetary value*
Strengths	• **Ready to use:** A very simple and accessible Value Calculator is available online (HACT) together with detailed and easy-to-navigate guidance. LAs and other commissioners can use it to apply 3SWBV to CATs. • **Innovative:** The Social Value Bank is an innovative tool that has sparked debate in the academic and policy-making world. It represents a significant step forward in the process of developing a universal methodology to measure social value in a consistent and robust way. • **Comparable:** 3SWBV uses self-reported quality of life as a mechanism to link soft outcomes and monetary value. Although this approach has its limitations, it provides a “common currency” that can be used to compare and contrast projects in different policy areas.
Limitations	• **Survey based:** The approach is limited by the questions asked within the available survey datasets and values are calculated as simple binary values (e.g. employed or not employed, good or bad), which misses the impact of movements between intermediate categories (e.g. from very bad to bad). • **Not widely accepted:** It has not been extensively applied to different policy areas and it is not included in the official guidance on policy appraisals produced by national governments and international organisations. • **Based on national average:** Is based on averages across the British population and does attempt to value each individual’s preferences (e.g. employment, community engagement), but misses any distributional issue in terms of age, geography, socio-deprivation level, etc. • **Sample size:** the use of small to medium lottery wins as a statistical tool (technically called “instrument”) to estimate the impact of income on wellbeing limits the population of subjects to participants in a prize lottery.
When to use it	• In general, we recommend using 3SWBV as a complement to CBA: when conventional CBA is not able to capture all the social outcomes expected from a CAT, the social value bank and the value calculator can be used to fill this evidence gap.

	• When the analysis aims to appraise the impact of various CATs rather than comparing different asset disposal options. • There is a relative level of clarity and certainty around the magnitude and the beneficiary of the benefits.
How to use it	• Think about how this methodology will be used and the information needed to implement it at the very beginning of the process. • Even if it does not require the extensive involvement of stakeholders required by SROI, ensure that stakeholders understand and are comfortable with this approach. • Be honest and transparent about 'what would have happened anyway' and eventually correct the deadweight values provided in the tool to reflect that. • Don't overly rely on monetisation; think about the costs and the benefits that have not been monetised.
Resources	HACT Value Calculator Guidance document Methodology paper Technical guidance

3.4 Valuing Worth Social Value Tool (VWSVT)

Recommendation: the three-stages wellbeing valuation approach
In general, we recommend using VWSVT before investing more resources in a full CBA or when the organisation does not have enough resources to conduct a more rigorous CBA. We recommend complementing VWSVT with a success factor checklist based on the most recent evidence available on success factors in the community business sector (see Annex E below for more details).

In 2009, Birmingham City Council (BCC), together with the think tank Rich Regeneration and other social enterprises in the area, developed a tool to measure the social value and impact of asset transfer. This tool can be used in two different contexts: as a "social value tool" before the asset transfer is agreed and as an "impact tool" after the transfer has happened.

Whilst this tool has encountered some criticism in the sector, we believe that when implemented correctly and rigorously, it can add significant value to the CAT decision making process.

More specifically, the VWSVT can be particularly helpful in the early stages of the decision-making process, in order to inform early discussions between the commissioning body, the community business and other stakeholders involved. It is important to highlight that VWSVT needs to be applied in an intellectually honest and analytically rigorous manner and should be completed before a decision is made or implemented. The analysis and the evidence gathered to complete the VWSVT should inform decisions on CATs and their implementation.

The main operational and analytical driver behind the development of this tool is the fact that BCC found Social Return on Investment (SRoI) not suitable in the context of CATs, because it appears "overly complex for something that receiving third sector organisations themselves would need to themselves use" and "because with regard to many of the more qualitative benefits of asset transfer it is not practical, or desirable to reduce them to a financial value as would be required through SRoI" (BCC, 2009).

The empirical foundation of this methodology is the meta-analysis conducted in 2008 by the Young Foundation on the relationship between community empowerment and well-being (Hothy, 2008). This meta-analysis found that three key features characterising community engagement have a positive impact on well-being:

- Residents' ability to influence decisions affecting their neighbourhood;
- Regular contact with their neighbours; and
- Residents' confidence and ability to exercise control over local circumstances.

The social value tool is composed of 4 sections: finance, strategy, neighbourhood and activity. There are 13 further sub-sections. The social value estimated in these 13 sub-sections is then compared to the full economic rent of the asset to compare the CAT under analysis with a hypothetical counterfactual. Annex E provides more details on how to complete each of these sections.

The box below summarises.

VWSVT	*Methodology developed in the context of CATs to appraise, compare and evaluate different asset disposal options*
Strengths	• **Ready to use:** The website and the online guidance are simple, accessible and easily applicable to a CAT context. They include a simple and easy-to-navigate guide, a blank social value tool to be completed, background information on how to complete the tool and a series of case studies (see Annex E below for more details). • **CAT specific and tested with stakeholders:** It has been developed by policy experts working on CATs and has been tested with various stakeholders in the sector. • **Balanced:** It provides the right balance between flexibility, comparability and robustness. The methodology is standardised enough and has been sufficiently tested with stakeholders to compare different projects (including different asset disposal options). At the same time, it leaves room to include different features characterising the specific need of a specific project or area.
Limitations	• **Empirical basis:** Whilst it has been developed in and for the CAT community, it is not robustly grounded in the theoretical or empirical literature. • **Stakeholder engagement:** The extensive stakeholder engagement process BCC has gone through during the development of the tool does not ensure that every single aspect that is relevant to a specific CAT has been included in the methodology. • **Out of date:** Most of the numbers included in the template are from 2009 and need to be updated to apply them to current asset disposal options (see Annex E below for more details).
When to use it	• In general, we recommend using VWSVT before investing more time and resources in a CBA or when the organisation does not have enough resources to conduct a more rigorous CBA. • When the analysis aims to appraise the impact of various CATs as well as when comparing different asset disposal options. • When there is limited clarity and certainty around the magnitude and the recipient of the benefits.
How to use it	• Think about how this methodology will be used and the information needed to implement it at the very beginning of the process.

	• Even though it does not require extensive involvement of stakeholders and has been tested with multiple stakeholders, ensure that stakeholders understand and are comfortable with this approach. • Be honest and transparent about 'what would have happened anyway' and eventually correct the deadweight values provided in the tool to reflect that. • Don't overly rely on the quantitative or qualitative sections of the tool, and always think about these two components in a balanced and transparent way.
Resources	BCC's website on CATs provides detailed guidance on how this methodology can be used and applied, with a very simple and accessible guide, a blank social value tool to be completed, background information on how to complete the tool and a series of case studies as an example of how the tool can be completed.

ANNEX E provides more details on how VW can be implemented and suggests a complementary "success factors checklist" reflecting the results of recent research conducted in the CAT context (NatCen Social Research and WPI Economics (2017)).

A combined template of the VW social value tool and the success factors assessment tool is available here.

3.6 Conclusion

Without previous experience, measuring social outcomes can appear technically complex and intellectually challenging. In addition, while there are various methods available to measure social outcomes (before and after the implementation of a specific intervention) pragmatic factors (in terms of time and resource availability) will also effect the choice of method appropriate to any given project or programme (Tuan, 2008).

