Office for National Statistics

Compendium

UK National Accounts, The Blue Book: 2016

The Blue Book is a key annual publication of national accounts statistics and the essential data source for anyone concerned with macro economic policies and studies. A complete PDF download of this publication is available in section 3.

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

Release date:
29 July 2016

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Notice

30 September 2016

Following a quality review it has been identified that the methodology used to estimate elements of purchased software within gross fixed capital formation (GFCF) has led to some double counting from 1997 onwards. When this issue is amended in The Blue Book 2017 it will reduce the level of GFCF across the period by around 1.1% per year. The average impact on quarter-on-quarter GFCF growth is negative 0.02% and the average impact on quarter-on-quarter GDP growth is 0.00%.

25 November 2016

A processing error has been identified in the non-monetary gold estimates within the acquisition less disposals of valuables data series for 2015. This affects data in publication tables 1 through to 6 and will be corrected when the Blue Book 2017 is released on 31 October 2017.

25 November 2016

Following a quality review, a processing error has been identified in the compilation of the estimates for the rail transport industry (49.1-2), which affects the period Quarter 1 1997 to Quarter 2 2016. In line with the National Accounts revision policy, this error will be corrected in the Index of Services and Quarterly National Accounts due for publication on 23rd December 2016 for data from Quarter 1 2015 and in the Blue Book 2017 consistent releases for data prior to this period. The average impact over this period on quarter-on-quarter Index of Services and GDP growth is 0.00%. This processing error does not impact quarter on quarter growth into Quarter 3 2016.

6 December 2016

A processing error has been identified in the measurement of UK Trade affecting the period January 2015 to September 2016. Although it will change the expenditure components of GDP for the same period **there is no impact on headline GDP** as the affected elements of trade will be offset in the acquisitions less disposals of valuables. The chapters affected are 1,2,3,4,5,6 and 7. The correction will be incorporated into the Quarter 3 (July to Sept) 2016 Quarterly National Accounts release on 23 December 2016 and 'Blue Book' will be updated when the 2017 edition is published on 31 October 2017. Further details including the indicative impacts on UK Trade and the current account can be found in the UK trade: Sept 2016 correction notice.

31 March 2017

A processing error has been identified in the presentation of the total final consumption expenditure implied deflator (CDID YBGA - Table 1.4). Data presented relates to the households final consumption expenditure implied deflator. The correction has been incorporated into the United Kingdom Economic Accounts (UKEA) from the Quarter 4 (Oct to Dec) 2016 release published on 31 March 2017, please use Table 1.1.2 of the UKEA for the latest data. Blue Book will be updated when the 2017 edition is published on 31 October 2017. No other series are impacted by this error.

31 March 2017

We have identified a processing error in the repayments of UK corporate bonds. We are investigating the options for addressing the error and will publish further details and revised data as soon as possible. The series known to be directly affected is XBLX: Debt securities investment in the UK. There will be a knock-on impact on high-level aggregates within the financial account.

Chapters in this compendium

Compendium

An introduction to the UK national accounts

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . What is the Blue Book?

The Blue Book was first published in August 1952 and presents a full set of economic accounts (national accounts) for the UK. These accounts are compiled by the Office for National Statistics (ONS). They record and describe economic activity in the UK and, as such, are used to support the formulation and monitoring of economic and social policies.

Chapter 1

Chapter 1 of the Blue Book provides a summary of the UK national accounts, including explanations and tables covering the main national and domestic aggregates, for example:

- gross domestic product (GDP) at current market prices and chained volume measures
- GDP deflator
- gross value added (GVA) at basic prices
- gross national income (GNI)
- gross national disposable income (GNDI)
- population estimates
- employment estimates
- GDP per head
- the UK summary accounts (the goods and services account, production accounts, distribution and use of income accounts, and accumulation accounts)

Chapter 1 also includes details of revisions to data since the Blue Book 2015.

Chapter 2

Chapter 2 includes:

- input-output supply and use tables
- analyses of GVA at current market prices and chained volume measures
- capital formation
- workforce jobs by industry

Chapters 3 to 7

Chapters 3, 4, 5, 6 and 7 provide:

- a description of the institutional sectors

- the sequence of the accounts and balance sheets
- an explanation of the statistical adjustment items needed to reconcile the accounts
- the fullest available set of accounts providing transactions by sectors and appropriate sub-sectors of the economy (including the rest of the world)

Chapters 8 to 11

Chapters 8, 9, 10 and 11 cover additional analysis and include:

- supplementary tables for gross fixed capital formation (GFCF), national balance sheet and public sector
- statistics for European Union purposes

Chapter 12

Chapter 12 covers:

- UK environmental accounts

Chapter 13

Chapter 13 covers:

- flow of funds

2 . Overview of the UK national accounts

In the UK priority is given to the production of a single GDP estimate using income, production and expenditure data. Further analysis is available on the following:

- income analysis at current prices
- expenditure analysis at both current prices and chained volume measures
- value added analysis compiled on a quarterly basis in chained volume measures only

Income, capital and financial accounts are produced for non-financial corporations, financial corporations, general government, households and non-profit institutions serving households.

The accounts are fully integrated, but with a statistical discrepancy (known as the statistical adjustment), shown for each sector account. This reflects the difference between the sector net borrowing or lending from the capital account and the identified borrowing or lending in the financial accounts, which should theoretically be equal.

Financial transactions and balance sheets are produced for the rest of the world sector in respect of its dealings with the UK.

3 . Summary of changes

The main categories of improvements implemented in the Blue Book 2016 are:

- changes required under international standards and guidelines; European System of Accounts 2010 (ESA 2010); Balance of Payments Manual 6 (BPM6) and the updated Manual on Government Deficit and Debt
- changes from ensuring comparability in measuring gross national income (GNI) across European Union countries
- other methodological changes to meet user needs, including implementation of the revised methodology for calculating imputed rental and updating the last base year and reference year from 2012 to 2013

A series of articles have been published describing the improvements and their impact in detail. The articles can be accessed via the National Accounts article page on our website.

4 . The basic accounting framework

The accounting framework provides a systematic and detailed description of the UK economy, including sector accounts; and the input-output framework.

All elements required to compile aggregate measures, such as gross domestic product (GDP), gross national income (GNI), saving and the current external balance (the balance of payments) are included.

The economic accounts provide the framework for a system of volume and price indices, to allow chained volume measures of aggregates such as GDP to be produced. In this system, value added, from the production approach, is measured at basic prices (including other taxes less subsidies on production but not on products) rather than at factor cost (which excludes all taxes less subsidies on production).

The whole economy is subdivided into institutional sectors with current price accounts running in sequence from the production account through to the balance sheet.

The accounts for the whole UK economy and its counterpart, the rest of the world, follow a similar structure to the UK sectors, although several of the rest of the world accounts are collapsed into a single account as they can never be complete when viewed from a UK perspective.

5 . Table numbering system

The table numbering system is designed to show relationships between the UK, its sectors and the rest of the world. For accounts drawn directly from the European System of Accounts 2010 (ESA 2010), a 3-part numbering system is used; the first 2 digits denote the sector and the third digit denotes the ESA account. Not all sectors can have all types of account, so the numbering is not necessarily consecutive within each sector's chapter. The rest of the world's identified components of accounts 2 to 6 are given in a single account numbered 2. UK whole economy accounts consistent with ESA 2010 are given in section 1.6 as a time series and in section 1.7 in detailed matrix identifying all sectors, the rest of the world and the UK total.

The ESA 2010 code for each series is shown in the left-hand column, using the following prefixes:

- S for the classification of institutional sectors

- P for transactions in products
- D for distributive transactions
- F for transactions in financial assets and liabilities
- K for other changes in assets
- B for balancing items and net worth

Within the financial balance sheets, the following prefixes are used:

- AF for financial assets and liabilities
- AN for non-financial assets and liabilities

6 . What is an account? What is its purpose?

An account records and displays all flows and stocks for a given aspect of economic life. The sum of resources is equal to the sum of uses, with a balancing item to ensure this equality.

The system of economic accounts allows the build-up of accounts for different areas of the economy, highlighting –for example – production, income and financial transactions.

Accounts may be elaborated and set out for different institutional units or sectors (groups of units).

Usually a balancing item has to be introduced between the total resources and total uses of these units or sectors. When summed across the whole economy these balancing items constitute significant aggregates.

Table I.1 provides the structure of the accounts and shows how GDP estimates are derived as the balancing items.

7 . The integrated economic accounts

The integrated economic accounts of the UK provide an overall view of the economy. Table I.1 presents a summary view of the accounts, balancing items and main aggregates and shows how they are expressed. The accounts are grouped into 4 main categories:

- goods and services accounts
- current accounts
- accumulation accounts
- balance sheets

8 . The goods and services account (Account 0)

The goods and services account is a transactions account, balancing total resources, from outputs and imports, against the uses of these resources in consumption, investment, inventories and exports. No balancing item is required as the resources are simply balanced with the uses.

9 . Current accounts: the production and distribution of income accounts

The production account (Account I)

This account displays transactions involved in the generation of income by the activity of producing goods and services. The balancing item is value added (B.1). For the nation’s accounts, the balancing items (the sum of value added for all industries) is, after the addition of taxes less subsidies on products, GDP at market prices or net domestic product when measured net of capital consumption. The production accounts are also shown for each industrial sector.

The distribution and use of income accounts (Account II)

This account shows the distribution of current income (value added) carried forward from the production account and has saving as its balancing item (B.8). Saving is the difference between income (disposable income) and expenditure (or final consumption).

The distribution of income compromises of 3 sub-accounts:

- primary distribution of income
- secondary distribution of income
- redistribution of income in kind

The primary distribution of income account

Primary incomes are accrued to institutional units because of their involvement in production or their ownership of productive assets. They include the following:

- property income (from lending or renting assets)
- taxes on production and imports

The following are excluded:

- taxes on income or wealth
- social contributions or benefits
- other current transfers

The primary distribution of income shows the way these are distributed among institutional units and sectors. The primary distribution account is divided into 2 sub-accounts – the generation and the allocation of primary incomes.

The secondary distribution of income account

This account shows how the balance of primary incomes for an institutional unit or sector is transformed into its disposable income by the receipt and payment of current transfers (excluding social transfers in kind). The 2 further sub-accounts (the use of disposable income and the use of adjusted disposable income) look at the use of income for either consumption or saving.

The redistribution of income in kind

This account shows how gross disposable income of households and non-profit institutions serving households and government are transformed by the receipt and payment of transfers in kind. The balancing item for this account is adjusted gross disposable income (B.7g).

The accumulation accounts (Accounts III and IV)

These accounts cover all changes in assets, liabilities and net worth. The accounts are structured into 2 groups.

The first group covers transactions that would correspond to all changes in assets, liabilities and net worth which result from transactions, and are known as the capital account and the financial account. They are distinguished to show the balancing item net lending/borrowing.

The second group relates to all changes in assets, liabilities and net worth owing to other factors, for example, the discovery or re-evaluation of mineral reserves, or the reclassification of a body from 1 sector to another.

Capital account (Account III.1)

This account concerns the acquisition of non-financial assets (income creating or wealth only) such as fixed assets or inventories, financed out of saving, and capital transfers involving the redistribution of wealth. Capital transfers include, for example, capital grants from private corporations to public corporations.

The account shows how savings finance investment in the economy. In addition to gross fixed capital formation and changes in inventories, it shows the redistribution of capital assets between sectors of the economy and the rest of the world. If the balance on the account is negative, it is designated net borrowing and measures the net amount a unit or sector is obliged to borrow from others. If positive, the balance is described as net lending and measures the amount the UK or a sector has available to lend to others. This balance is also referred to as the financial surplus or deficit, and the net aggregate for the 5 sectors of the economy equals net lending or borrowing from the rest of the world.

Financial account (Account III.2)

This account shows how net lending and borrowing are achieved by transactions in financial instruments. The net acquisitions of financial assets are shown separately from the net incurrence of liabilities. The balancing item is net lending or borrowing.

In principle, net lending or borrowing should be identical for both the capital account and the financial account. In practice, however, because of errors and omissions this identity is very difficult to achieve for the sectors and the economy as a whole. The difference is known as a statistical adjustment.

The balance sheet (Account IV)

The second group of accumulation accounts complete the sequence of accounts. These include the balance sheets and a reconciliation of the changes that have brought about the change in net worth between the beginning and end of the accounting period.

The opening and closing balance sheets show how total holdings of assets by the UK or its sectors match total liabilities and net worth (the balancing item). Various types of assets and liabilities can be shown in detailed presentations of the balance sheets. Changes between the opening and closing balance sheets for each group of assets and liabilities result from transactions and other flows recorded in the accumulation accounts, or reclassifications and revaluations.

Net worth
equals
changes in assets
less
changes in liabilities.

The rest of the world account (Account V)

This account covers the transactions between resident and non-resident institutional units and the related stocks of assets and liabilities. Written from the point of view of the rest of the world, its role is similar to an institutional sector.

10 . Satellite accounts

Satellite accounts cover areas or activities not included in the central framework because they either add additional detail to an already complex system or conflict with the conceptual framework. The UK environmental accounts are satellite accounts linking environmental and economic data to show the interactions between the economy and the environment.

See UK Environmental Accounts: 2016 for further information.

11 . The limits of the national economy: economic territory, residence and centre of economic interest

Economic territory and residence of economic interest

The economy of the UK is made up of institutional units which have a centre of economic interest in the UK economic territory. These units are known as resident units and it is their transactions which are recorded in the UK national accounts.

