

Article

Gross operating surplus for private non-financial corporations, current and upcoming work: January 2024

Summary of gross operating surplus for private non-financial corporations as it is currently published, along with plans to ensure ongoing quality and user understanding.

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1 . Overview of private non-financial corporations' gross operating surplus and profitability statistics

This article provides an update on the development plans for private non-financial corporations' (PNFC) gross operating surplus (GOS) and profitability statistics in light of recent requirements for 2024 published by the Office for Statistics Regulation (OSR). The OSR has identified and publicised these areas for improvement in their recently published [Spotlight on quality assessment report](#).

PNFC GOS statistics are published as part of our [Gross domestic product \(GDP\) quarterly national accounts bulletin](#) and [annual National Accounts Blue Blook compendium](#), while our [Profitability statistics bulletins](#) are published annually. The data are calculated using several sources, with the starting point being taxable profits of UK corporations from HM Revenue and Customs (HMRC). More information on methods can be found in our [Profitability of UK companies Quality and Methodology Information \(QMI\)](#).

These statistics are primarily used in the compilation of the UK National Accounts and the UK Balance of Payments. They are also used by other government departments and organisations to provide important evidence to inform policy decision making, for instance:

- the Bank of England uses the data to monitor financial risks and to analyse companies' profitability
- the Office for Budget Responsibility uses the data to forecast company profits, which can be used to estimate future tax revenues
- HMRC uses the data to analyse incoherence with overall company tax returns
- wider economic analysis, in which the data is used in productivity analysis and to track long-term labour share trends

Within this article, we will outline our current position as well as upcoming work which reflects requirements identified by OSR. This work is in line with current delivery timeframes, resource availability and the priorities of both the Office for National Statistics (ONS) and our users. As such, this plan should be considered indicative, and is sensitive to changes to priorities or resource availability.

2 . Our current position

Private non-financial corporations' gross operating surplus

Our current method for calculating private non-financial corporations' (PNFC) gross operating surplus (GOS) relies on annual information on company profits data from HM Revenue and Customs (HMRC), collected as part of the tax collection process. HMRC collect in excess of 98% of all industrial and commercial businesses' data through their statutory tax returns. These data provide us with an annual benchmark for company profits, after which we apply a growth figure to estimate subsequent quarters.

HMRC trading profits data are comprehensive. However, we receive it with a lag of approximately two years because of the time given to companies to report profits and for returns to be processed. To produce more timely quarterly profits estimates, we look at contextual data from other gross domestic product (GDP), sources as well as data from the wider industry, to inform a growth figure and balancing process. These include:

- our [Index of Services](#) and [Index of Production](#)
- anecdotal information taken from the Bank of England's [Agent summary of business conditions](#)
- [profit warnings](#) reported by corporations
- the [Purchasing Managers' Index](#)
- company accounts data

Once calculated, PNFC GOS statistics, as with all components of GDP, are subject to balancing adjustments prior to publication. These adjustments' aim is to reconcile the GOS estimates with other income, expenditure and production components when estimating GDP.

PNFC GOS will frequently take on these balancing adjustments for two main reasons. The first is because of its size. PNFC GOS represents a large proportion of the income approach to measuring GDP (17% in 2022), and for this reason can absorb adjustments without significant changes to its economic story where other components of GDP cannot. Another reason is its source data. The lack of a timelier data source for corporate taxable profits and a comprehensive survey to assess quarterly growth in profits mean PNFC GOS statistics are not as accurate as some other components of GDP that can be more directly measured, where adjustments might be less justifiable.

Despite this, since 2011, these balancing adjustments have been relatively small and have not changed the direction of growth suggested by the initial calculation method. We also do not see any systematic increasing or decreasing of the initial calculation. These findings suggest the current methodology for estimating PNFC GOS is reasonably robust. We published [annual adjustments to GOS](#) as a dataset in December 2023, and an illustration of the magnitude and direction of these adjustments can be seen in Figure 2 within the [findings section of the Office for Statistics Regulation \(OSR\) report](#).

Profitability

We publish data on the profitability of UK companies expressed as rates of return. The starting point for these estimates is GOS profits (the component of overall PNFC GOS assessing corporate profits) less capital consumption (the decline in value of capital assets because of physical deterioration, normal obsolescence or normal accidental damage), which leaves net operating surplus. This is then divided by net capital employed (the cost of assets used in the generation of profits) to produce a net rate of return. More information on methods can be found in our [Profitability of UK companies Quality and Methodology Information \(QMI\)](#).

For 2024, decisions around priorities at the Office for National Statistics (ONS) will mean statistics on the profitability of UK companies will be published annually, having been published quarterly in previous years. The estimates will still cover individual quarters and will continue to be accompanied by a statistical bulletin.

We are also aware that users would value a more granular industry breakdown of company profitability. However, we lack a suitable data source with which to estimate industry-level growth rates each quarter. The current breakdown for which we can confidently produce estimates is limited to total rates of return for UK PNFCs and rates of return for companies in the service industry, manufacturing industry and UK continental shelf (oil and gas) industry.