Ideally, in the context of CATs, we believe that the rigour and the robustness of conventional cost-benefit analysis should always be the starting point to measure social value. Even when it is not possible to capture all the social outcomes that a CAT is expected to deliver, this approach provides decision makers with a robust, tested and widely recognised conceptual framework to ensure the CAT under analysis is underpinned by a solid economic rationale.

At a pragmatic level, however, we recognise there may be two main limitations to adopting conventional cost-benefit analysis in the context of CATs:

1. LAs, commissioning bodies and community businesses often do not have the time, resources and expertise needed to conduct a complete and thorough cost benefit analysis; and,

2. Conventional cost benefit analysis is based on value or price of market transactions that by definition do not provide the basis to measure the "soft" social outcomes delivered by CATs (such as, community cohesion, entrepreneurship and community identity).

Where these issues are relevant we suggest when:

- Decision-makers do not have the time and resources to conduct a full cost-benefit analysis, the "valuing worth tool" developed by Birmingham City Council represents a valid and cost-effective "benchmark"; and,

- Conventional cost benefit analysis is not able to capture soft social outcomes expected from a CAT, LAs and commissioners should either:

    a. Be clear and transparent about the reasons why these effects are not captured and indicate in qualitative terms the types of impacts that might be generated; or,

    b. Consider using the three stage well-being valuation tool developed by HACT to estimate the monetary value of the soft outcomes that conventional cost benefit analysis tools have not been able to capture.

Each methodology and its accompanying results are only one factor in an organisation's decision-making process (Tuan, 2008). In the context of CATs, we recommend a flexible and balanced approach. Evidence should be used at both an operational and decision-making level. Organisations should be clear and transparent in recognising what this evidence is telling them and what it is not, and should have the intellectual courage to acknowledge these limitations and address them using intuition and creativity.

Recommendations

In this section, we bring together our recommendations on how to assess CATs, defining social value, and measuring social value.

Economic framework for assessing CATs
We propose a structured economic assessment framework that provides a robust method to ensure that decisions have the best chance of promoting the public interest. The framework recommends that public authorities and community businesses use the following steps:

- Foster the development of constructive, open and transparent relationships at the beginning of the CAT process.
- Research the context in which the CAT will operate and identify a rationale underpinning the transfer.
- Outline the scope of the project, think about desired outcomes, necessary actions to meet objectives and targets to measure success. These targets should be SMART and consider constraints and dependencies.
- Create a comprehensive list of alternative options, eliminating unviable options and those that fail to meet the SMART objectives, to create a shortlist of preferred options.
- Always consider a ‘do minimum’ and/or a ‘do nothing’ scenario accounting for what would happen in the absence of the CAT. This is to provide a benchmark for appraisal.
- Create a list of everyone affected by the project, list all of the costs and benefits that will impact them, attempt to estimate a monetary value for each one, and compare cost to benefits ratios across different options.

Defining social value
In the context of CATs, we define social value as the wider social, economic or environmental benefits generated by a CAT. We recommend public authorities and community businesses:

- Continue to consider social value in the context of CATs, even when it is not required by the Social Value Act or General Disposal Consent Order.
- Use a non-prescriptive definition of social value, in line with the current literature on the topic. Social value must link to the intended outcomes. Any attempt at a precise definition would exclude its use in a number of contexts and would be inconsistent with the main objective of social value legislation.

Measuring social value
Having considered different approaches to measuring social value, we recommend using cost benefit analysis, and supplementing it with other approaches as required.

- We believe that the rigour and the robustness of cost-benefit analysis should always be the starting point when attempting to measure the social value of CATs. Even when it can’t accurately capture all of the social outcomes that a CAT is expected to deliver, CBA provides decision makers with a robust, tested and widely recognised conceptual framework.
- When decision-makers do not have the time and resources to conduct a full cost-benefit analysis, the “valuing worth tool” developed by Birmingham City Council represents a valid and cost-effective support for decision makers.

- When conventional cost benefit analysis tools are not able to capture some of the social outcomes expected from a CAT, LAs and commissioners should be clear and transparent about the reasons why CBA tools are not fit for purpose. Commissioners can use the three stages well-being valuation tool developed by HACT to estimate the monetary value of the soft outcomes that conventional cost benefit analysis tools have not been able to capture.

- Given the resource intensive nature of the process and the incomparability between two different SROI measures, we recommend using SROI only in exceptional circumstances, as it is often not fit for purpose in the CAT context.

We recommend a flexible and balanced approach to appraising CATs. Evidence should be used at both an operational and decision-making level. Organisations should be clear and transparent in recognising what this evidence is telling them and what it is not, and should have the intellectual courage to acknowledge these limitations and address them using intuition and creativity.

Annex A – Non-Market Values

As extensively discussed in section 1.4 and section 3, some of the outcomes expected from CATs are not bought and sold like goods and services on the marketplace. As a consequence, it is often difficult to value them. Economists, statisticians and policy-makers have developed different techniques to estimate the monetary value there are some recognized approaches for dealing with this.

Whilst a detailed summary of these techniques is out of the scope of this report (see Fujiwara and Campbell, 2011 for more details), the reader might be interested in knowing that there are two main types of technique to achieve this objective: stated preference methods and revealed preference methods.

Sometimes there are similar goods and services that do have a price and these can be used as a proxy for the difficult to value item. For example, the amount people pay to enter an area of natural beauty might give you an indication of how much they value such places. This technique is known as **revealed preference**.

Researchers can also conduct surveys to ask people how much they would value outcomes where there is no price associated with the delivery of these outcomes. Known as the **stated preference or contingent value** approach researchers focus on establishing the monetary value of such outcomes by asking how much people would be willing to pay for such changes (**willingness to pay**).

The table below provides some examples of monetary values for non-market items that could be used in both CBA and SROI analyses. They are some of the most relevant figures included in the significantly vaster Unit Cost Database (link) drafted by New Economy Manchester. Monetary values are broken down in three categories: fiscal (i.e. direct financial impact public sector organisations), economic (i.e. impact on the economy as a whole – not just the public sector organisations involved) and social (i.e. wider social, economic or environmental impacts).

It brings together more than 600 cost estimates in a single place, most of which are national costs derived from government reports and academic studies. The costs cover crime, education & skills, employment & economy, fire, health, housing and social services. The derivation of the costs and the calculations underpinning them have been quality assured by New Economy in co-operation with HM Government.