UK economic territory

The UK economic territory includes:

- Great Britain and Northern Ireland (the geographic territory administered by the UK government within which persons, goods, services and capital move freely)

- any free zones, including bonded warehouses and factories under UK customs control
- the national airspace, UK territorial waters and the UK sector of the continental shelf

The UK economic territory excludes Crown dependencies (Channel Islands and the Isle of Man).

ESA 2010 economic territory

Within the European System of Accounts 2010 (ESA 2010), the definition of economic territory also includes:

- territorial enclaves in the rest of the world (embassies, military bases, scientific stations, information or immigration offices and aid agencies used by the British government with the formal political agreement of the governments in which these units are located)

But it excludes:

- any extra territorial enclaves (that is, parts of the UK geographic territory like embassies and US military bases used by general government agencies of other countries, by the institutions of the European Union or by international organisations under treaties or by agreement)

Centre of economic interest

When an institutional unit engages and intends to continue engaging (normally for 1 year or more) in economic activities on a significant scale from a location (dwelling or place of production) within the UK economic territory, it is defined as having a centre of economic interest and is a resident of the UK.

If a unit conducts transactions on the economic territory of several countries, it has a centre of economic interest in each of them. Ownership of land and structures in the UK is enough to qualify the owner to have a centre of interest in the UK.

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Residency

Resident units are:

- households
- legal and social entities such as corporations and quasi corporations, for example, branches of foreign investors
- non-profit institutions
- government
- so-called “notional residents”

Travellers, cross-border and seasonal workers, crews of ships and aircraft, and students studying overseas are all residents of their home countries and remain members of their households.

When an individual leaves the UK for 1 year or more (excluding students and patients receiving medical treatment), they cease being a member of a resident household and become a non-resident, even on home visits.

12 . Economic activity: what production is included?

Gross domestic product (GDP) is defined as the sum of all economic activity taking place in UK territory. In practice a “production boundary” is defined, inside which are all the economic activities taken to contribute to economic performance. To decide whether to include a particular activity within the production boundary, the following factors are considered:

- does the activity produce a useful output?
- is the product or activity marketable and does it have a market value?
- if the product does not have a meaningful market value, can one be assigned (imputed)?
- would exclusion (or inclusion) of the product of the activity make comparisons between countries over time more meaningful?

The following are recorded within the ESA 2010 production boundary:

- production of individual and collective services by government
- own-account production of housing services by owner-occupiers
- production of goods for own final consumption, for example, agricultural products
- own-account construction, including that by households
- production of services by paid domestic staff
- breeding of fish in fish farms
- production forbidden by law; as long as all units involved in the transaction enter into it voluntarily
- production from which the revenues are not declared in full to the fiscal authorities, for example, clandestine production of textiles

The following fall outside the production boundary:

- domestic and personal services produced and consumed within the same household, for example, cleaning, the preparation of meals or the care of sick or elderly people
- volunteer services that do not lead to the production of goods, for example, caretaking and cleaning without payment
- natural breeding of fish in open seas

(European System of Accounts ESA 2010 (2013) paragraphs 1.29 and 1.30)

13 . Prices used to value the products of economic activity

In the UK, a number of different prices may be used to value inputs, outputs and purchases. The prices are different depending on the perception of the bodies engaged in the transaction– that is, the producer and user of a product will usually perceive the value of the product differently, with the result that the output prices received by producers can be distinguished from the prices paid by producers.

Basic prices

Basic prices are the preferred method of valuing output in the accounts.

They are the amount received by the producer for a unit of goods or services
minus any taxes payable
plus
any subsidy receivable as a consequence of production or sale.

The only taxes included in the price will be taxes on the output process– for example, business rates and vehicle excise duty, which are not specifically levied on the production of a unit of output. Basic prices exclude any transport charges invoiced separately by the producer. When a valuation at basic prices is not feasible, producers' prices may be used.

Producers' prices

Producers' prices are basic prices
plus
those taxes paid per unit of output (other than taxes deductible by the purchaser such as VAT, invoiced for output sold)
minus
any subsidies received per unit of output.

Purchasers' or market prices

Purchasers' or market prices are the prices paid by the purchaser and include transport costs, trade margins and taxes (unless the taxes are deductible by the purchaser).

Purchasers' or market prices are producers' prices
plus
any non-deductible VAT or similar tax payable by the purchaser
plus
transport costs paid separately by the purchaser (not included in the producers' price).

They are also referred to as "market prices".

The rest of the world: national and domestic

Domestic product (or income) includes production (or primary incomes generated and distributed) resulting from all activities taking place "at home" or in the UK domestic territory.

This will include production by any foreign-owned company in the UK, but exclude any income earned by UK residents from production taking place outside the domestic territory.

GDP
equals
the sum of primary incomes distributed by resident producer prices.

The definition of GNI (gross national income) is gross domestic product (GDP) plus income received from other countries (notably interest and dividends), less similar payments made to other countries.

GDP
plus
net property income
equals
GNI.

This can be introduced by considering the primary incomes distributed by the resident producer units. Primary incomes, generated in the production activity of resident producer units, are distributed mostly to other residents' institutional units. For example, when a resident producer unit is owned by a foreign company, some of the primary incomes generated by the producer unit are likely to be paid abroad. Similarly, some primary incomes generated in the rest of the world may go to resident units. It is therefore necessary to exclude that part of resident producers' primary income paid abroad, but include the primary incomes generated abroad but paid to resident units.

GDP (or income)
less
primary incomes payable to non-resident units
plus
primary incomes receivable from the rest of the world
equals
GNI.

GNI at market prices
equals
the sum of gross primary incomes receivable by resident institutional units or sectors.

National income includes income earned by residents of the national territory, remitted (or deemed to be remitted in the case of direct investment) to the national territory, no matter where the income is earned.

Real GDP (chained volume measures)
plus
trading gain
equals
real gross domestic income (RGDI).

Real gross domestic income (RGDI)
plus
real primary incomes receivable from abroad
less
real primary incomes payable abroad
equals
real gross national income (real GNI).

Real GNI (chained volume measures)
plus
real current transfers from abroad
less
real current transfers abroad
equals
real gross national disposable income (GNDI).

Receivables and transfers of primary incomes, and transfers to and from abroad, are deflated using the gross domestic final expenditure deflator.

14 . Gross domestic product: the concept of net and gross

The term gross means that, when measuring domestic production, capital consumption or depreciation has not been allowed for.

Capital goods are different from the materials and fuels used up in the production process because they are not used up in the period of account but are instrumental in allowing that process to take place. However, over time, capital goods wear out or become obsolete and in this sense GDP does not give a true picture of value added in the economy. When calculating value added as the difference between output and costs, we should also show that part of the capital goods are used up during the production process (the depreciation of capital assets).

Net concepts are net of this capital depreciation, for example:

GDP
minus
consumption of fixed capital
equals
net domestic product.

15 . Symbols used

In general, the following symbols are used:

.. not available

 nil or less than £500,000

£ billion denotes £1,000 million

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
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Table of contents

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 or 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 accounts 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 etc., 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, households and non-profit institutions serving households (NPISH) sectors have final consumption. In addition, for households and pension funds, there is an adjustment item in the account which represents the adjustment needed to make the change in the pension entitlements on which households have a definite claim appear in the saving of households (this adjustment is D. 8: adjustment for the change in pension entitlements).

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 2 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 or net borrowing is the same irrespective of whether the accounts are shown before or after deducting 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 or net borrowing from the financial account and the net lending or net 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 to 1 and earlier) involves assessing and modifying the component variables so that the estimates of net lending or 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.

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.

Compendium

National Accounts at a glance

Please note that this page gives users an opportunity to download all tables within the Blue Book by using the PDF download option.

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Emma Howley
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1 . National accounts at a glance

This section of the Blue Book provides an examination of recent trends, key movements and international comparisons for a range of information contained in a number of the subsequent Blue Book chapters.

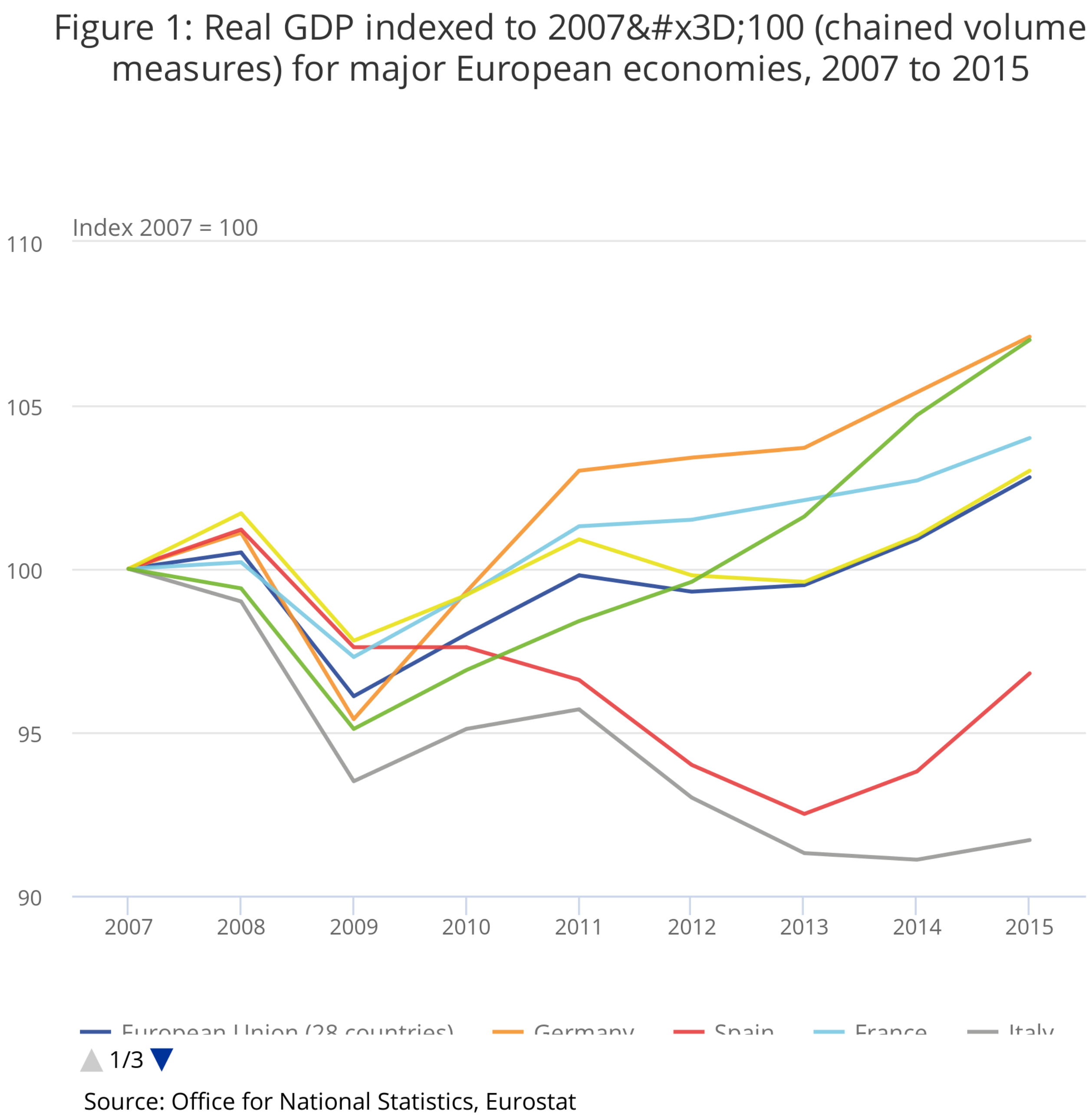
All UK data referred to in this section are consistent with the latest Blue Book 2016 publication. All international data have been sourced from Eurostat or the Organisation for Economic Co-operation and Development (OECD) and are accurate at 11 July 2016.

2 . GDP and the headline economy

Chapter 1 of the 2016 Blue Book provides information on the headline economy, including gross domestic product (GDP), which is one of the most frequently-used indicators of total domestic activity. Trends in GDP can be compared with other major economies, and this shows that the experiences of the other major European economies varied notably during the 2008 to 2009 economic downturn and subsequent recovery.

Figure 1 shows that while all of the selected countries experienced contractions in output, their performances since 2009 have been markedly different. UK real GDP fell by 4.4% between 2008 and 2009, a contraction in line with that of the European Union (4.5%). In contrast, France experienced a smaller fall of 2.9% and Italy and Germany both experienced larger contractions of 5.7%.

Figure 1: Real GDP indexed to 2007=100 (chained volume measures) for major European economies, 2007 to 2015



Source: Office for National Statistics, Eurostat

However, it is the paths of GDP since 2009 that are more divergent. The level of UK GDP was (7.0%) higher in 2015 than it was in 2007, a relative increase similar to that of Germany. Yet UK GDP was (12.6%) higher in 2015 than it was in 2009; this is due to the rate of UK GDP growth being higher from 2012 onwards. These data also highlight the different economic conditions across these countries, with 2015 GDP remaining below the respective 2007 levels in both Italy and Spain.