3 . National Statistics assessment requirements

The Office for Statistics Regulation (OSR) outlined five requirements in its [Spotlight on quality assessment report](#). This section details these requirements and the planned Office for National Statistics (ONS) response. The first three requirements have a completion date of June 2024.

Requirement one: to improve the quality of the statistics, we should ensure that we have a good understanding of the quality of the data used to produce the statistics and focus on establishing good relationships with data suppliers. We should use our [Quality Assurance of Administrative Data \(QAAD\)](#) guidance to help with its understanding of the data sources and methods used to produce the statistics. To reassure users on the quality of the statistics, we should communicate to users our findings on the quality of the data sources and publish these.

Requirement two: as part of improving the quality assurance of the statistics, we should ensure that production processes facilitate sufficient interaction and information sharing on source data quality. We should review our production processes and identify how we can accommodate changes, such as incorporating new data sources and processes or changes in users' needs.

Requirement three: To enable all users to make well-informed decisions on the use of profitability and gross operating surplus (GOS) statistics, we should better document quality information and communicate to users. This includes the methods and data sources used, any limitations and uncertainties in the statistics, and quantification and explanation of revisions.

We have begun to address these requirements with an update to our [Profitability Quality and Methodology Information \(QMI\)](#) in November 2023, which better described the methodology used to calculate private non-financial corporations' (PNFC) GOS and profitability statistics. We will also communicate with data suppliers and undertake thorough assessments of the quality and relevance of input data for PNFC GOS and profitability statistics.

The findings from these assessments will be published as an update to our [Profitability QMI](#), in which tables of data sources will be included along with information around quality and relevance indicators, ensuring transparency with users. Primary data sources used to derive the statistics, data for conceptual adjustments used in profitability calculations, and anecdotal data used to apply quarterly growth rates will be covered.

We will also ensure conversations with data suppliers and such assessments of quality and relevance of input data are ongoing as part of regular publication cycles. As a result, changes that affect the way statistics are calculated and should be interpreted will continue to be detailed in our associated quality documentation and statistical bulletins and other publications where appropriate. We will also continue to look for improvements to data sources and methods through improved communication with suppliers.

We will continue to track the magnitude and direction of adjustments made to PNFC GOS estimates prior to publication and will make these public in a similar way to our [Annual adjustments to GOS dataset](#) published in December 2023.

The remaining requirements set out by the OSR have a completion date of December 2024.

Requirement four: to reassure users on the quality of the statistics, we should demonstrate to users that staff have a strong understanding of data sources, methods, production processes and how the statistics align with users' needs. In doing so, we should review its knowledge transfer process and support business continuity during staff changes, so we are reassured staff can respond confidently to users' queries.

Requirement five: we should engage with users of these statistics and seek regular feedback to better understand their requirements and the extent to which the current statistics meet their needs. We should use the findings from this ongoing engagement to develop these statistics so that they meet as many primary users' needs as possible. Where users' needs cannot be met, we should be transparent about the reasons for the decisions made and any constraints.

To improve staff understanding of data and processes, we will develop an internal PNFCs data library to track data relating to PNFC GOS and profitability. This will:

- provide a visual and written record of what's happening in the data use to derive PNFC statistics in one location
- allow space for descriptions of data and its implications for economy and society to better author commentary and answer user queries
- serve as an archive for quality considerations that may need communicating to users through public channels, such as quality issues with input data (short or longer term), significant revisions and adjustments, as well as general strengths and weaknesses of sources
- update and maintain our list of contact details for owners of input data and other stakeholders so that staff may query input data and communicate directly with primary users quickly
- update and maintain desk instructions and serve as a learning and development resource for new staff to familiarise themselves with data efficiently and mitigate risks to business continuity

To improve user engagement, we will provide opportunities for users to directly ask questions and raise requests around PNFC GOS and profitability statistics. Other queries around the statistics received through email and other channels will also be recorded. Feedback gathered from these approaches will inform future analysis and improvement to statistics. Any trends and frequently asked questions identified will also be published for transparency.

4 . Provide feedback

We are committed to providing analysis and insight on private non-financial corporation's (PNFC) gross operating surplus (GOS) and profitability in the UK to inform users of important trends. We will review our workplans regularly and are keen to hear from users of our data to understand your requirements and help us develop our statistics further.

If you have any feedback or suggestions on our work on funded occupational pension schemes in the UK, please contact us at profitability@ons.gov.uk.

5 . Related links

[GDP quarterly national accounts, UK: July to September 2023](#)

Bulletin | Released 22 December 2023

Revised quarterly estimate of gross domestic product (GDP) for the UK. Uses additional data to provide a more precise indication of economic growth than the first estimate.

[Profitability of UK companies: April to June](#)

Bulletin | Released 3 November 2023

The net rate of return on capital employed for UK private non-financial corporations related to their UK operations.

6 . Cite this article

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