	Monetary value (17-18 prices)		
Impact	**Fiscal**	**Economic**	**Social**
Crime			
Domestic Violence	£ 2,560	£ 1,527	£ 7,042
Average Cost per incident of crime (across all crime types)	£ 631	£ 726	£ 1,770
Average annual prisoner cost (across all types of prison)	£ 35,016		
Education			
Permanent exclusion from school	£ 9,555	£ 548	
NVQ Level 2 Qualification	£ 86	£ 459	
Apprenticeship Level 2 Qualification	£ 816	£ 1,252	
NVQ Level 3 Qualification	£ 532	£ 955	

Apprenticeship Level 3 Qualification	£ 1,441	£ 1,995	
Graduate Level 4+ Qualification	£ 2,850	£ 3,239	
Employment and Economy			
Job Seeker's Allowance (per claimant per year)	£ 10,157	£ 14,556	
Income Support (per claimant per year)	£ 7,846	£ 9,018	
Personal Independence Payment (Daily living component: enhanced per week)	£ 84		
Attendance Allowance Higher rate per week	£ 84		
Not in Employment Education or Training (NEET) Average annual cost per 18-24 year old NEET	£ 4,412	£ 9,326	
Troubled Families Programme - Troubled Families Employment Adviser (TFEA), Executive Officer (EO) grade - average staffing cost (national average)	£ 32,309		
Fire			
Average consequence cost per fire	£ 3,191	£ 2,812	
Average fire safety labour cost per hour	£ 17		
Average response cost per fire	£ 3,302		
Health			
Alcohol misuse - estimated annual cost to the NHS of alcohol dependency, per year per dependent drinker	£ 1,866		£ 1,449
Drugs misuse - average annual savings resulting from reductions in drug-related offending and health and social care costs as a result of delivery of a structured, effective treatment programme	£ 3,746	£ 9,280	£ 3,953
Ambulance services - average cost of call out, per incident	£ 224		
A&E attendance (all scenarios)	£ 187		
A&E attendance - no investigation and no significant treatment	£ 239		
Average cost of service provision for adults suffering from depression and/or anxiety disorders, per person per year	£ 860	£ 3,981	
Average cost of service provision for children/ adolescents suffering from mental health disorders, per person per year - total fiscal cost (to the NHS)	£ 238		

Counselling services in primary medical care, cost per hour	£ 52		
GP - cost per hour, General Medical Services activity	£ 125		
Community nurse (district nursing sister, district nurse) - cost per hour	£ 45		
Housing			
Homelessness application - average one-off and on-going costs associated with statutory homelessness	£ 2,592		
Temporary accommodation - average weekly cost of housing a homeless household in hostel accommodation	£ 111		
Homelessness advice and support - cost of a homelessness prevention or housing options scheme that leads to successful prevention of homelessness	£ 665		
Rough sleepers - average annual local authority expenditure per individual	£ 8,188		
Housing Benefit - average weekly award, across all tenure types	£ 96		
Social Services			
Average cost of child protection core assessment (overall)	£ 933		
Residential care for older people - average gross weekly expenditure per person, England	£ 372	£ 186	
Reablement Service - average cost per service user	£ 2,121		
Average gross weekly cost of home care packages for older people, England	£ 133	£ 64	
Parenting Programme - median cost of delivering a group-based parenting programme (per participant)	£ 987		
Average gross weekly expenditure on supporting adults with a learning disability in residential care, England	£ 1,389		

Annex B – Discounting, Risk and Optimism

The Green Book recommends to make cost-benefit analysis more robust with a series of extra steps beyond what discussed in section 1.4. Firstly, the value of money over time should be considered. We tend to have a preference for receiving £100 today rather than £100 in a year. In fact, we would require more money in a year in order to compensate for the wait. The same principal should exist for money used for a project. This is known as discounting and it is used to calculate the present value of future costs and benefits.

The Green Book recommends a discount rate of 3.5% per year. That is to say that the value of any costs or benefits that will accrue in a year's time will be 3.5% less than if they accrued today. This rate should be applied to all costs and benefits across the period, reducing their estimates by 3.5% for each subsequent year. Page 100 of the Green Book has a table of discount factors, so it is simply a matter of multiplying the costs and benefits by the discount factor in the 3.5% column for the relevant year.

Once a present value has been calculated for each cost and benefit, it's possible to take the present value benefits minus the present value costs. Both the community business and the LA team described in the best practice case study in section 1.4 created a Net Present Value (NPV) for each option, providing an indication of the best option (see tables below).

Another consideration is the optimism bias. The Green Book states that "There is a demonstrated, systematic, tendency for project appraisers to be overly optimistic. Appraisers tend to overstate benefits, and understate timings and costs, both capital and operational". It's important to account for this when conducting an options analysis.

The Green Book supplementary guidance: optimism bias (2002) document provides guidelines for correct levels of optimism bias. Table 1 (page 2) provides recommended adjustments for different types of projects and Tables 2 to 4 (pages 10 to 12) a starting point for created more detailed and tailored rates of optimism bias.

There are also some pitfalls that should not be included in the analysis. Firstly, it's important to apply adjustments to both costs and benefits, for example, both should be discounted. Different costs and benefits may have differing rates of optimism bias, based on the confidence behind the estimate, but optimism bias should be applied to both.

Secondly, it's important not to include inflation in the costs. Doing so treats costs differently to benefits, but it also increases their estimates, which ignores the principal behind discounting: we value things more if we receive them today than if we receive them in a year's time.

Depreciation costs should also be avoided. Depreciation reflects the falling value of an asset over time – for example, a van will be less valuable to a business in the third year than in the first, so the business depreciates the initial cost of the van across their estimate of the life of the van so they can more accurately assess the value of their assets. But depreciation does not affect a project – if the project required a van then the cost of the van and the benefits it brings are the relevant parts for the project. The value of the van over time is only important if it will be sold at a certain time in the project. Otherwise it is irrelevant.

Estimates can be incorrect, so it is important to avoid spurious accuracy. There are several ways to do this.

Firstly, it is easier to defend estimates if they are presented as a range. A range could represent a rule of thumb – say a best outcome that's 25% higher than the middle range (increasing all benefits and decreasing all costs by 25%) and a worst outcome at 25% lower.

This would require less analysis but might be less accurate.

A second option is to tailor the range to different costs and benefits based on risk and the NPV's sensitivity to changes in these factors.

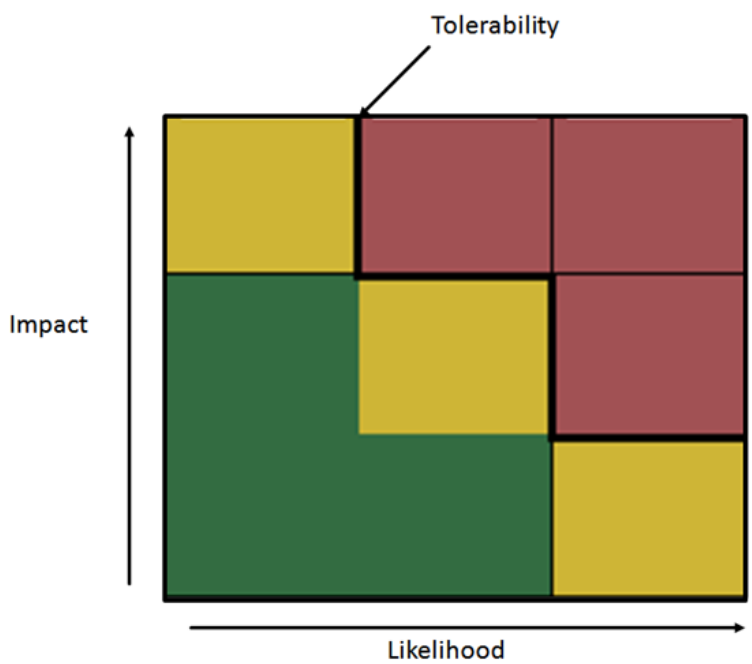
A **sensitivity analysis** can show the **switching value** - the value at which an option becomes less attractive than a different option. This can be done by using the Goal Seek function on Excel, picking each cost and benefit and changing it until the preferred option is no longer the best.