3 . The industrial and expenditure composition of GDP growth

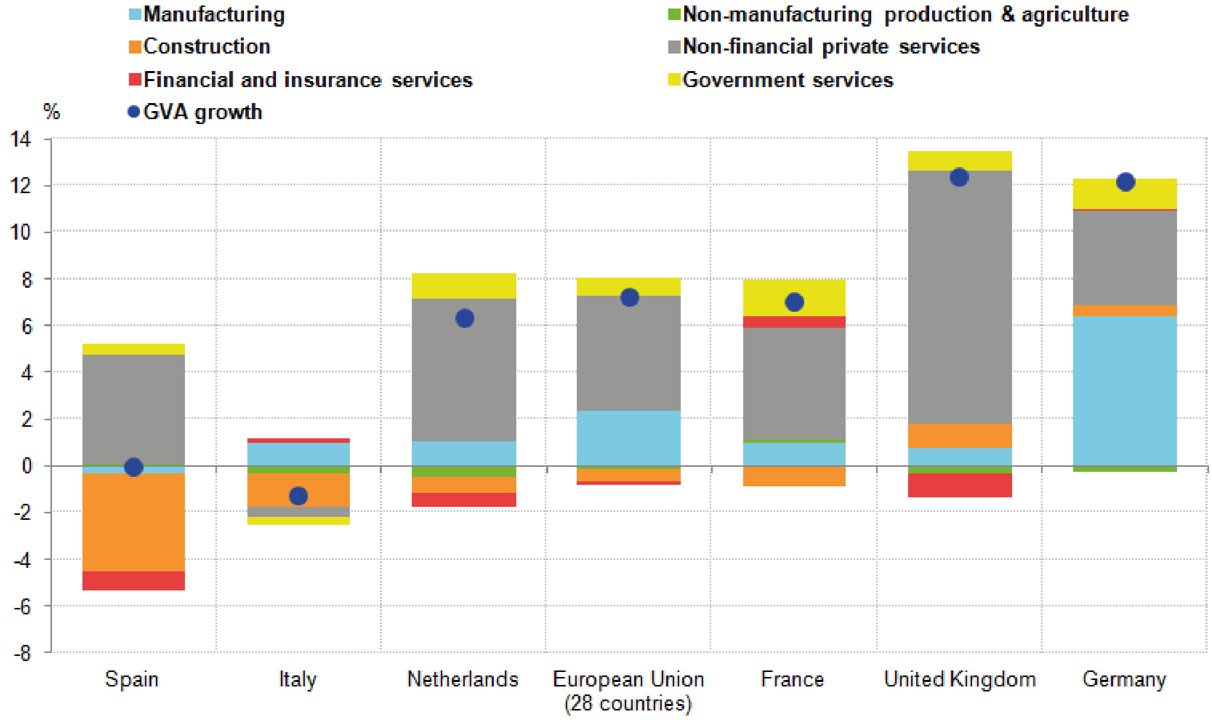
While movements in GDP provide a picture of how the whole economy is performing, it is also important to consider the performance of individual industries, trends in the types of expenditure driving GDP, and how “production” accrues to wages and profits. These 3 different aspects can be observed in the output, expenditure and income measures of GDP respectively. A comprehensive explanation of these 3 measures can be found on the national accounts methodology page.

Looking at the industrial composition of economic growth shows that countries who have experienced similar recoveries have not necessarily achieved this through improvements to output in similar industries. For example, while non-financial private services have driven output growth across all major European economies except Italy, this has been the most prominent industry in the UK, making a contribution of 10.8 percentage points (ppts) to gross value added (GVA) growth from 2009 to 2015.

However, Germany has seen a GVA growth of 12.1% between 2009 and 2015, and non-financial private services has contributed to a lesser extent (4.0 ppts). Instead, manufacturing has been the largest driver of Germany's growth, contributing 6.4 ppts, in contrast to many of the other economies where it has made a relatively smaller contribution (0.7 ppts in the UK).

Construction has acted as a drag for most of these economies, particularly Spain where it pulled down GVA growth by 4.2 ppts. Even in the 2 economies where it had a positive impact on GVA – Germany and the UK – the contribution of output in construction has been relatively modest.

Figure 2: Output contributions to total GVA growth for major European economies from 2009 to 2015

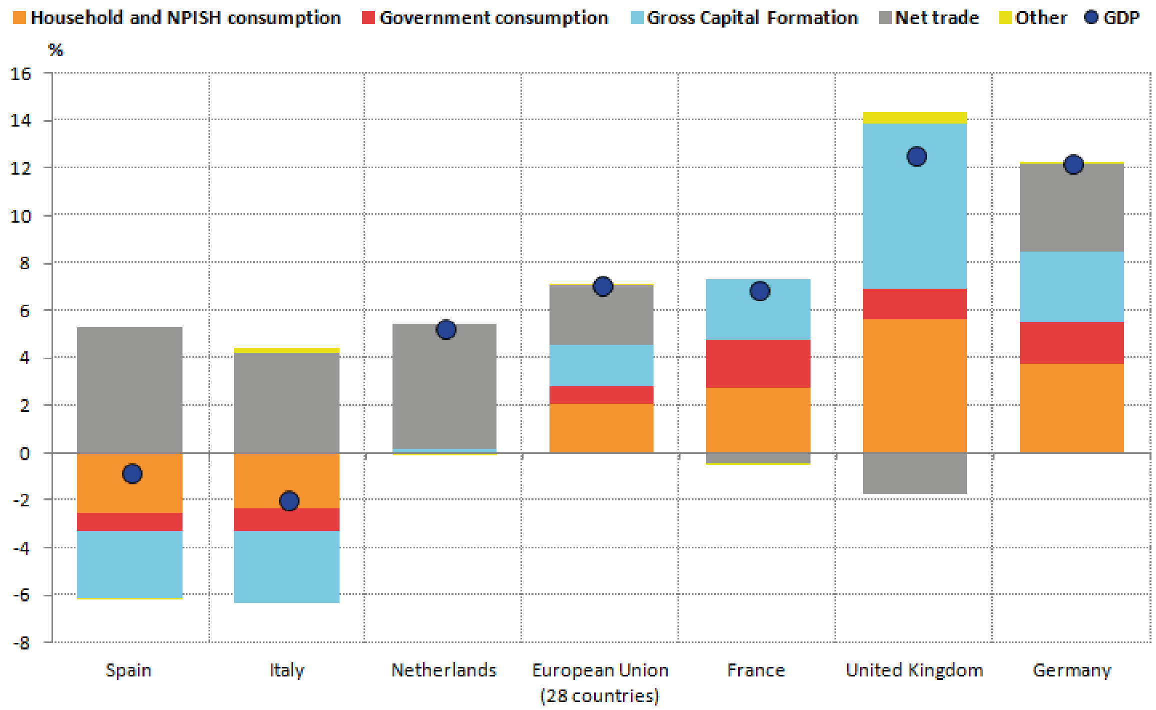


In terms of the expenditure measure of GDP, Figure 3 shows that, as well as gross capital formation, household and non-profit institutions serving households (NPISH) final consumption has been 1 of the main drivers of growth in the UK, contributing 5.6 ppts to GDP growth since 2009. However, this has not been the case for some other major European economies. While household consumption made a positive contribution in Germany, GDP growth has been more broad-based across components, with government consumption and net trade having larger positive contributions than in the UK.

While the other 4 components of expenditure have contributed positively to UK GDP growth since 2009, the UK is 1 of only 2 of the major European economies (the other being France) in which net trade has made a negative contribution to the recovery, equal to negative 1.8 ppts between 2009 and 2015. In Spain and Italy, economies that have experienced a more prolonged contraction in GDP, net trade has been the only major expenditure component to make a positive contribution, with household and NPISH consumption, government consumption and, in particular, fixed investment all making negative contributions.

In France, government consumption has been 1 of the main contributors to GDP growth, accounting for around 28.6 ppts of its GDP growth since 2009. This is markedly higher than for the other economies in which it has made a positive contribution, Germany and the UK, which were 14.1 ppts and 10.2 ppts respectively.

Figure 3: Expenditure contributions to total GDP growth for major European economies from 2009 to 2015, percent and percentage points



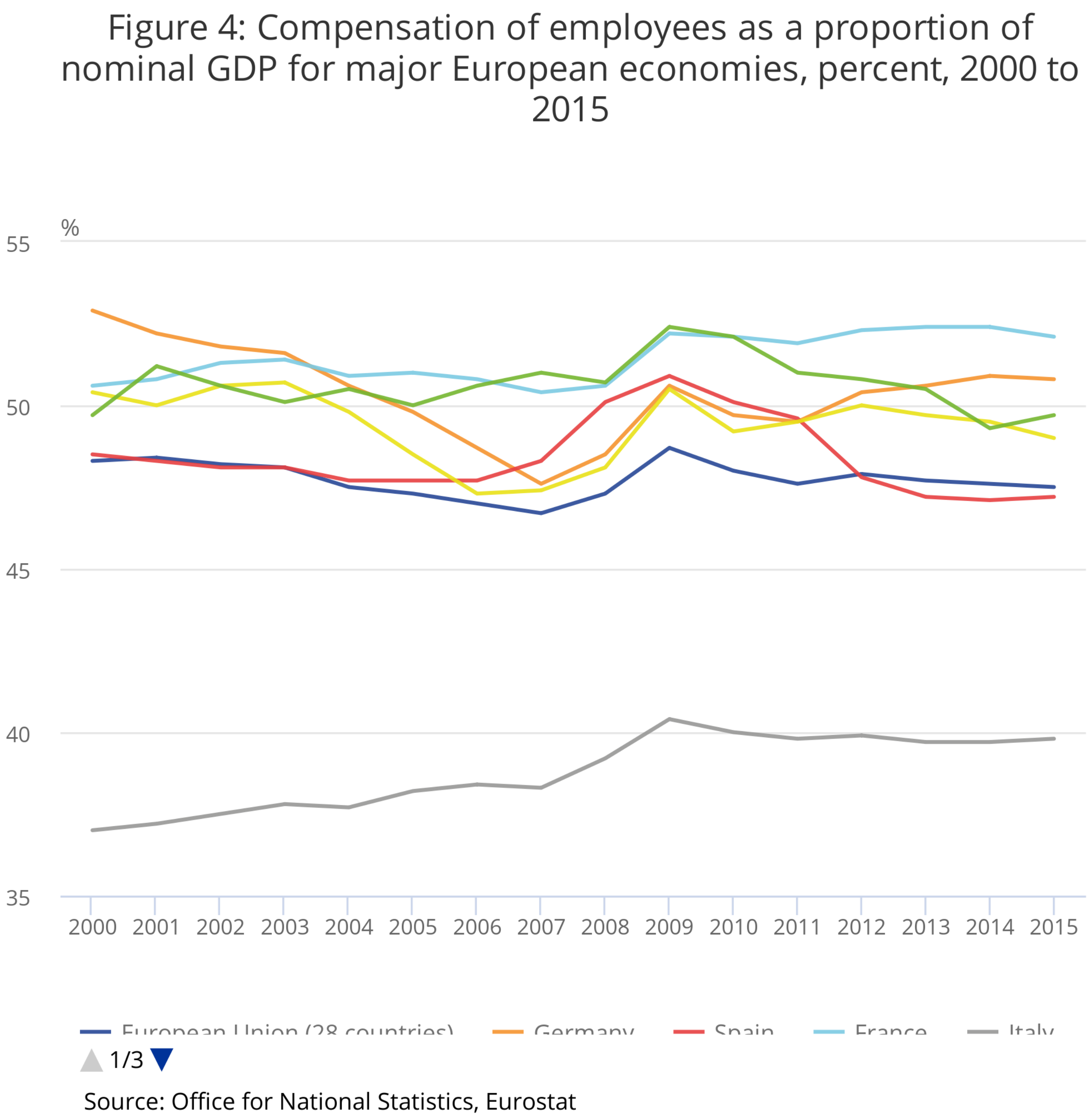
4 . Trends in the income measure

Blue Book also includes supplementary information regarding different components that make up gross value added (GVA) for each industry. Under the income approach, GVA is split into compensation of employees (CoE), taxes less subsidies, gross operating surplus (GOS) and mixed income. Estimates of each industry's intermediate consumption and total output are also published, with the difference between the 2 equalling GVA.

Such additional information available in Blue Book allows for more detailed analysis of national income. For example, CoE can be used to calculate how much of an industry's production income accrues to wages and salaries and employers' social contributions, whereas GOS data can be used to estimate how much profit is generated by companies after considering labour costs, taxes and subsidies.

For most (but not all) countries, CoE comprises the largest part of value added, and provides the basis for a number of important statistics including unit labour costs and the labour share of income. The latter can be interpreted as the proportion of output that is received by workers; 1 measure of this is the level of CoE as a proportion of nominal GDP, which is shown in Figure 4. As well as being an important indicator of how income is distributed across the sectors of an economy, the labour share of income has implications for consumer demand, UK competitiveness, and economic growth more generally.

Figure 4: Compensation of employees as a proportion of nominal GDP for major European economies, percent, 2000 to 2015



Source: Office for National Statistics, Eurostat

From 1998 to 2015, UK CoE remained around 50% of nominal GDP, reaching 52.4% in 2009. In the most recent data, the UK's share of CoE in nominal GDP is the third highest in the sample at 49.7%. In contrast, Italy's share has been around 40% since 2009. While each country's share has remained relatively constant over the period as a whole, there were sizeable changes during the economic downturn between 2008 and 2009. As nominal GDP started to fall, the labour share of income increased across all countries in the above figure.

