# Gross Value Added

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| ***Gross Value Added (GVA) is an indicator of wealth creation, measuring the contribution to the economy of a specified investment in economic activity.*** |

**Why is it important?**

GVA is one of the most commonly applied indicators of economic impact and provides a measure of the wealth generated within the economy (over time) resulting from direct investment in economic activity.

It is one of the Scotland’s Economic Strategy [National Performance Framework Purpose Targets](http://www.scotland.gov.uk/About/scotPerforms/purpose) defined as being the value of the output produced in the economy over a particular period less any appropriate intermediate consumption (i.e. the value of the goods and services consumed as inputs to the production process)[[1]](#footnote-1).

GVA is useful in that it adds important *quantitative* economic detail to inform the assessment of an intervention’s actual or potential economic development value. Net GVA, for example, indicates the scale of wealth generated by an intervention above that which would have been generated by beneficiaries anyway.

GVA data can be used:-

* To highlight the absolute impact of an intervention (at both gross & net levels);
* To calculate the **impact investment ratio** (an indicator of the relative effectiveness of an intervention);
* As a contributor to assessing the impact on productivity as a result of an intervention; and
* To help assess the ‘quality’ of jobs generated (either through comparisons of the wage component of GVA or through comparisons of GVA per employee).

Please note that the approaches to measuring GVA described below will not necessarily apply to pre-commercial activity (such as the product development phase of a new start company), or a business with strong focus on R&D, during which negative GVA can be generated as no income is being generated at a time when costs are being incurred.

**How do we measure GVA impacts?**

GVA can be measured in a number of ways. For reasons of robustness, if at all possible, the preferred method of calculating GVA should be to build this up from company data, collected either using SE’s **standard question** set or sourced from company accounts.

Please note that the approaches to measuring GVA described below will not necessarily apply to pre-commercial activity (such as the product development phase of a new start company), or a business with strong focus on R&D, during which negative GVA can be generated as no income is being generated at a time when costs are being incurred. In such instances it may be preferable to use a common sense approach and base any GVA calculations on employee costs alone. This is explored in greater detail in the Pre-revenue Impacts information sheet.

GVA at the firm level can be estimated in two ways (Box 1). Both methods will result in the same GVA value.

**BOX 1 Estimating GVA at the Firm Level**

**Method 1:**

GVA = Operating Profit[[2]](#footnote-2) (before tax) + Employee Costs[[3]](#footnote-3) + Depreciation + Amortisation[[4]](#footnote-4), [[5]](#footnote-5)

**Method 2:**

GVA = Turnover (or sales) less the cost of bought in goods & services (excl. employee costs)[[6]](#footnote-6)

It should be noted that employee costs should be the total costs to the employer of employing someone, that is wages, pension and National Insurance contributions and any other costs directly associated with employment such as bonuses and overtime. At times it may be difficult to get accurate information on these total costs. If all that is available is data on gross wages and salaries (that is the gross amount paid to the employee) then a broad rule of thumb is to gross these figures up by 15%. This is based on the ratio between the total Gross Wages and Salaries (£144bn) and Total Labour Costs (£166bn) between 2008 and 2014 for all Scottish employees (excluding agriculture, finance and parts of the public sector)[[7]](#footnote-7). Such an average ratio may be too low for some companies and too high for others. However, if company specific information is not available then it is probably the easiest adjustment to make.

Where company level data is not available it is possible to derive estimates based on proxy values (Box 2). These estimates use sectoral averages and at best will provide a loose indication of GVA and should only be used when the detailed metrics outlined above are not available.

**BOX 2 Estimating GVA from Proxy Values**

**Method 3:**

Where turnover estimates are available, these can be converted to GVA by determining appropriate sectoral turnover to GVA ratios using secondary data from the Scottish Government[[8]](#footnote-8)

Where employment estimates are available, these can be converted to GVA by determining appropriate sectoral employment to GVA ratios using secondary data from the Scottish Government[[9]](#footnote-9).

There may be instances when a 4th method of estimating the impact of an intervention is called for. This is when the activity being supported is a **cost centre**, that is a site that is part of a larger concern, (often a multi-national company) that does not produce separate accounts and where the inter-company transactions are based on notional values rather than real costs. In these instances it is preferable if the GVA estimates are based on the value of the employee costs alone. If this information is not available then the average wage costs for the relevant sector based on Scottish Government statistics can be used.

In all cases, summing across all beneficiaries over the required timeframe will yield the total GVA impact. The gross GVA impact will simply be the GVA summed across all intervention beneficiaries, with net GVA impact derived by applying appropriate additionality factors

**How should we report GVA impacts?**

GVA impacts **must always** be reported separately from other impacts and benefits identified an intervention. The following must be reported:-

* Cumulative gross GVA impact attributable to the support received over the **impact period,** expressed in **present values** and constant prices for the given **base year**;
* Cumulative net additional GVA impacts attributable to the support received over the **impact period**, expressed in **present** **values** and **constant prices** for the given **base year**; and
* Cumulative net additional GVA impacts attributable to the support received at **key milestone** **years**, expressed in **present values** and **constant prices** for the given **base year.**

**Need more help?**

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1. GVA is equivalent to GDP (gross domestic product) less taxes on production (net of subsidies) [↑](#footnote-ref-1)
2. There are various definitions of profit and it is useful to be clear about what definition is needed to calculate GVA. **Operating Profit** is turnover minus the cost of sales, employee costs, depreciation and other overheads. It excludes any interest the company may earn or pay and taxes due. It is also known as **Earnings Before Interest and Tax (EBIT**). **Gross Profit** is turnover minus the cost of sales (this excludes employee costs and overheads**). Net profit before tax** is **Operating Profit** minus interest. **Net profit after tax** is the profit after all costs (including tax) have been deducted. [↑](#footnote-ref-2)
3. Including costs such as NI and pension contributions. [↑](#footnote-ref-3)
4. *Amortisation*is the writing off or depreciation of goodwill and other *intangible* assets and will normally be reported in accounts if relevant. [↑](#footnote-ref-4)
5. Often amortisation data is not available in company accounts as it is judged not to be relevant. Accordingly it is often not included as part of the GVA calculations. It is, however, mentioned here for completeness. [↑](#footnote-ref-5)
6. Such as raw materials and energy. [↑](#footnote-ref-6)
7. <http://www.gov.scot/Topics/Statistics/Browse/Business/SABS> [↑](#footnote-ref-7)
8. <http://www.gov.scot/Topics/Statistics/Browse/Business/SABS> [↑](#footnote-ref-8)
9. Ibid. [↑](#footnote-ref-9)