Risk can be assessed by first identifying where they lie using the **PESTLE** approach to think about risks in different areas:

- **Political** - a change in policies, government, or governmental tools
- **Economic** - the ability to attract and retain staff, possible changes in costs, or wider economic events
- **Socio cultural** - demographic changes that affect demand for service, or changes to expectations
- **Technological** - technology becoming obsolete, procurement costs, or security issues
- **Legal/regulatory** - changing laws and requirements (such as health and safety regulations)
- **Environmental** - changing standards or negative impacts the service could have
- **Operational risks** (those related to being unable to deliver a service) can be added to list.

Once all risks have been identified, it's possible to assess them using a framework suggested by the Treasury's Orange Book (2004). This requires judgment on the likelihood of the risk occurring and its possible impact on the project and placing the risk on the relevant squares of a matrix.

FIGURE 2: IMPACT LIKELIHOOD AND TOLERABILITY RISK MATRIX



This allows a team to do three things:

- Decide their risk tolerance for different factors - risks can be opportunities, so it's sometimes sensible to take more risks in certain areas
- Assign risks to individuals who then became responsible for mitigating, managing and reporting on their risks - they used chapter six of the Orange Book to determine how to respond
- Determine how sensitive their objectives were to these risks and apply different sensitivities to their project analysis

When identifying risks it's important to avoid risks that are:

- The opposite of their objective, so they're not specific enough to manage
- Irrelevant to the project
- Highly unlikely
- The impact of a different risk

The two tables below show how the costs and the benefits outlined in the best practice case study presented in section 1 have been adjusted to account for risk, optimisms and discounting.

Community Business Perspective	**Year 1**	**Year 2**	**Year 3**	**Year4**
optimism bias for benefits option 2	*-£30,750*	*- £111,090*	*- £111,090*	*- £111,090*
optimism bias for costs (excluding construction) option 2	*£13,050*	*£57,450*	*£57,450*	*£57,450*
optimism bias for benefits option 3	*-£13,050*	*-£57,450*	*-£57,450*	*-£57,450*
optimism bias for costs (excluding construction) option 3	*£12,150*	*£10,620*	*£10,620*	*£10,620*
Optimism bias for construction option 2	*£40,000*	*£0*	*£0*	*£0*
Optimism bias for construction option 3	*£8,000*	*£0*	*£0*	*£0*
Non-payment risk option 2	*-£3,000*	*-£18,000*	*-£18,000*	*-£18,000*
Non-payment risk option 3	*-£4,000*	*-£6,000*	*-£6,000*	*-£6,000*
Risk adjusted benefits option 2	*£171,250*	*£611,510*	*£611,510*	*£611,510*
Risk adjusted costs option 2	*£336,050*	*£128,950*	*£128,950*	*£128,950*
Risk adjusted benefits option 3	*£69,950*	*£319,550*	*£319,550*	*£319,550*
Risk adjusted costs option 3	*£141,150*	*£81,420*	*£81,420*	*£81,420*
Discount rate	*0.9962*	*0.9335*	*0.9019*	*0.8714*
Discounted benefits option 2	*£170,599*	*£570,845*	*£551,521*	*£532,870*
Discounted costs option 2	*£334,773*	*£120,375*	*£116,300*	*£112,367*
Discounted benefits option 3	*£69,684*	*£298,300*	*£288,202*	*£278,456*

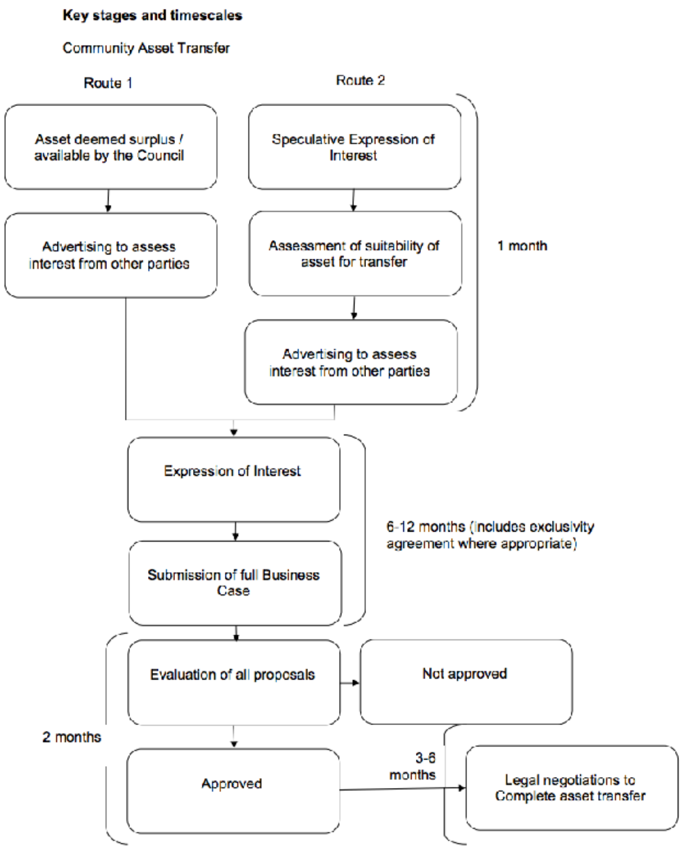
Discounted costs option 3	*£140,614*	*£76,006*	*£73,433*	*£70,949*
Benefits - cost option 2	*-£164,174*	*£450,470*	*£435,221*	*£420,503*
Benefits - cost option 3	*-£70,929*	*£222,294*	*£214,769*	*£207,506*
Benefit to cost ratio option 2	2.7			
Benefit to cost ratio option 3	2.6			

LA Perspective	**Year 1**	**Year 2**	**Year 3**	**Year4**
Benefits option B	£160,001	£545,601	£545,601	£545,601
Costs option B	£232,300	£300	£300	£300
Benefits option C	£200,000	£585,600	£585,600	£585,600
Costs option C	£238,300	£300	£300	£300
Non-payment risk option C	-£4,000	-£4,000	-£4,000	-£4,000
Adjusted benefits option C	£196,000	£581,600	£581,600	£581,600
Discount Rate	0.9962	0.9335	0.9019	0.8714
Discounted benefits option B	£159,393	£509,319	£492,078	£475,437
Discounted costs option B	£231,417	£280	£271	£261
Discounted benefits option C	£195,255	£542,924	£524,545	£506,806
Discounted costs option C	£237,394	£280	£271	£261
Benefits minus costs option B	-£72,024	£509,038	£491,807	£475,175
Benefits minus costs option C	-£42,139	£542,644	£524,274	£506,545
Benefit to cost ratio option B	7.0			
Benefit to cost ratio option C	7.4			

Annex C – Community asset transfer frameworks

Key stages of a CAT based on Leeds Council

ıttp://democracy.leeds.gov.uk/documents/s81602/Community%20Asset%20Transfer%20Report%20Append



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Annex D - Monetary Values from 3SWBV

The tables below includes a series of the monetary values associated to various social outcomes estimated by HACT using three stages well-being valuation. The use of values contained in the Social Value Bank, including figures provided or accessed through this Calculator, is covered by the following licensing conditions: Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (CC BY-NC-ND 4.0). The Practice Notes and accompanying Guide should be read and adhered to. HACT Certification will now include these developments.