The short-run trend of temporary increases in the labour share of income during downturns reflects, to some extent, the changing relationship between wages and productivity. If changes in productivity are not reflected in hourly wages (or vice versa), other things being equal, a change would be seen in the labour share. Economic theory stipulates that wages should be based on the productivity of workers so that, to a large extent, productivity and hourly wages should display similar trends. However, the UK's labour share of income had been on a downward trend between 1975 and 1996, even though it has been more constant since. One interpretation is that productivity growth did not fully feed through into hourly wage growth as economic theory might suggest. A short-run breakdown of this relationship between wages and productivity may also explain why the labour share of income increases temporarily during downturns, a topic that has been explored further in our Examination of Falling Real Wages 2010-2013.

5 . The sector financial accounts

The United Kingdom Economic Accounts (UKEA), published by us, allow for an examination of the flow-stock relationship in the national accounts, with changes in flows such as income, spending and saving having an effect on assets and liabilities (stocks).

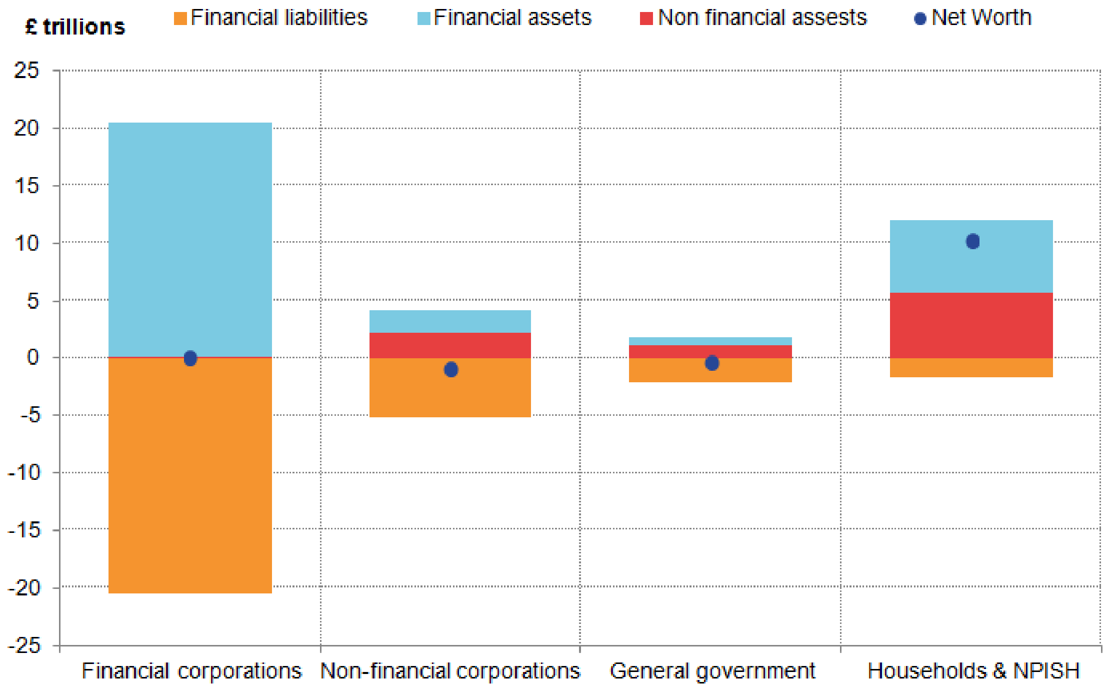
In the UKEA, the economy is grouped into a number of institutional sectors, split by type of activity, ownership and control. Sectors are defined as follows:

- non-financial corporations (NFCs)
- financial corporations (FINCOs)
- households and non-profit institutions serving households (households and NPISH)
- general government (GG)
- rest of the world

This provides us with a wealth of information on the UK's economic performance and financial position relative to others. A comprehensive explanation of the headline sectors, income and capital accounts and the financial balance sheet can be found in published concepts, sources and methods.

The total value of financial and non-financial assets less financial liabilities represents the net worth of the UK economy. In 2015, this value rose to £8.8 trillion, a 5.9% rise on the previous year. Figure 5 shows how financial and non-financial assets and financial liabilities are distributed across 4 of the sectors. This shows that households and NPISH had a large positive net worth (the value of assets was greater than the value of liabilities) while the other sectors are more balanced, with the value of assets being close to that of liabilities, where financial and non-financial assets exceeded the value of financial liabilities.

Figure 5: UK assets, liabilities and net worth across the headline sectors, £ trillion, 2015



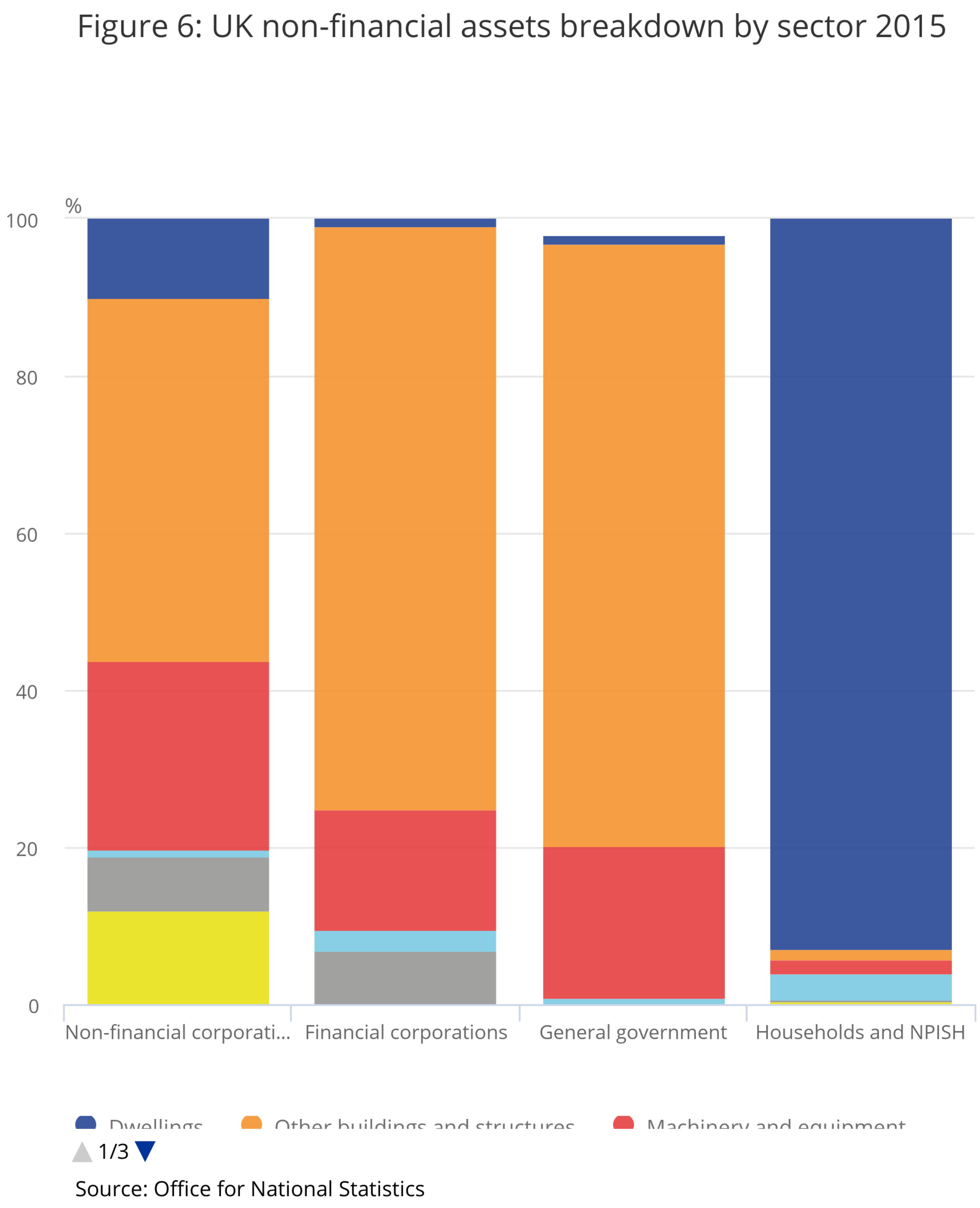
The total value of non-financial assets in the UK was £9.1 trillion in 2015. This is primarily comprised of dwellings and other buildings and structures, which together make up over four-fifths of the value of non-financial assets in the UK, with other fixed assets such as machinery and equipment, and inventories, also held.

Over 95% of dwellings are held by households while other buildings and structures are predominantly held by the non-financial corporations and general government sectors.

The total value of financial assets was £29.3 trillion in 2015; this includes a range of different asset types such as monetary gold, currency, securities, loans and insurance. This was matched by £29.6 trillion of financial liabilities, giving a net balance for financial assets of negative £0.3 trillion. These assets and liabilities were primarily held by financial corporations.

Figure 6 shows the decomposition of non-financial assets held in 2015 by sector. Household non-financial assets are shown to be almost entirely held as residential dwellings, while non-financial corporations hold a broader, more evenly distributed range of asset classes, such as machinery and equipment, and inventories. The general government and financial corporation sectors have a very similar asset mix, holding a large proportion of other buildings and structures with some machinery and equipment.

Figure 6: UK non-financial assets breakdown by sector 2015



Source: Office for National Statistics

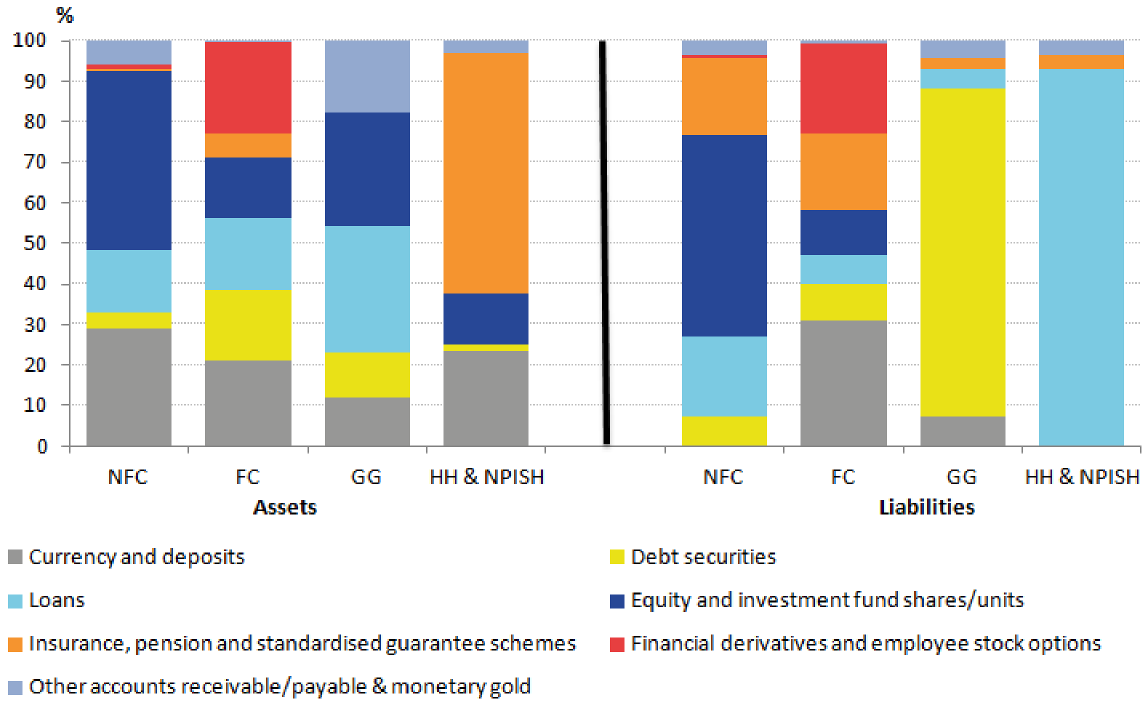
Notes:

1. Figure 6 does not include Non-produced non-financial assets as all values equalled zero.

There are, however, vast differences in the financial asset and liability mix across sectors, as shown in Figure 7. The general government sector is shown to hold most of its liabilities in debt securities, which reflects the fact that government tend to raise liquidity through government bonds. In contrast, households hold most liabilities in loans: of the £1.8 trillion of total financial liabilities in the household and NPISH sector in 2015, 92.6% came from loans, which can be attributed to mortgage debts necessary to pay for the residential dwellings assets held. Non-financial corporations hold most of their liabilities in shares and other equity.

On the financial assets side, households hold the majority of assets in insurance and pension schemes (which can be attributed to pensions and insurance products owned by households), but also hold some shares, currency and deposits. Other sectors hold a greater proportion of shares, debt securities and loans.

