Office for National Statistics

Compendium

An Introduction to the UK Sector Accounts

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Table of contents

1. An introduction to sector accounts
2. Institutional sectors
3. Types of transactions
4. Sequence of accounts
5. Distribution and use of income accounts
6. Capital account
7. Financial account
8. The statistical adjustment items
9. Balance sheets
10. Background notes

1 . An introduction to sector accounts

The sector accounts summarise the transactions of particular groups of institutions within the economy, showing how the income from production is distributed and redistributed and how savings are used to add wealth through investment in physical or financial assets.

2 . Institutional sectors

The accounting framework identifies two kinds of institutions:

- consuming units (mainly households),
- production units (mainly corporations, non-profit institutions or government).

Units can own goods and assets, incur liabilities and engage in economic activities and transactions with other units. All units are classified into one of five sectors:

- non-financial corporations,
- financial corporations,
- general government,
- households and non-profit institutions serving households (NPISH),
- rest of the world.

3 . Types of transactions

There are three main types of transactions:

1. **Transactions in products** are related to goods and services. They include output, intermediate and final consumption, gross capital formation and exports and imports.
2. **Distributive transactions** transfer income or wealth between units of the economy. They include property income, taxes and subsidies, social contributions and benefits and other current or capital transfers.
3. **Financial transactions** differ from distributive transactions in that they relate to transactions in financial claims, whereas distributive transactions are unrequited. The main categories in the classification of financial instruments are monetary gold and special drawing rights; currency and deposits; debt securities; loans; equity and investment fund shares/units; insurance, pension and standardised guarantee schemes; financial derivatives and employee stock options and other accounts receivable/payable.

4 . Sequence of accounts

Transactions can be grouped broadly according to purpose in the production, distribution and use of income, capital or financial accounts.

The production account displays the transactions involved in the generation of income by the production of goods and services. For each of the four sectors (the rest of the world does not have a production account), the balancing item, gross value added, is shown as output less intermediate consumption.

Gross value added at basic prices for each sector differs from gross domestic product for the UK total economy. The difference occurs because taxes less subsidies on products are not included in the production account by sector and are instead included within resources for the UK total economy. The sum of gross value added and taxes less subsidies on products for the UK economy is equal to GDP at market prices.

5 . Distribution and use of income accounts

The distribution and use of income accounts exist for all the institutional sectors. These accounts describe the distribution and redistribution of income and its use in the form of final consumption. The distribution and use of income are analysed in four stages, each of which is presented as a separate account.

1. Generation of income account

This is the first of the distribution and use of income account and shows the sectors and industries which are the source of income. The generation of income account details how value added is distributed in the form of labour costs (compensation of employees) and taxes minus subsidies on production. The balance is gross operating surplus (plus mixed income in the household sector), which is the surplus or deficit on production activities before interest, rent and income taxes. Gross operating surplus is therefore the income which units generate from their own use of the production.

2. Allocation of primary income account

This account shows the resident units and institutional sectors as recipients rather than producers of primary income. It demonstrates the extent to which operating surpluses are distributed (for example by dividends) to the owners of the enterprises. Also recorded in this account is the property income received by an owner of a financial asset in return for providing funds to, or putting a tangible non-produced asset at the disposal of, another unit. The receipt by government of taxes on production less subsidies is shown in resources.

The resources side of this account includes the components of the income approach to measuring gross domestic product and is the starting point for the quarterly sector accounts. The accounts also include property income recorded as both resources for receipts and uses for payments.

The balance of this account is the gross balance of primary income (B.5g) for each sector. If the gross balance of primary income is aggregated across all sectors of the UK economy, the result is gross national income.

3. Secondary distribution of income account

This account describes how the balance of primary income for each institutional sector is allocated by redistribution; through transfers such as taxes on income, wealth, social contributions and benefits and other current transfers. It excludes social transfers in kind.

The balancing item of this account is gross disposable income (B.6g) which reflects current transactions and explicitly excludes capital transfers, real holding gains and losses and the consequences of events such as natural disasters.

4. Use of disposable income account

This account illustrates how disposable income is split between final consumption expenditure and saving. In the system for recording economic accounts, only the government and households and NPISH sectors have final consumption. In addition, for households and pension funds, there is an adjustment item in the account which reflects the way that transactions between households and pension funds are recorded (this adjustment is D.8: Adjustment for the changes in the net equity of households in pension funds reserves).

The balancing item for this account and for the whole group of distribution and use of income accounts is gross saving (B.8g). It is only in the case of non-financial corporations (public and private) that undistributed income and saving are equivalent.

6 . Capital account

The capital account is presented in two parts.

The first part shows that saving (B.8g), the balance between national disposable income and final consumption expenditure from the production and distribution and use of income accounts, is reduced or increased by the balance of capital transfers (D.9) to provide an amount available for financing investment (in both non-financial and financial assets).

The second part shows total investment in non-financial assets. This is the sum of gross fixed capital formation (P. 51g), changes in inventories (P.52), acquisitions less disposals of valuables (P.53) and acquisitions less disposals of non-financial non-produced assets (NP). The balance on the capital account is known as net lending or borrowing. Conceptually, net lending or borrowing for all the domestic sectors represents net lending or borrowing to the rest of the world sector.

If actual investment is lower than the amount available for investment, the balance will be positive – representing net lending. Similarly, when the balance is negative, borrowing is represented. Where the capital accounts relate to the individual institutional sectors, the net lending/borrowing of a particular sector represents the amounts available for lending or borrowing to other sectors. The value of net lending/borrowing is the same irrespective of whether the accounts are shown before or after deduction consumption of fixed capital (P.51c), provided a consistent approach is adopted throughout.

7 . Financial account

The financial account shows the acquisition and disposal of financial assets and liabilities. Examples of financial assets include: bank deposits (which are assets of the depositors and liabilities of the banks), unit trust units (assets of the holders and liabilities of unit trusts), and Treasury Bills (assets of the holders and a liability of central government). The balance of all transactions in the financial account is net lending or borrowing.

8 . The statistical adjustment items

Although in theory the net lending/borrowing from the financial account and the net lending/borrowing from the capital account for each sector should be equal, in practice they are not. The difference between the two balances is known as the statistical adjustment item.

Part of the balancing process of economic accounts statistics for the previous year (that is, for years t–1 and earlier) involves assessing and modifying the component variables so that the estimates of net lending/borrowing made from the income and capital accounts and from the financial accounts are the same at the level of the whole economy and reasonably close to each other at the sector level.

The sector statistical adjustment items are shown in Table C (83 Kb Excel sheet) .

9 . Balance sheets

A financial balance sheet for each sector has been compiled using the same financial instrument classification as that used for financial transactions. The changes in the end period levels in the financial balance sheets do not equal the financial transactions because of holding gains or losses and reclassifications of units between sectors.

10. Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

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