Outcome	Unknown	<25	25-49	>50	London	<25	25-49	>50	Outside of London	<25	25-49	>50
♦ Full-time employment	£14,433	£13,446	£15,354	£13,865	£14,380	£10,126	£15,337	£16,168	£14,433	£13,702	£15,371	£13,720
♦ Self-employment	£11,588	£13,157	£11,952	£10,538	£12,116	£16,471	£12,406	£11,027	£11,537	£12,848	£11,887	£10,520
♦ Part-time employment	£1,229	£737	£1,824	£1,966	£1,966	£1,966	£1,966	£1,966	£1,176	£737	£1,850	£1,966
♦ Government training scheme	£9,447	£11,903	£5,668	£12,817	£5,668	£5,668	£5,668	£5,668	£9,596	£12,083	£5,668	£12,034
♦ Secure job	£12,034	£10,871	£12,148	£11,969	£10,502	£9,089	£11,504	£8,993	£12,083	£10,923	£12,164	£12,116
♦ Apprenticeship	£2,353	£1,861	£2,948	£3,090	£3,764	£3,764	£3,764	£3,764	£2,195	£1,756	£2,868	£2,985
♦ Vocational training	£1,124	£1,124	£1,124	£1,124	£1,798	£1,798	£1,798	£1,798	£1,019	£1,019	£1,019	£1,019
♦ Regular volunteering	£3,249	£2,895	£2,742	£3,324	£3,772	£4,663	£4,663	£2,306	£3,199	£2,562	£2,536	£3,474
♦ Regular attendance at voluntary or local organisation	£1,773	£1,901	£1,064	£1,064	£1,064	£2,836	£1,064	£1,064	£1,875	£1,824	£1,567	£1,824
♦ General training for job	£1,567	£2,507	£1,437	£2,507	£2,206	£940	£2,507	£2,507	£1,515	£2,507	£1,359	£2,507
♦ Employment training	£807	£484	£887	£940	£1,291	£1,291	£1,291	£484	£647	£484	£674	£1,071
♦ Employed parent for children (11-15)	£1,700	£1,700	#N/A	#N/A	£1,020	£1,020	#N/A	#N/A	£1,901	£1,901	#N/A	#N/A
» No problem with teenagers hanging around	£5,760	£6,963	£4,684	£8,746	£4,333	£3,456	£3,456	£9,216	£6,034	£7,532	£5,084	£8,353
» No problem with vandalism/graffiti	£4,072	£2,443	£4,684	£4,906	£3,089	£2,443	£2,443	£6,515	£4,289	£2,443	£5,263	£4,115
» Not worried about crime	£12,274	£17,356	£12,435	£13,978	£19,399	£7,525	£19,399	£16,527	£11,535	£18,813	£11,222	£10,348
» No problem with anti-social behaviour	£6,403	£3,842	£7,199	£6,496	£3,842	£3,842	£5,579	£7,580	£7,057	£4,289	£7,868	£6,310
» Police do good job	£5,340	£6,263	£6,082	£3,204	£8,543	£8,148	£8,543	£3,204	£4,800	£5,959	£5,277	£3,204
» No litter problems	£3,555	£3,173	£3,684	£3,300	£2,133	£2,133	£3,470	£2,133	£3,942	£5,533	£3,813	£3,513
» Able to obtain advice locally	£2,457	£2,507	£1,567	£3,561	£3,919	£3,931	£3,003	£3,931	£1,977	£1,474	£1,474	£3,931
» Good neighbourhood	£1,747	£1,048	£1,048	£2,795	£1,048	£1,048	£1,048	£2,795	£2,054	£1,048	£1,048	£2,795
» Feel belonging to neighbourhood	£3,753	£2,706	£2,252	£6,004	£2,252	£2,252	£2,682	£2,407	£3,919	£3,223	£2,252	£6,004
» Talks to neighbours regularly	£4,511	£3,369	£3,195	£6,820	£3,910	£2,972	£4,007	£6,820	£4,535	£3,837	£3,070	£5,075
☼ High confidence (adult)	£13,080	£14,224	£13,065	£12,565	£13,188	£15,264	£12,801	£12,817	£13,065	£14,152	£13,096	£12,549
☼ Relief from depression/anxiety (adult)	£36,766	£33,107	£36,949	£38,800	£35,563	£52,293	£38,053	£28,627	£36,827	£31,914	£36,706	£39,302
☼ Good overall health	£20,141	£16,921	£21,200	£20,323	£23,338	£25,869	£24,282	£21,715	£19,913	£16,412	£20,922	£20,186
☼ Relief from drug/alcohol problems	£26,124	£30,633	£30,688	£15,674	£41,798	£41,798	£41,798	£29,324	£24,120	£25,616	£29,540	£15,674
☼ Smoking cessation	£4,010	£4,571	£4,072	£3,856	£2,410	£6,416	£2,406	£2,406	£4,041	£4,414	£4,196	£3,948
☼ Feel in control of life	£15,894	£15,637	£17,504	£16,427	£14,894	£18,607	£12,833	£15,311	£15,878	£14,399	£16,474	£15,734
☼ Can rely on family	£6,784	£10,855	£6,784	£6,742	£7,532	£10,855	£7,876	£4,389	£6,700	£10,855	£6,636	£7,036
▲ Debt-free	£1,593	£1,124	£1,045	£956	£956	£956	£956	£2,548	£1,696	£956	£1,721	£2,548
▲ Afford to keep house well-decorated	£5,326	£5,859	£4,828	£5,924	£3,196	£7,347	£3,196	£7,896	£5,990	£3,196	£6,678	£6,272
▲ Able to save regularly	£2,155	£2,382	£2,054	£2,130	£1,798	£1,293	£1,541	£3,003	£2,231	£1,696	£3,076	£1,293
▲ Relief from being heavily burdened with debt	£10,836	£7,065	£11,857	£12,962	£7,065	£7,065	£7,065	£10,132	£11,078	£7,065	£11,928	£13,377
▲ Able to pay for housing	£7,347	£4,408	£8,744	£8,647	£6,636	£4,408	£8,432	£6,121	£7,388	£4,408	£8,550	£8,974