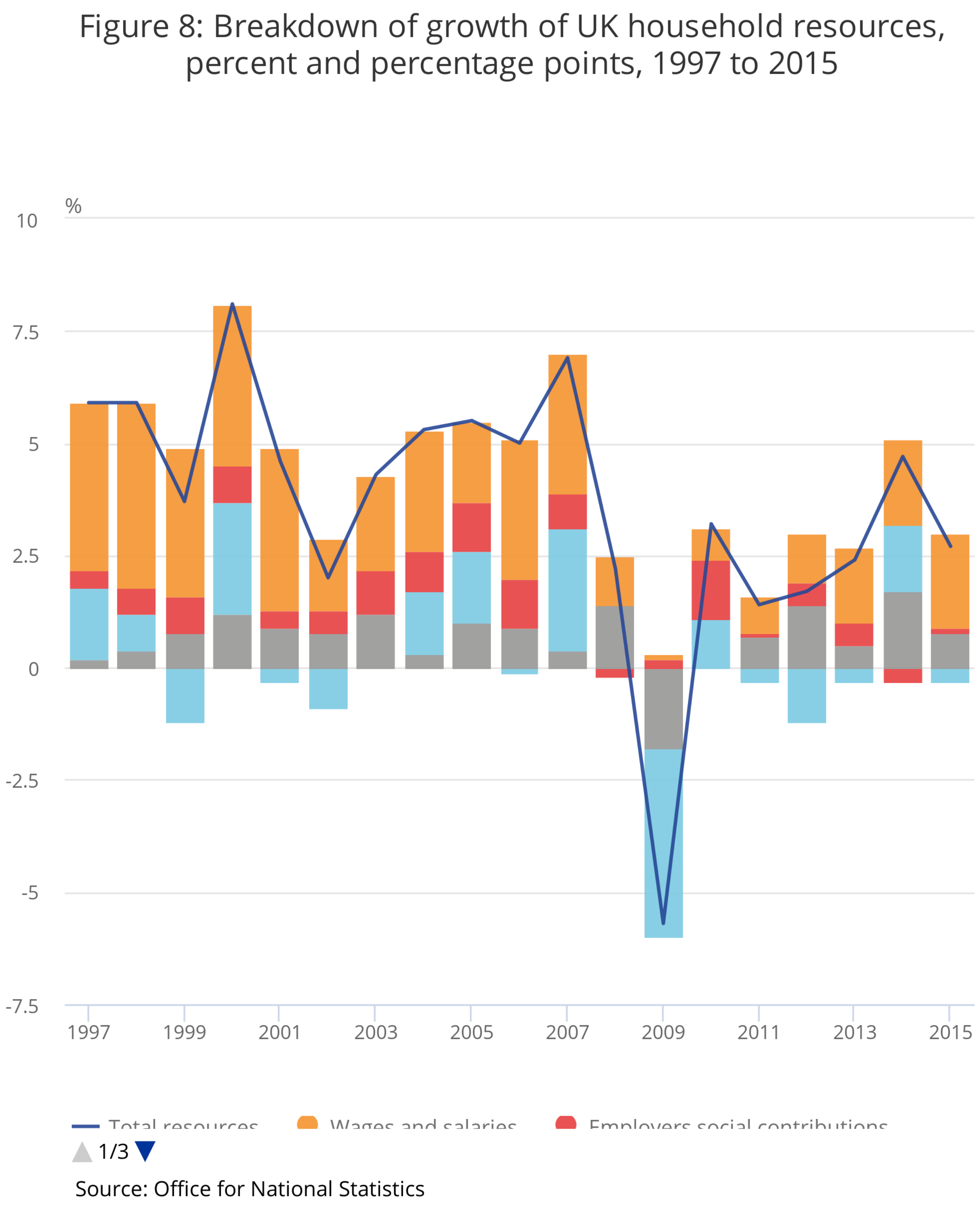
Figure 7: UK financial assets and liabilities breakdown by sector, 2015



6 . Households

The households section of the Blue Book provides a large amount of disaggregated information for the sources of household disposable income and the breakdown of household expenditure. Comparing these data over time allows for analysis of how events, such as the 2008 to 2009 economic downturn, can affect household spending habits and the income that they receive. Figure 8 shows the growth in total primary income resources received by households. This measure presents the income received by households for their role in the production process, plus any property income received from their existing stock of assets. It consists of wages and salaries, employers' social contributions, property income, and mixed income and gross operating surplus (which includes income from self-employment). The measure of property income received includes rent, dividends and interest. As these data are taken from the primary income account, it shows households' resources before the effects of taxes and benefits.

Figure 8: Breakdown of growth of UK household resources, percent and percentage points, 1997 to 2015



Source: Office for National Statistics

Notes:

1. GOS stands for gross operating surplus.

The largest positive contribution to household resources growth between 1997 and 2008 was wages and salaries. During the economic downturn and the subsequent recovery, the growth of this component became more subdued, and in 2009, the contribution of wages and salaries increased total household resources by just 0.1

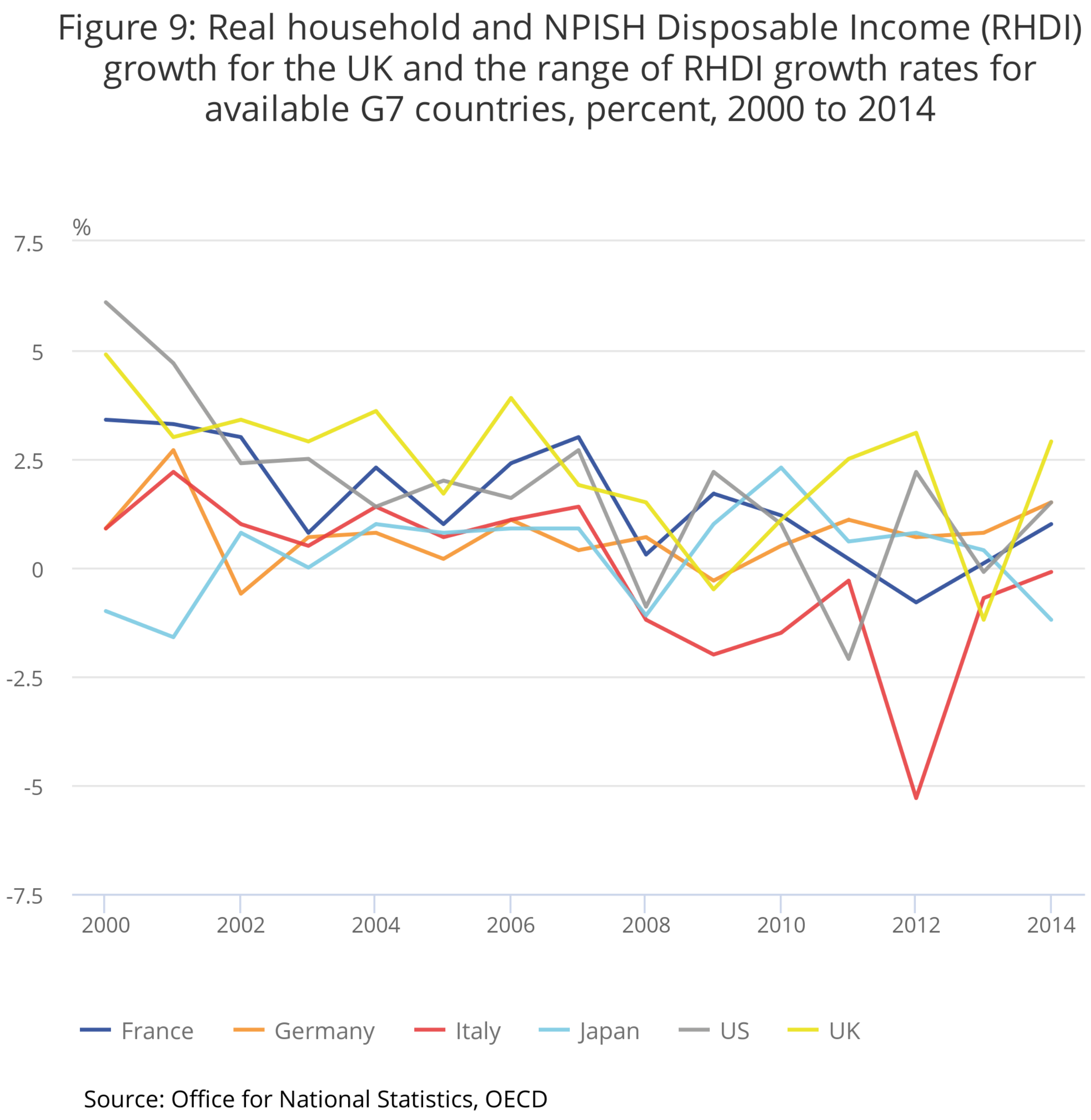
percentage points (ppts). Meanwhile, mixed income and gross operating surplus (GOS) acted to reduce resources growth by 5.7 ppts and property income by 4.2 ppts, which coincided with the large reduction in interest rates on deposits.

Since 2009, Figure 8 shows that strengthening growth in wages and salaries has acted to improve total resources growth gradually. In 2015, the negative contribution of property income and declining contribution of mixed income and GOS have led to a lower level of household resources growth compared with 2014. In 2015, wages and salaries continued to drive growth and contributed 2.1 ppts. The increase to total resources growth has been supported by growth in mixed income with GOS contributing 0.8 ppts. In 2014, social contributions acted to reduce total resources for the first time since 2008 (by 0.3 ppts) and in 2015 have contributed positively by just 0.1 ppts.

Real household disposable income

Chapter 6 also provides information on how taxes, redistributive measures (such as social benefits) and property income payments on existing liabilities affect household total resources. This culminates in an estimate of the income available to households for final consumption expenditure or saving, known as household disposable income. This measure can then be deflated by the price of household consumption to give a measure of household and non-profit institutions serving households (NPISH) real household disposable income (RHDI). Figure 9 shows RHDI for the G7 countries for which data are available [1].

Figure 9: Real household and NPISH Disposable Income (RHDI) growth for the UK and the range of RHDI growth rates for available G7 countries, percent, 2000 to 2014



Source: Office for National Statistics, OECD

Notes:

1. NPISH stands for non-profit institutions serving households and RHDI stands for real household disposable income.

Comparing UK RHDI growth with that of the other G7 countries shows that the UK tended to have one of the higher growth rates in real disposable income between 2000 and 2007. RHDI growth picks up in 2012, returning the UK's growth rate towards the top of the range in 2013 and 2014 too.

The net lending/borrowing of households

In the financial accounts, statistics for the net lending and borrowing position of households can be broken down to show the extent to which financial assets and liabilities are acquired by the sector. Figure 10 shows net lending /borrowing from the financial accounts and its constituent components over the period 1997 to 2015. Positive bars indicate where households have acquired financial assets (for example, deposits and pension assets) while negative bars indicate the acquisition of financial liabilities (for example, loans). If the acquisition of assets exceeds the acquisition of liabilities, this indicates that households are lending to other sectors in the given period.

Figure 10: Breakdown of UK net lending/net borrowing (£ billion), 1997 to 2015

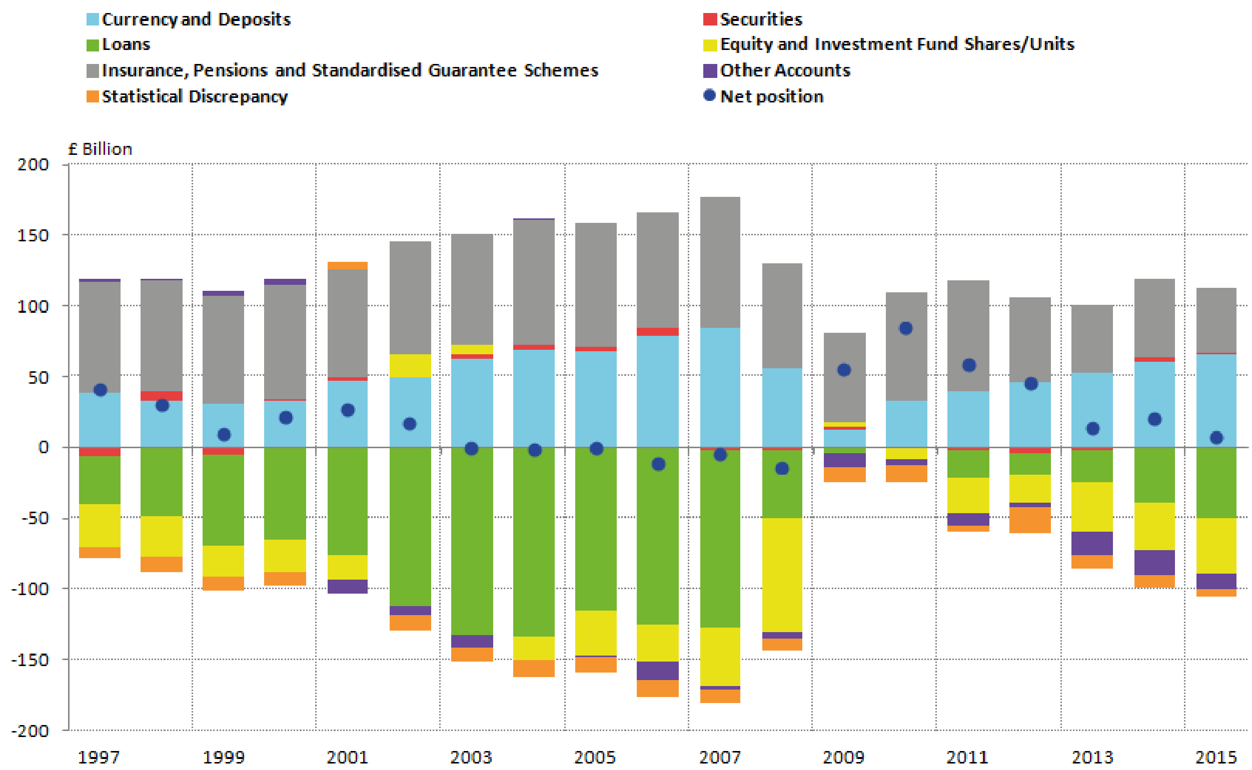
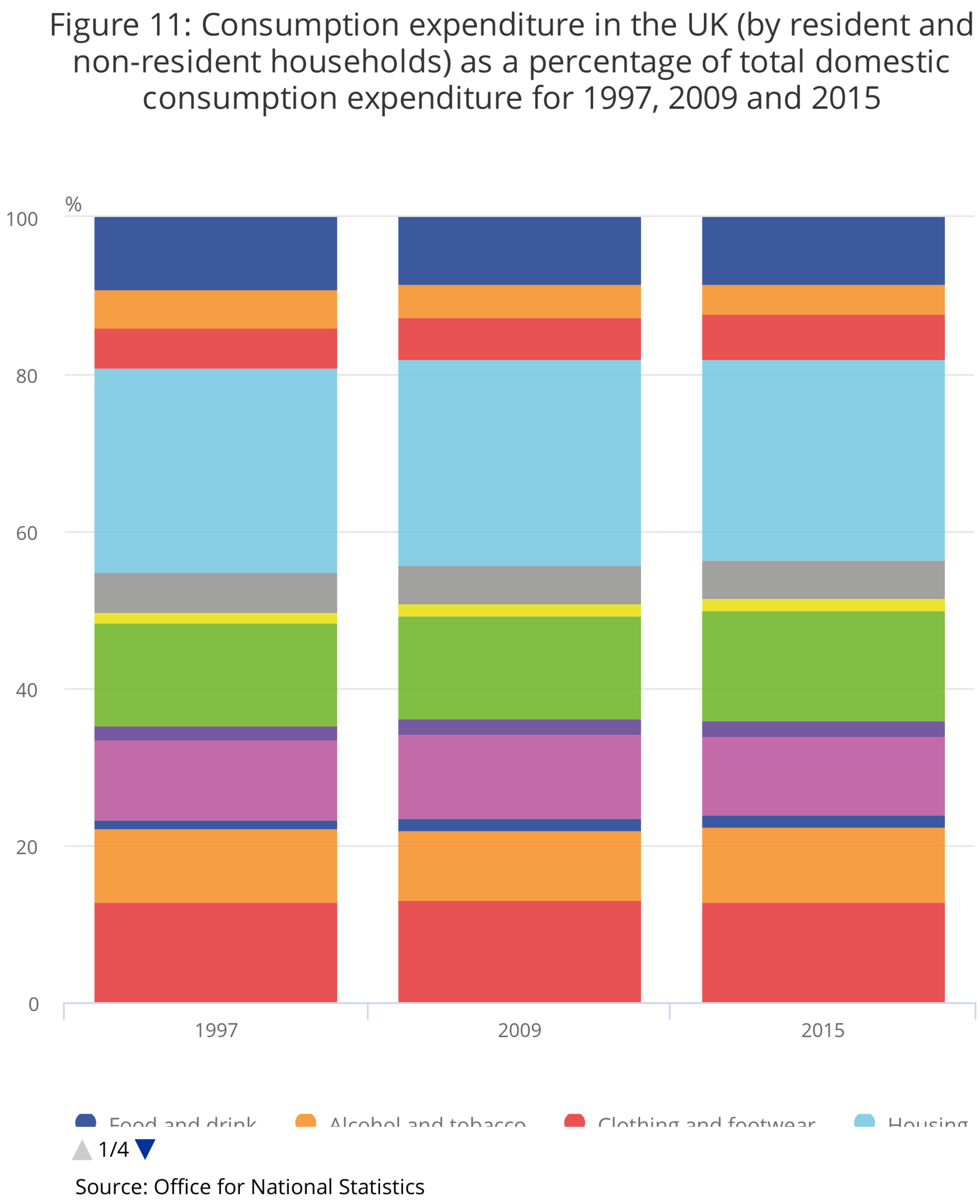


