6.4

MEASURING VALUE ADDED

- Value Added - Appropriate Measures For Social Enterprises
- Value Added Exercise
- Measures Of Added Value Exercise

VALUE ADDED - APPROPRIATE MEASURES FOR SOCIAL ENTERPRISES

Social enterprises should assess their performance in both financial terms and according to their stated aims. They may also want to decide if a new venture or changes to working arrangements will bring benefits. Traditional measures of financial performance may not be appropriate for these kinds of organisations.

Business performance is measured by 'profitability', profit made compared to resources used. Social enterprises must make a surplus but cannot be judged by net profits made. For instance, when members use wealth created to increase benefits (e.g. increasing wages) profits apparently go down.

Value Added

'Value Added' is the amount left over after all material and overhead costs have been deducted from sales, leaving an amount for wages and social benefit. This seems similar to 'Gross Profit'. However, Gross Profit typically includes labour costs in the calculation. The owner can easily see how wage levels affect gross profits and act to drive them down. In contrast, Value Added calculates the amount of wealth left to the organisation for its true purposes: wages and/or social benefit.

The Return To Labour

Performance has usually been measured by calculating the 'Return To Capital', how much profit is made from money used. In co-operatives this measure must be the return to labour or 'Value Added Per Worker', basically wages and other measurable benefits. In community enterprises 'Value Added' might measure money spent on socially beneficial activities (training, volunteer expenses, childcare, transport etc.

Measuring Value Added

Calculating value added does not help the organisation compare its performance with other co-operatives or traditional companies which may have different levels of skills or work in different sectors. Value added can provide a measure of performance over time or determine the effects of proposed changes. There are a series of measures that can be used:

- Value added per worker/average gross wage
- Value added : turnover
  Wealth used for wages compared to the total turnover of the organisation
- Value added : net assets
  How well resources are being used to generate wealth
- Net assets per head
  Measures the increasing capitalisation of the organisation or the increase in the quantity of assets under community control in community enterprises.

Statement Of Value Added

Wood 'N' Tops Community Enterprise

Wood 'N' Tops, a community-based furniture project for young people with special needs operates at a very low level (Year 1) and creates very little Value Added (£500). It gets a grant to buy new equipment which enables it to tripe its sales (from £6,000 to £18,000), employ a part-time workshop supervisor and increase the number of trainees it has from 5 (costing £500 pa in expenses) to 12 (costing £1,200 pa). The changes in Value Added in Year 2 are significant (see below).

	Year 2	Year 1
	£	£
Grant	0	6,000
Sales income	18,000	0
Other revenue	2,000	1,500
Total	**20,000**	**7,500**
Cost of materials	-3,000	-1,000
Overheads	-7,000	-6,000
Total	**-10,000**	**-7,000**
Value added	**£10,000**	**£500**
Distribution		
Net wages	8,000	0
Volunteer/trainee payments	1,200	500
Social benefit	300	0
Reserves	500	0
Total	**£10,000**	**£500**

Value Added Per Worker

Year 1 = £10
Year 2 = £200

The higher the amount the more money is being used to benefit members.

Value Added : Turnover

Year 1 = 1 : 15
Year 2 = 1 : 2

If the ratio is low, the more wealth is being created from a given level of economic or other activity.

Value Added : Net Assets

Year 1 = 1 : 6
Year 2 = 2 : 1

The lower the ratio (or if value added is higher) the better since this measures the way in which assets are being used to create wealth.

Net Assets Per Head

Year 1 = £60
Year 2 = £170

The community of 50 trainees (members or beneficiaries) now controls £8,000 of capital equipment and £500 in cash reserves, compared to only £3,000 of assets originally. The more assets owned and controlled by the community the better.

Other Measures Of Performance In Social Benefit Enterprises

Revenue : Price multiplied by quantity sold or amount of activity compared to income received (whether sales or subsidy), including measures of quality and customer satisfaction.

Price : Comparison of prices charged by alternative suppliers enabling an assessment of community benefit. Lower prices equal higher real incomes for individuals, stable prices give greater economic strength to the community.

Delivery : Customer complaints set out in a table of commonly occurring complaints against quantity and brief details of any actions taken.

Productivity : Look at production methods and quantity produced per person.

Output - Subsidy Ratio : What is the value of the work done in terms of the value of any subsidy received? Does purposeful subsidy (e.g. employment creation) actually work? For instance, Wood 'N' Tops could reduce productivity per person to increase employment for others using the subsidy.

Real Cost (Of Goods) : The most basic measurement would be the actual money cost compared to the environmental and social effects on the community of obtaining goods from particular suppliers. Could another social benefit organisation supply these goods?

Distribution : Is the value added created being used properly via decent wages, good terms and conditions, local employment, flexible working, access to training opportunities and other benefits, democratic procedures etc?

Balance Of Payments : Is more money flowing into the community than out? i.e. more goods sold outside the community than bought in? Are there more subsidies received than taxes paid out? Are more people employed from the local community than from outside?

VALUE ADDED EXERCISE

Wood 'N' Tops, a community-based furniture project for young people with special needs, has income and expenditure as follows:

Income	
Sales of toys	£5,000 to local shops / £3,000 to local organisations
Sales of furniture	£8,000
Grant	£3,000
Donations	£500
Expenditure	
Salaries	£10,000
Materials	£3,000
Trainee expenses	£2,000
All other overheads	£4,000
Donation to national charity	£300

Statement Of Value Added	£
+ Sales income + Other revenue - Cost of materials - Overheads - Grants/donations	
Value added	£
Distribution + Net wages + Volunteer/ trainee payments + Social benefit + Reserves	
Total Value Added	£

Traditional Profit Account	£
+ Sales - Direct costs	+ £16,000 - £15,000
Gross profit	£1,000
Other costs Overheads Donations	 - £4,000 - £300
Profit/(Loss)	(£3,300)

1 : What do you think a 'traditional' business would do when presented with these figures?

2 : Does a 'value added' statement make it easier to justify the grant to Wood 'N' Tops?

Answers can be found in the appendix on page 427

MEASURES OF ADDED VALUE EXERCISE

Exercise 1

Wood 'N' Tops was a wholly grant-funded organisation (Year 1) but took a decision to buy equipment to make higher quality wood products which it can sell to local and national charities. Using the figures for Year 2 from the earlier Statement of Value Added, calculate the ratios below. You will need the following additional information:

a) It spends £5,000 on new equipment to add to £3,000 of equipment held already

and

b) The project trains 50 young people in both years but increases its payments for expenses from £10 per trainee to £60 per trainee.

Exercise 1a : The Return To Labour

How much is being used to benefit labour (employees and trainees) in Years 1 and 2?

Exercise 1b : Value Added And Turnover

What is the ratio of Value Added : Turnover in Years 1 and 2?

Exercise 1c : Value Added And Net Assets

What is the ratio of Value Added : Assets Held By The Project in Years 1 and 2?

Exercise 1d : Net Assets Per Head

What is the value of assets held per trainee (the members or beneficiaries) in Years 1 and 2?

Answers can be found in the appendix on page 428