▲ Financial comfort	£8,917	£8,530	£8,802	£9,428	£8,763	£8,491	£10,378	£7,937	£8,898	£6,910	£9,762	£8,879
▲ Access to internet	£2,413	£3,538	£3,538	£1,663	£3,538	£3,538	£3,538	£3,244	£1,688	£3,538	£3,538	£1,663
▲ Able to insure home contents	£3,652	£2,191	£3,110	£5,844	£5,744	£5,744	£2,191	£4,928	£4,249	£2,191	£4,118	£5,844
○ Go to youth clubs	£2,300	£2,300	#N/A	#N/A	£1,380	£1,380	#N/A	#N/A	£2,464	£2,464	#N/A	#N/A
○ Relief from depression/anxiety (youth)	£11,819	£11,819	#N/A	#N/A	£11,570	£11,570	#N/A	#N/A	£11,819	£11,819	#N/A	#N/A
○ Improvements in confidence (youth)	£9,283	£9,283	#N/A	#N/A	£5,844	£5,844	#N/A	#N/A	£9,455	£9,455	#N/A	#N/A
○ Married parents (youth)	£2,035	£2,035	#N/A	#N/A	£1,221	£1,221	#N/A	#N/A	£2,497	£2,497	#N/A	#N/A
○ Never arrested	£3,684	£2,210	£5,894	£2,210	£4,028	£5,894	£5,894	£2,210	£3,470	£2,210	£5,894	£2,210
◘ Member of social group	£1,850	£2,959	£1,110	£1,977	£2,307	£1,110	£1,721	£2,959	£1,850	£2,959	£1,110	£1,850
◘ Active in tenants group	£8,116	£12,986	£9,890	£4,870	£8,295	£4,870	£11,870	£4,870	£7,957	£12,986	£9,353	£4,870
♥ Football	£3,101	£4,851	£2,904	£1,860	£1,860	£4,366	£1,860	£3,076	£3,320	£4,942	£3,198	£1,860
♥ Keep fit	£1,670	£2,180	£1,359	£2,079	£1,002	£1,002	£1,002	£1,002	£2,130	£2,532	£1,977	£2,281
♥ Walking	£5,281	£3,169	£4,598	£7,388	£4,296	£3,169	£3,169	£8,373	£5,416	£3,169	£4,896	£7,409
♥ Yoga or pilates	£2,256	£1,354	£2,382	£3,149	£3,610	£1,618	£3,610	£1,354	£1,901	£1,354	£1,618	£3,561
♥ Dance	£3,052	£1,831	£1,831	£4,883	£1,831	£1,831	£1,831	£4,883	£3,295	£2,104	£1,875	£4,883
♥ Frequent moderate exercise	£4,179	£3,848	£2,880	£6,315	£3,705	£4,575	£2,507	£6,686	£4,272	£3,729	£3,076	£6,207
♥ Frequent mild exercise	£3,537	£2,122	£2,332	£5,527	£3,633	£2,122	£4,942	£4,319	£3,537	£2,130	£2,122	£5,594
▬ Gardening	£1,411	£2,258	£847	£2,054	£847	£2,258	£847	£2,104	£1,463	£2,258	£847	£1,721
▬ Hobbies	£1,515	£909	£1,359	£2,424	£2,130	£1,875	£1,952	£2,424	£1,463	£909	£1,281	£2,424
⌂ Rough sleeping to secure housing (average)	£24,467	£24,467	£24,467	£24,467	£24,467	£24,467	£24,467	£24,467	£24,467	£24,467	£24,467	£24,467
⌂ Rough sleeping to secure housing (no dependent children)	£21,401	£21,401	£21,401	£21,401	£21,401	£21,401	£21,401	£21,401	£21,401	£21,401	£21,401	£21,401
⌂ Rough sleeping to secure housing (with dependent chidlren)	£30,338	£30,338	£30,338	£30,338	£30,338	£30,338	£30,338	£30,338	£30,338	£30,338	£30,338	£30,338
⌂ Temporary accommodation to secure housing (average)	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019
⌂ Temporary accommodation to secure housing (no dependent children)	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019	£8,019
⌂ Temporary accommodation to secure housing (with dependent chidlren)	£8,036	£8,036	£8,036	£8,036	£8,036	£8,036	£8,036	£8,036	£8,036	£8,036	£8,036	£8,036
⌂ Rough sleeping to temporary accommodation (average)	£16,448	£16,448	£16,448	£16,448	£16,448	£16,448	£16,448	£16,448	£16,448	£16,448	£16,448	£16,448
⌂ Rough sleeping to temporary accommodation (no dependent children)	£13,382	£13,382	£13,382	£13,382	£13,382	£13,382	£13,382	£13,382	£13,382	£13,382	£13,382	£13,382
⌂ Rough sleeping to temporary accommodation (with dependent children)	£22,302	£22,302	£22,302	£22,302	£22,302	£22,302	£22,302	£22,302	£22,302	£22,302	£22,302	£22,302
⌂ Tenancy Service for people in rough sleeping (average)	£245	£245	£245	£245	£245	£245	£245	£245	£245	£245	£245	£245
⌂ Tenancy Service for people in rough sleeping (no dependent children)	£214	£214	£214	£214	£214	£214	£214	£214	£214	£214	£214	£214
⌂ Tenancy Service for people in rough sleeping (with dependent chidlren)	£303	£303	£303	£303	£303	£303	£303	£303	£303	£303	£303	£303
⌂ Emergency relief services for people in rough sleeping (average)	£98	£98	£98	£98	£98	£98	£98	£98	£98	£98	£98	£98
⌂ Emergency relief services for people in rough sleeping (no dependent children)	£96	£96	£96	£96	£96	£96	£96	£96	£96	£96	£96	£96
⌂ Emergency relief services for people in rough sleeping (with dependent chidlren)	£121	£121	£121	£121	£121	£121	£121	£121	£121	£121	£121	£121
⌂ Housing service for people in temporary accommodation (average)	£192	£192	£192	£192	£192	£192	£192	£192	£192	£192	£192	£192
⌂ Housing service for people in temporary accommodation (no dependent children)	£192	£192	£192	£192	£192	£192	£192	£192	£192	£192	£192	£192
⌂ Housing service for people in temporary accommodation (with dependent chidlren)	£193	£193	£193	£193	£193	£193	£193	£193	£193	£193	£193	£193
⌂ Tenancy service for people in temporary accomodation (average)	£176	£176	£176	£176	£176	£176	£176	£176	£176	£176	£176	£176
⌂ Tenancy service for people in temporary accommodation (no dependent children)	£176	£176	£176	£176	£176	£176	£176	£176	£176	£176	£176	£176
⌂ Tenancy service for people in temporary accommodation (with dependent children)	£177	£177	£177	£177	£177	£177	£177	£177	£177	£177	£177	£177

Annex E - Valuing Worth and Success Factors Tool

The key principle underpinning the Valuing Worth and Success Factors Tool developed by Birmingham City Council and expanded by Pro Bono Economics is that asset transfer projects generate value if:

- they are financially robust;
- they contribute to strategic and neighbourhood priorities;
- the transferred building or land and will be used for one or more specific purposes;
- saves money to the L or impacts on adjoining sites.

Whilst this tool has encountered some criticism in the sector, we believe that, when implemented correctly and rigorously can add significant value to the CAT decision making process.

More specifically, the VWSVT can be particularly helpful in the early stages of the decision-making process, in order to inform early discussions between the commissioning body, the community business and other stakeholders involved. It is important to highlight that VWSVT needs to be applied in an intellectually honest and analytically rigorous manner and should be completed before a decision is made or implemented. The analysis and the evidence gathered to complete the VWSVT should inform decisions on CATs and their implementation.

The main operational and analytical driver behind this tool is the fact that BCC found Social Return on Investment (SRoI) not suitable in the context of CATs, because it appears "overly complex for something that receiving third sector organisations themselves would need to themselves use" and "because with regard to many of the more qualitative benefits of asset transfer it is not practical, or desirable to reduce them to a financial value as would be required through SRoI" (BCC, 2009).

The empirical foundation of this methodology is the meta-analysis conducted in 2008 by the Young Foundation on the relationship between community empowerment and well-being (Hothy, 2008). This meta-analysis found that three key features characterising community engagement have a positive impact on well-being:

- Residents' ability to influence decisions affecting their neighbourhood;
- Regular contact with their neighbours;
- Residents' confidence and ability to exercise control over local circumstances.