Figure 10 shows that between 2005 and 2008, households started to become net borrowers, acquiring an increasing amount of loans relative to deposits and other assets. Following the downturn, households acquired far fewer loans and only acquired a slightly smaller amount of assets, to become net lenders to other sectors. This peaked in 2010 when UK households lent £84.5 billion. Households then started to move towards becoming net borrowers as the acquisition of liabilities increased. In 2015, households remain slight net lenders, by £7.5 billion, driven by an increase in acquisition of loans and equity and investment fund shares and only slight changes in the values of assets.

Household expenditure

Household consumption expenditure provides an insight into the spending behaviour of households. From 2009 onwards, both household disposable income and household consumption expenditure increased, and in 2015 final consumption expenditure by UK households increased by 2.8 ppts. But while it is important to observe total growth in consumption, emerging trends can also be observed through the changing composition of household expenditure. This is shown in Figure 11, which attributes the share of total nominal household expenditure to a range of categories.

Figure 11: Consumption expenditure in the UK (by resident and non-resident households) as a percentage of total domestic consumption expenditure for 1997, 2009 and 2015



Source: Office for National Statistics

The largest change in the composition of domestic household consumption expenditure has been that of transport; the share of household consumption attributable to these products increased by 1.0 percentage point between 2009 and 2015. This is a result of transport expenditure growing at a faster rate (32.5%) than domestic consumption expenditure (22.1%). Expenditure on restaurants and hotels, and clothing and footwear has also increased as a share of total consumption expenditure between 2009 and 2015, by 0.8 ppts and 0.4 ppts respectively. Together with expenditure on health, which grew 0.1 ppts between 2009 and 2015, these are the only 4 components that have grown as a proportion of total expenditure over this period to the extent to which each are now greater than their respective shares in 1997.

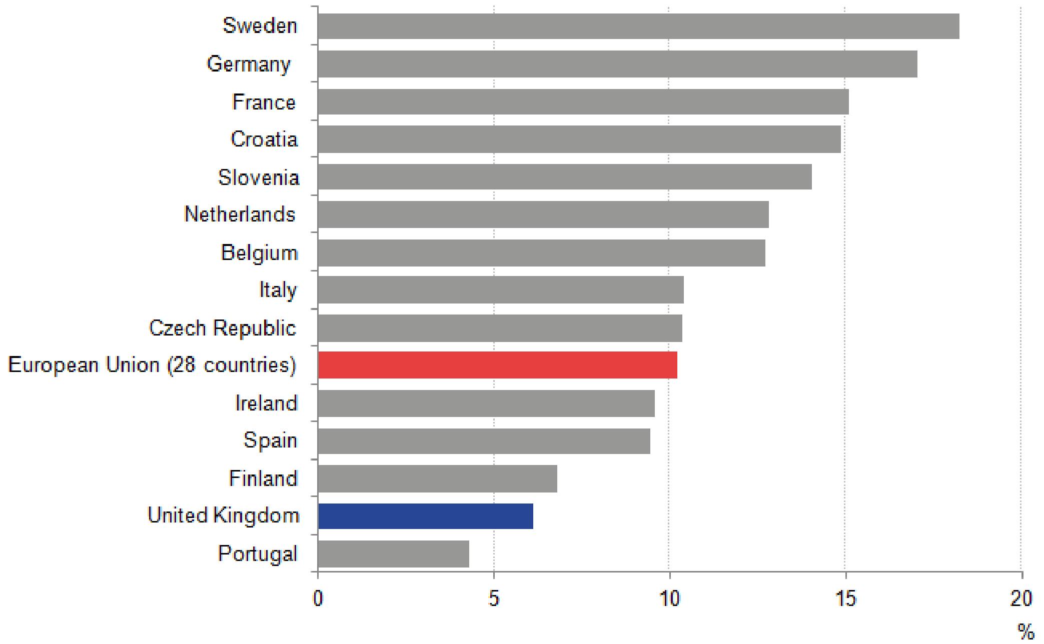
Of the other components of final household consumption expenditure, the biggest decreases between 2009 and 2015 were in the recreation and culture (0.9 ppts) and housing (0.8 ppts) sectors. We have recently improved the measurement of imputed rent, which in turn has affected consumption expenditure on housing. More information on these changes and their impact can be found in the Changes to National Accounts: Imputed Rental article. Housing expenditure increased its share between 1997 and 2009 but has now fallen and is 0.3 ppts lower in 2015 than in 1997.

Furthermore, the shares of expenditure on “discretionary” items tended to fall between 1997 and 2009. Economic theory suggests that spending on discretionary items as a proportion of total expenditure may fall during an economic downturn. However, in some cases, the shares of these discretionary items has continued to fall up to 2015 despite UK GDP being (12.6 ppts) higher than it was in 2009. Alcohol and tobacco and recreation and culture each comprise a smaller share of total expenditure than they did in 1997 and 2009. Restaurants and hotels seems to be an exception as its share is now higher than it was in 1997.

Trends in household saving

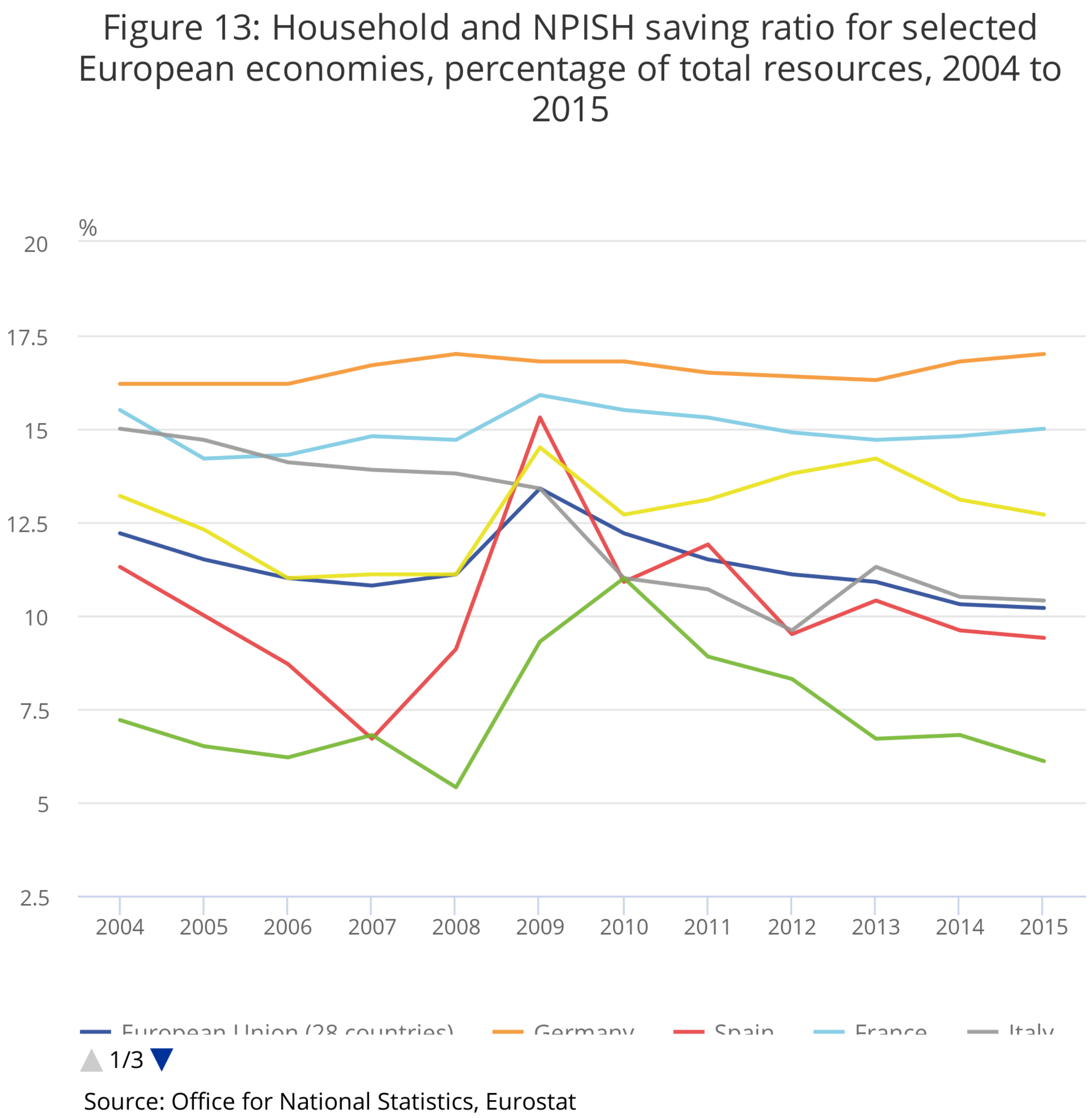
The household saving ratio measures the proportion of gross household disposable income that is saved. Figure 12 suggests that the UK’s saving ratio in 2014 was among the lowest of the European countries for which Eurostat data were available, and is 4.1 ppts lower than that of the 28 economies of the European Union. The UK’ s ratio was 6.1% compared with the European Union’s 10.2%; Ireland, Spain, Finland and Portugal also appear to have ratios below the European Union average. By contrast, Sweden’s saving ratio of 18.2% is the highest of the countries presented in Figure 12.

Figure 12: Household and NPISH saving ratio for selected European economies, percentage of total resources, 2015



Since the economic downturn of 2008 to 2009, household income and expenditure patterns have developed in different ways, and these developments can be seen through movements in the saving ratio. Figure 13 presents the saving ratio across time for a selection of major European economies. Between 2008 and 2010, the UK experienced a sharp increase in the saving ratio from 5.4% to 11.0%. As the economic outlook worsened and consumer confidence fell following the downturn, households began to save a greater proportion of their income despite record low interest rates. This sharp movement was mirrored in Spain, the Netherlands and the European Union as a whole. However, the increased propensity to save was not observed to the same extent in France and Germany, with their saving rates being broadly unchanged over the period 2004 to 2015. In 2010, the UK’s saving ratio began a downward trend; the most recent data shows it currently stands at 6.1% in 2015.