These three postulates and in particular the notion of control over local circumstances are at the hearth of the approach taken by BCC to measure well-being and social value.

The objectives of the tool with regard to **measuring ex-ante the social value of asset transfer** are: (1) compare the financial value of community use of a land or property asset transfer with the market value of the asset; (2) include in this comparison the savings to the Council in community ownership of land or property (3) Not be overly complicated or resource intensive and be able to be completed jointly by both Council officers and third sector organisations.

With respect to measuring ex-post the **impact of asset transfer** the objectives of the tools are: (1) look at *outcomes* and possibly wider *impacts* of asset transfer on a range of stakeholders if possible e.g. Council, receiving organisation, funders, wider community, etc; (2) be developed in a 'bottom up' way taking the objectives that the organisation itself and users see as important whilst also suggesting a range of common indicators of outcomes that asset transfer could achieve which could be used as a guide; (3) Be able to take into account negative as well as positive impacts; (4) Include 'qualifications' for any impacts .g. 'dead weight' –what would have happened anyway, attribution etc. (5) Include *qualitative* as well as *quantitative* impacts where possible (6) Not be overly complex or resource intensive for third sector organisations themselves to use.

413 is the number to understand in order to help people remember the key elements of the social value tool. Indeed, it is composed of 4 sections (finance, strategy, neighbourhood and activity) and 13 sub-sections. BCC's website on CATs provides detailed guidance on how this methodology can be used and applied, with a very simple and accessible guide, a blank social value tool to be completed, background information on how to complete the tool and a series of case studies as an example of how the tool can be completed. The paragraphs below provide a brief summary of what is included in these documents.

Section 1 (financial and viability assessment) covers:

A. **financial resources:** this section aims to outline what percentage of the total project costs have been secured. A project can score between 0 and 20 in this section depending on the proportion of funding that it has secured (20=100%, 10=50%, 0=0%).

B. **investment leveraged:** this section aims to determine the amount of funding that the group is able to access to invest in the building as percentage of value of the building. A project can score between 0 and 25 in this section depending on the proportion of funding that it has secured (25=100%, 12.5=50%, 0=0%).

C. **business plan's viability:** aims to score the future revenue-raising capacity of the project as indicated by the business plan. A project can score between 0 and 20 in this section, depending on the quality of the business plan: 0= No evidence of 3 yr projected revenue stream provided; 5= Some evidence of 3 yr projected revenue stream provided with on-going costs partially covered; 10 = Some evidence of 3 yr projected revenue stream provided and income exceeds on-going costs; 11 = Good evidence of 3 yr projected revenue stream provided and income exceeds on-going costs.

Section 2 (Strategic added value) covers:

D. **Location by Priority Status:** this section aims to assess whether the asset is located in either the top 5% (10 points) or 10% (5 points) of deprived wards according to the Index of Multiple Deprivation. A project will score 0 if located outside priority neighbourhoods. Indexes of Multiple Deprivation can be accessed on DCLG's website.

E. **Contribution to sustainable Community Strategy objectives** This section aims to assess the contribution made by the project to the area's strategic objectives as set out in the Sustainable Community Strategy. Five relevant objectives from the LA's Sustainable Community Strategy should be included and projects should be scored from 0 to 10 against each of these objectives: 0 = little or no potential achievement; 3 = low potential achievement; 5 = medium potential achievement; 10 = high potential achievement. We recommend public authorities and community businesses to be clear and transparent about the mechanisms through which the CAT will contribute to these objectives, especially when they are defined in a very vague and high-level way.

F. **Contribution to Local Area Agreement Aims** The same procedure is repeated to assess the contribution made by the project to the area's five strategic objectives as set out in the Local Area Agreement.

Section 3 (Neighbourhood added value) covers only one aspect:

G. **Contribution against neighbourhood priorities:** The same procedure is repeated to assess the contribution made by the project to the area's five strategic objectives as set out in the Neighbourhood Priorities.

Finally, **Section 4** (proposed activities and use assessment) covers six elements:

H. **Community participation:** this section aims to estimate the 'social value' of participation by the community in activities at the building. It uses the hourly minimum wage rate to estimate the social value of an hour of community participation per participant and the average regional wage to estimate the value of community volunteering. Data on minimum wage rates can be found on ONS' website as well as data on average regional wages.

I. **Employment and Enterprise:** this section aims to measure the specific use of the building for training or to generate jobs or new businesses. It uses minimum wages levels to estimate the value of training places, the average regional salary to estimate the value of a job created and a proxy from EU grant programmes to measure the value of a new businesses created (£7,000 in 2017-18 prices).

J. **Agency Service Usage:** this section aims to measure the use of the building by other agencies such as the CCGs, local authority, other third sector groups, etc. It uses a flat rate of £12 for every m2 of space rented by the agency in question (in 2017 prices).

K. **Value of open land:** This section accounts for the uses applicable to the transfer of open land and includes play and sports spaces, habitat areas, flood alleviation, car parking etc. It uses the cost of reinstatement of the asset as a financial proxy.

L. **Savings on costs to the local authority:** This section accounts for the cost savings to the Council as a result of the building being passed to the third sector. The cost savings covered include security, energy and maintenance and are calculated using current costs per annum to the Council for maintaining building which would be saved through transfer.

M. **Impact on adjoining sites:** This section aims to capture the benefit on adjoining sites of the refurbishment and productive re-use of a transferred building or piece of land.

We recommend to complement the VWSVT outlined above with a success factor checklist based on the most recent evidence available on success factors in the community business sector.

According to the government's guidance on best practices in appraisals, to arrive at a realistic appraisal it is vital to consider the extent to which estimates of the cost and benefits of a project are over- and underestimated respectively. This is due to the fact that project appraisers are found to have a tendency to be overly optimistic and in order to redress this tendency, appraisers should make 'explicit, empirically based adjustments to the estimates of a project's costs, benefits, and duration' (Supplementary Green Book Guidance - Optimism bias, p.1).

Ideally, such adjustments should be based on data from past or similar projects, which have been adjusted for the unique characteristics of the appraised project. However, in the context of CATs, obtaining such information might be difficult due to the still observed gaps in the monitoring and evaluation of such projects.

An alternative way to adjust the project estimates to more realistic figures is to account for the potential risks associated with specific project characteristics. Our review of recent research around what makes social enterprises and CATs successful found that well-performing projects shared a number of common traits, regardless of the sector in which they operated NatCen Social Research and WPI Economics (2017). Success factors could be grouped into three main categories: 1) Business model related, 2) Human capital related and 3) Community and external environment related (see list below).

Factors related to the business model are mostly centred around the financial viability of the business, the operating manager's awareness of future cost requirements and their intention to develop the business with a person-centred approach, i.e. being motivated by what matters for the community. Misunderstanding of the financial aspects of the project poses a high risk to the project success even when there seems to be a sufficient demand for the service as well as a community buy-in to support it.

Human capital factors are related to the project team including leadership and volunteers. Successful projects are found to often be led by people with previous entrepreneurial experience who can effectively engage with the team and the community. Staff and volunteers with the right skills and expertise in the relevant field are also seen as crucial to success of the project. Moreover, businesses which made contingency plans in relation to staff succession and considered the key partnerships they need to develop were also found to do much better than those who don't.