Figure 13: Household and NPISH saving ratio for selected European economies, percentage of total resources, 2004 to 2015



Source: Office for National Statistics, Eurostat

Notes:

1. Saving ratio is household and NPISH total resources, current prices (CP), seasonally adjusted (SA), as a percentage of household and NPISH gross saving (CP SA).

2. NPISH stands for non-profit institutions serving households.

Since the economic recovery began to take hold in 2010, the saving ratio in the UK fell for 3 continuous years between 2010 and 2013, before experienced a slight increase in 2014, only to decline again in 2015.

This suggests consumer confidence has improved over the period. This decline is in part because disposable income has risen very slowly while expenditure has risen more quickly, restricting the share of income that households save.

Notes for Households

1. Data for Canada were not available, so references to the G7 in this section exclude Canada from these calculations.

7 . Corporations

Corporations produce goods and services for the market. In the national accounts, these are split into financial (FINCOs) and non-financial corporations. The main distinction is that financial corporations primarily deal in financial assets and liabilities whereas non-financial corporations do not. This section begins by looking in detail at non-financial corporations before considering FINCOs.

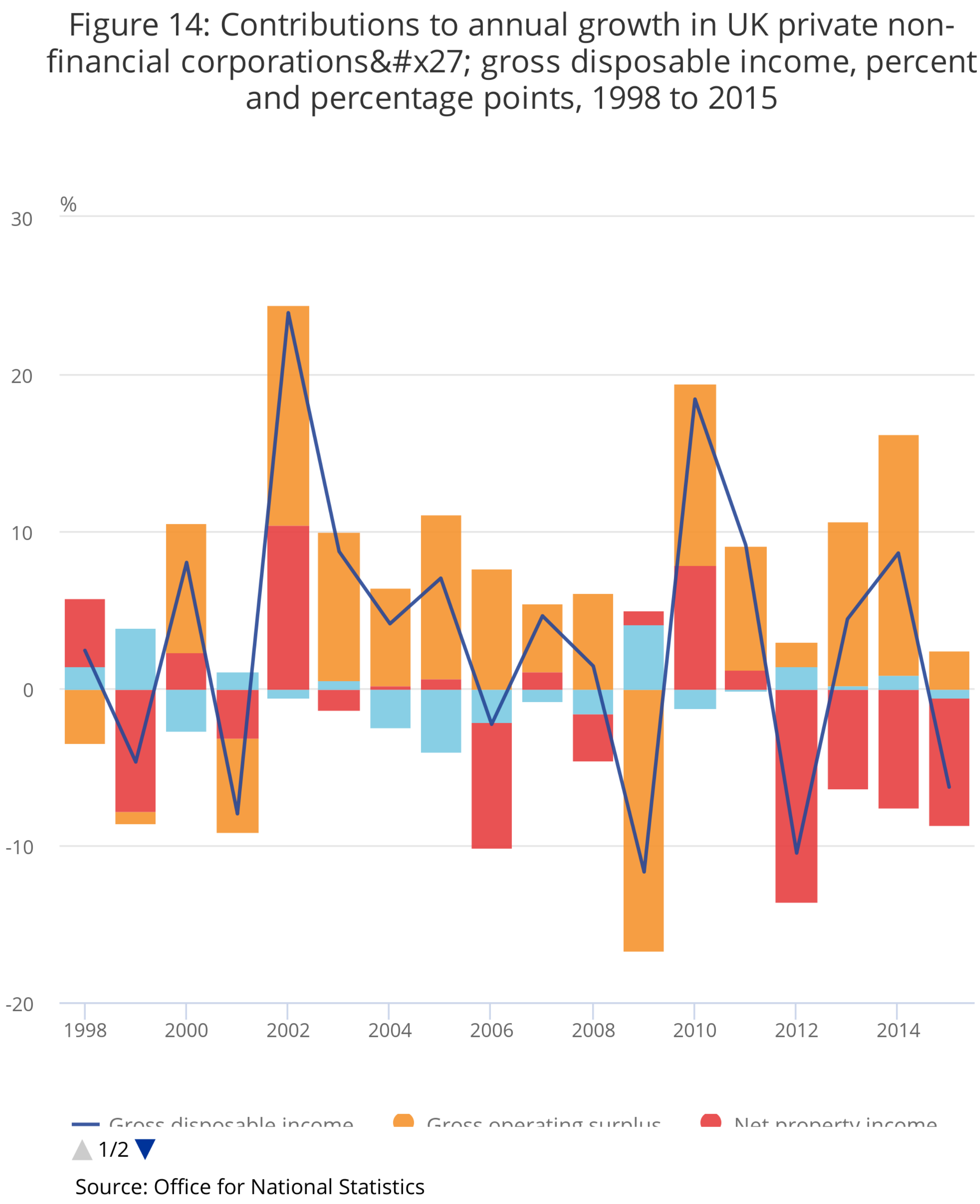
Non-financial corporations

The non-financial corporations sector includes retailers, manufacturers, utilities and business service providers among others. It can also be broken down into 2 sub-sectors: public non-financial corporations, which are government-owned trading businesses; and private non-financial corporations. The following analysis will focus on private non-financial corporations (PNFCs).

Company profits (often referred to as the gross operating surplus of corporations) account for the majority of PNFC primary resources, supported by some additional property income (such as interest received on investments and reinvested earnings on foreign direct investment). However, property income paid (primarily dividends that PNFCs pay to other sectors) has exceeded property income received in all years since records began in 1997.

Figure 14 shows the contributions of the components of gross disposable income in the PNFC sector to its overall growth. Higher growth in gross profits supported positive disposable income growth over the decade prior to the downturn, with the exception of 1999, 2001 and 2006. Disposable income fell quite sharply over the economic downturn due to lower profits, and fell in 2012 before growing by 4.4% and 8.6% in 2013 and 2014. This growth was driven by the continued increases in gross operating surplus, from contributing 1.5 ppts in 2012 to a contribution of 15.3 ppts in 2014. The latest data show that PNFCs once again had negative net disposable income in 2015 and the positive contribution from gross operating surplus (GOS) fell back to 2.4 ppts while the negative contribution from net property income was similar to that in 2014.

Figure 14: Contributions to annual growth in UK private non-financial corporations' gross disposable income, percent and percentage points, 1998 to 2015

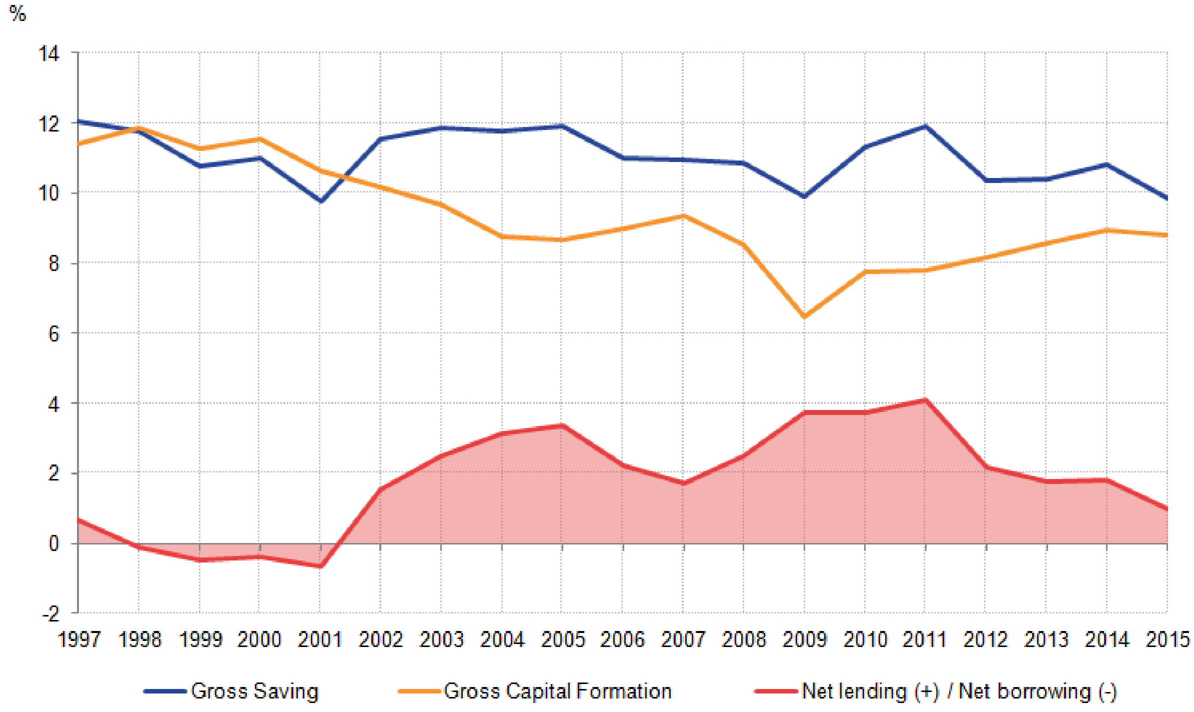


Source: Office for National Statistics

In the PNFC sector, we equate gross saving with gross disposable income (the 2 terms are interchangeable for this sector). Gross saving equates to retained profits, representing the internally-generated funds available for firms to invest. Positive net lending arises when the gross saving of firms exceeds their capital expenditure. If the sector as a whole were a net borrower, it would imply that internally-generated funds were insufficient to meet planned capital expenditures (hence necessitating the borrowing of funds from other sectors). Therefore, trends in PNFC net lending can be accounted for by movements in these 2 components: gross saving and gross capital formation.

As Figure 15 shows, the sector has been a net lender since 2002 due to broadly stable gross saving, and a gradual fall in the ratio of capital expenditure to gross domestic product (GDP). In 2012 and 2013, PNFC net lending as a proportion of GDP fell quite sharply due to a declining corporate saving rate and rising capital expenditure before levelling off in 2014. Gross saving and gross capital formation both fell in 2015, reducing PNFC net lending to 1.0% of GDP.

Figure 15: Net lending in the UK PNFC sector and its components as a proportion of GDP, percent, 1997 to 2015

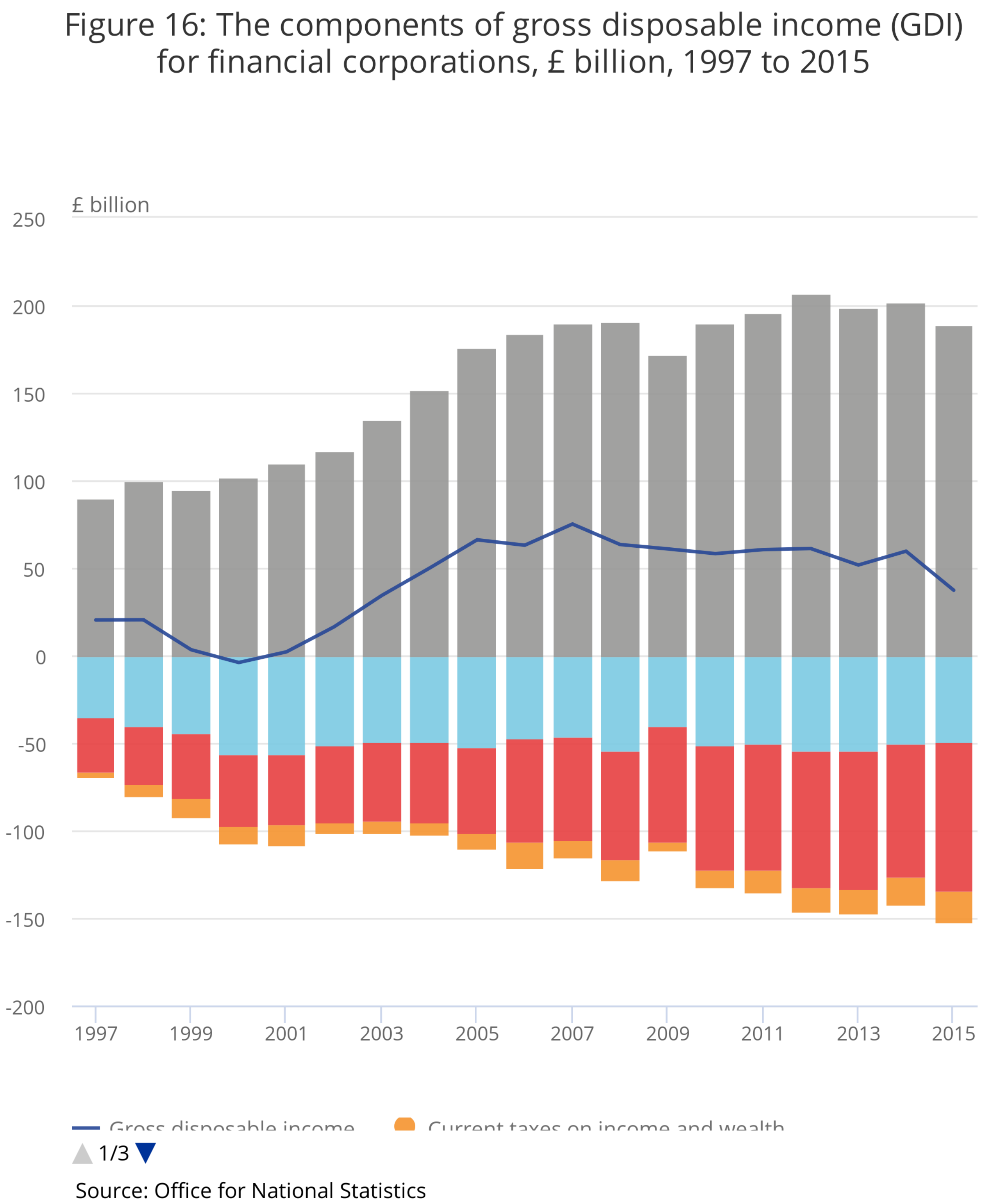


With net lending remaining positive since 2002, internally-generated funds for the PNFC sector has been more than sufficient to meet planned capital expenditure, and has consequently been a net lender to other sectors of the economy.