And finally, community and external factors are largely related to community engagement and evidence of their support for the project. Demand for the project and community buy-in are highlighted as some of the key success factors. Interestingly, community buy-in is found to often dependent on the type of volunteers involved in the project and how representative they are of the local community. Evidence in relation to the community's vision and needs could be expressed through consultations with and surveys of the local community.

By 'flipping the coin' (i.e. examining the extent to which projects demonstrated lack of success characteristics) one could effectively assess the extent to which bidding organisations are exposed to risk. For example, the lack of sufficient buy-in by the local community poses a high degree of risk to the success of any community enterprise project; by accounting for this appraisers could adjust the estimated future benefits down.

The list below shows the structure of the risk assessment tool based on existing evidence on success factors. Community businesses and public authorities should rate from 1 to 10 the extent to which the answer to each of the 15 questions below is affirmative (0 = absolutely no and 10 = absolutely yes). The standard weight of each question is 1. Depending on the specific community business and CAT under analysis, some questions can be given a weight as low as 0.8 and as high as 1.2.

Business model

A. **Financial stability:** Does the business show ability to attract funding/generate revenue? For example, is there evidence of cross-subsidisation or ability to implement?
B. **Good forward planning of financial requirements:** Has the bidder demonstrated understanding of future financial requirements such as for stock replacement and maintenance, management of operating costs, etc.?
C. **Person-centred approach:** Will the community business responding to the needs of the community?
D. **Right ownership type:** Does the business have the right ownership type? For example, tenanted model in pubs is found to benefit from the expertise of tenants and could be more successful than the managed model as long as tenant's vision of running the pub for social benefit is aligned with that of community business.

Human capital

A. **Strong leadership:** Will the businesses be run by an experienced chairman? Is the governance with clearly defined roles and understanding of who participate in the decision making?
B. **High quality staff and volunteers:** Will the business be able to attract the right volunteers in terms of skills and background? Does the business have a good plan for retaining staff (e.g. through training, promoting team identity, giving them access to decision making, etc.)
C. **Proactive management:** Has the business done or is it planning to do something in order to identify issues affecting local people, the needs of local people, etc.?

D. **Succession planning:** Does the business have a contingency in case board members or key team members need to be replaced?
E. **Evidence of partnerships:** Is there evidence of the business having developed or planning to develop partnerships with funders, delivery organisations, advisory organisations, etc.?

Community and external environment

A. **Identified sources of advice and support and for senior and cross-departmental LA buy-in:** Has the business identified or approached key organisations which could provide advice and help, e.g. in relation to navigating through regulations, etc.?
B. **Community buy in:** Does the community values the services and social objectives underpinning the work? Is there local support to build capacity, offer technical support and facilitate networks?
C. **Volunteers are representative of the community:** Are the organisation and its volunteers rooted in the community?
D. **Evidence of demand for the service:** Will there be sufficient demand for the service?
E. **Involvement of local community through consultations:** Has the business engaged with the local community and key stakeholders? Does the business have the support of influential stakeholders (e.g. MPs).
F. **Plans for dealing with competition:** Does the business have effective plans for promotion of social objectives to overcome competition from other businesses providing similar service?
G. **Availability of support:** Is peer-to-peer support available for both local authority (inc elected members) and community businesses? Is advanced technical (legal, property) support on call where needed?

A combined template of the VW social value tool and the success factors assessment tool is available here.

The final scores estimated through the VWSVT and the success factors checklist can be used to compare alternative CAT projects.

Annex F – Other approaches to measuring social value

Section 3 above analysed what we believe are the most relevant methodologies in the context of CATs. The paragraphs below mention other methodologies that we do not believe can be directly applied to CATs but that might be of interest to analysts and policy makers who are thinking about measuring social value.

Robin Hood Foundation (Robin Hood) Benefit-Cost Ratio

Robin Hood supports hundreds of third sector organisations that fight poverty in New York City. In 2003, it developed its Benefit-Cost Ratio methodology to estimate the collective benefit to poor individuals that Robin Hood grants create (Tuan, 2008). Robin Hood has developed, together with managers, academics and policy experts, a list of 163 metrics formulae to evaluate poverty interventions (Robin Hood, 2014). The list is divided in three sections: earning metrics (education and jobs); non-earning metrics (legal, government transfers and other) and health metrics. Each metric is described by a simple equation and is accompanied by a clear and straightforward explanation as well as by a detailed list of underpinning evidence and by a couple of applied examples.

This methodology includes a Robin Hood Factor (Weinstein, 2007), which is very similar to the deadweight factor in 3SWBV. Not only does it estimate the portion of the benefit that could reasonably be attributed to Robin Hood's funding, it also takes into account the organisation's capacity to tap into alternative funding sources, and the potential implications of Robin Hood not funding the organisation (So and Staskevicius, 2015).

From a CAT perspective, the main advantages of this methodology are that they can be quickly applied to different contexts, that they are evidence based and have been extensively applied by prestigious organisations such as the Bill and Melinda Gates foundation.

On the other hand, all the values provided are estimated for an American urban context, they are expressed in dollars and come from evidence collected before 2007. Moreover, they do not include many aspects that are typically difficult to measure and that might be relevant to CATs (such as community engagement). Finally, the values are expressed as averages and they do not reflect distribution issues across particular individuals nor the decreasing nature of marginal benefits.

Acumen Fund (Acumen) BACO Ratio

Acumen, a nonprofit global venture fund founded in 2001 in New York City, developed its Best Available Charitable Option (BACO) Ratio methodology in 2004 to quantify a potential investment's social output and compare it to the universe of existing charitable options for that social issue (Tuan, 2008).

The approach provides a quantifiable indication of whether a social investment will "outperform" a plausible alternative. Whenever possible, the BACO is based on existing charities providing similar goods and services to those of Acumen Fund's investment. In cases where a viable local comparison does not exist, Acumen tries to develop realistic hypothetical options based on other geographies or from plausible "what if" scenarios (Acumen, 2007).

To date, Acumen has only used BACO in its global development area to make grantmaking decisions, but plans to use it in other areas. It is not directly applicable to CATs, but it provides an interesting perspective on how the issue of measuring non-monetary aspects can be addressed.

William and Flora Hewlett Foundation (Hewlett) Expected Return

Hewlett developed its Expected Return (ER) methodology in 2007 to evaluate potential charitable investments through a systematic, consistent, quantitative process (Tuan, 2008). The Expected Return calculation has four components: benefit in a perfect world, likelihood of success, the philanthropic contribution, and cost. The result is a systematic estimate of the return on each potential investment and the ability to compare disparate projects (Hewlett Foundation, 2008).
The methodology attempts to answer five questions:

- What's the goal? The target defines the geographic scope of all potential investments and the metric used to measure them.
- How much good can it do? Benefits in a perfect world measures an investment's potential results under ideal conditions.
- Is it a good bet? Likelihood of success takes risk into account.
- How much difference will we make? The philanthropic organisation's contribution describes its share of impact within a potential investment that includes other sources of funding.
- What's the price tag? The cost expresses the size of a philanthropic organisation's financial investment.

To date, Hewlett has only used ER in its global development area in grant making decisions but plans to use it in other areas. As above, it is not directly applicable to CATs, but provides another interesting perspective on how the issue of measuring non-monetary aspects can be addressed (Brest et al., 2009).