Financial corporations

The financial corporation (FINCO) sector consists of institutions whose principal activity is the production of financial services. FINCOs can be divided into 3 main groups: monetary and financial institutions, including bodies such as central banks; insurance corporations and pension funds; and other financial corporations. In contrast to other sectors, the main source of primary income for FINCOs is from net interest received from the existing stock of assets and liabilities held by the sector. In other words, the interest received by FINCOs on financial services sold on the market provides a key source of income for these businesses.

Figure 16: The components of gross disposable income (GDI) for financial corporations, £ billion, 1997 to 2015



Source: Office for National Statistics

Looking in more detail at FINCO, gross disposable income (GDI) reveals that it has been relatively constant since 2005. Figure 16 shows the uses of FINCO GDI and the overall value by which total resources have changed per year. GDI fell to £37.2 billion in 2015, which is a value last seen around 2003. It can be observed that the biggest use of FINCO total resources in 2015 was other social insurance benefits. There has been a shift in how these corporations have used their resources in the period since 1997. Other current transfers were the larger category into the 2000s; the change in uses towards other social insurance benefits occurred gradually, becoming more evident from the mid-2000s onwards.

Compendium

Explanation of industrial analyses

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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Notice

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Following a quality review it has been identified that the methodology used to estimate elements of purchased software within gross fixed capital formation (GFCF) has led to some double counting from 1997 onwards. When this issue is amended in The Blue Book 2017 it will reduce the level of GFCF across the period by around 1.1% per year. The average impact on quarter-on-quarter GFCF growth is negative 0.02% and the average impact on quarter-on-quarter GDP growth is 0.00%.

Table of contents

1 . The industrial analysis

Analysis of the 10 broad industrial groups shows that in 2014, the government, health and education industries provided the largest contribution to gross value added at current basic prices, at £298.8 billion out of a total of £1,624.3 billion (18.4%). Distribution, transport, hotel and restaurant industries contributed £298.5 billion to the total (also 18.4%).

Of the remainder:

- production industries contributed 14.2%
- real estate industries contributed 12.6%

Figure 2.1: Breakdown of gross value added at basic prices, by industry, 2014, UK

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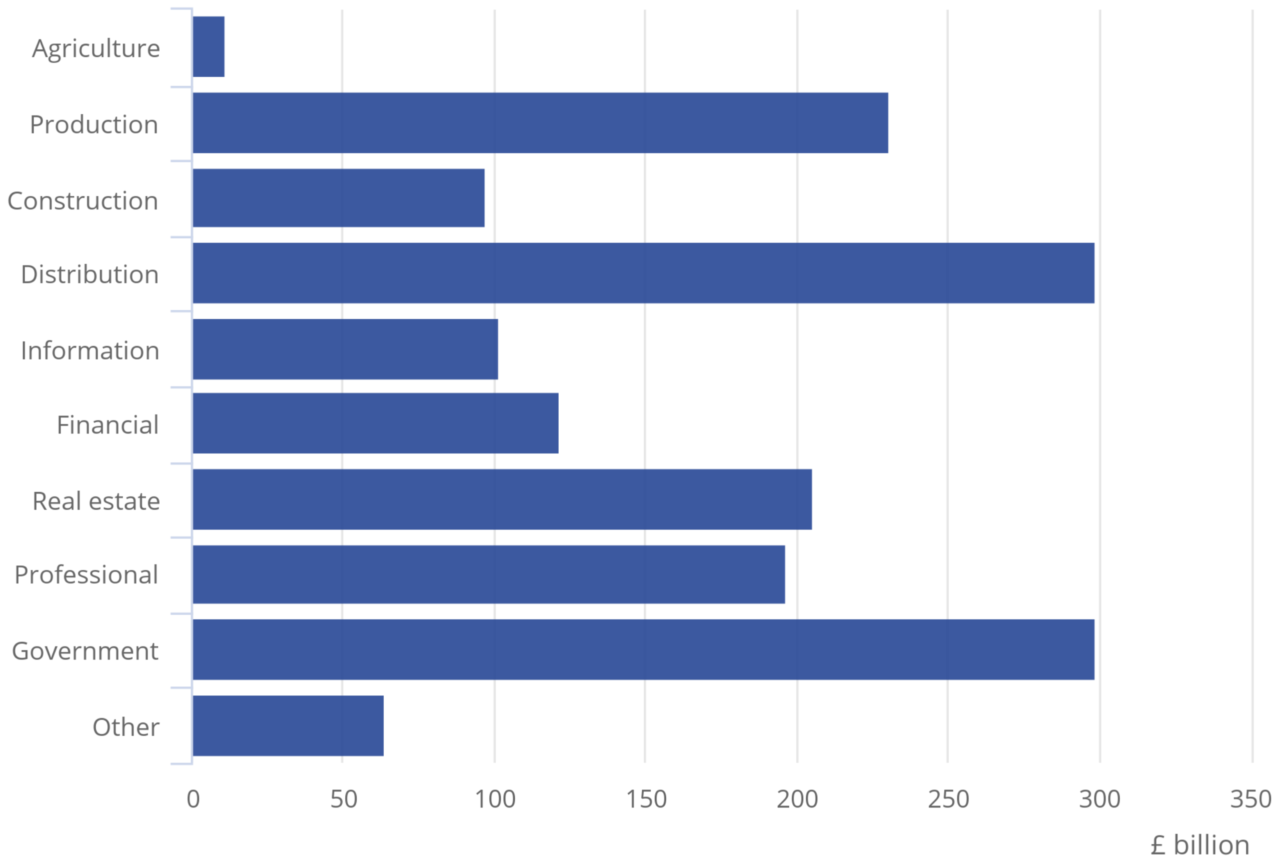


Source: Office for National Statistics

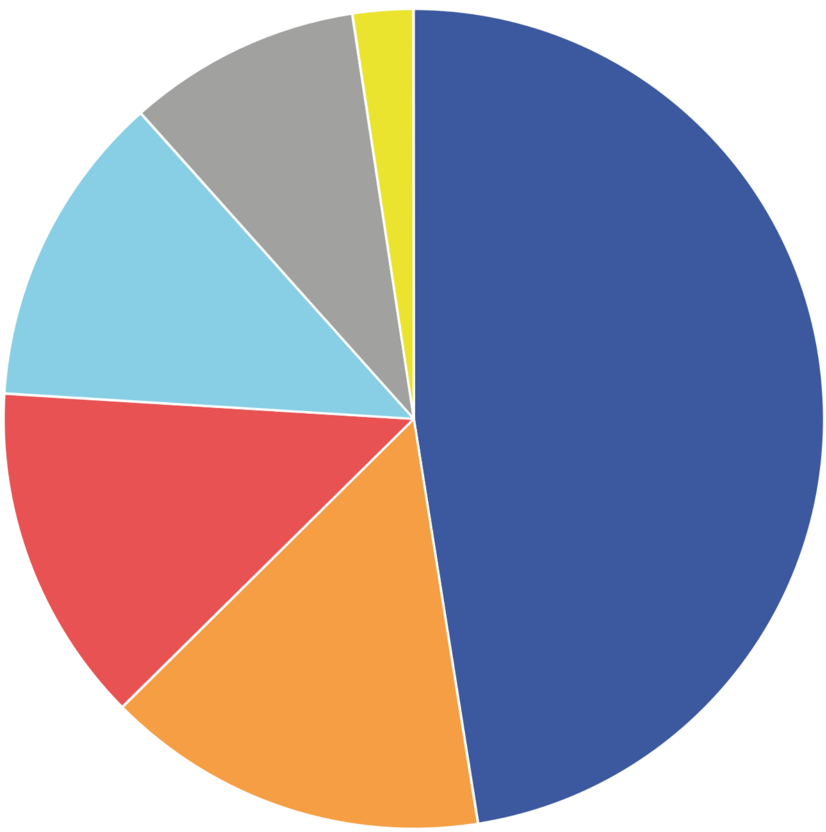
Source: Office for National Statistics

In 2014, of all goods and services entering into final demand:

- households consumed 47.5%
- 12.4% of goods and 9.2% of services were exported
- government, both central and local, consumed 15.1%
- gross capital formation, by all sectors of the economy, consumed 13.4%
- non-profit institutions serving households (NPISH) consumed 2.4%

Figure 2.2: Composition of final demand for 2014, percent, UK

Figure 2.2: Composition of final demand for 2014, percent, UK

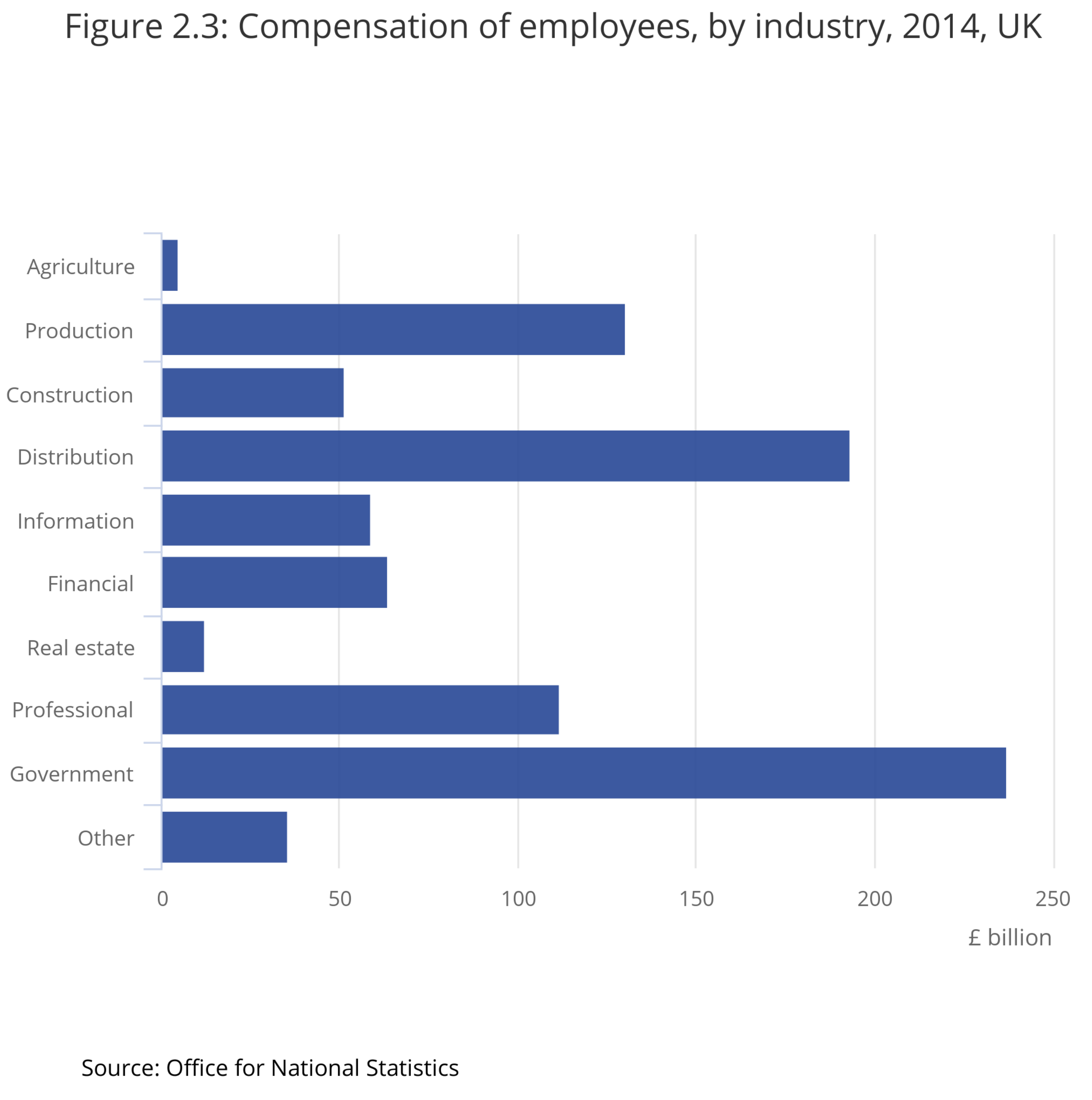


Source: Office for National Statistics

Source: Office for National Statistics

The government, health and education industries showed the highest level of compensation of employees in 2014 at £237.5 billion (26.4%). The second largest industry, in terms of its contribution to total compensation of employees, was the distribution, transport, hotel and restaurant industries at £193.1 billion (21.5%).

Figure 2.3: Compensation of employees, by industry, 2014, UK



Source: Office for National Statistics

2 . Input-output supply and use tables

The annual estimates included in UK National Accounts, The Blue Book: 2016 edition incorporates the results of annual inquiries that become available in the first part of the year, although last year's estimates are largely based on quarterly information. Any newly collected data are shown as revisions. In order to reassess these estimates, supply and use tables are prepared using all the available information on inputs, outputs, gross value added, income and expenditure. To produce consolidated sector and financial accounts requires preparation of "top-to-bottom" sector and sub-sector accounts to identify discrepancies in the estimates relating to each sector.

The latest annual supply and use tables provide estimates for the years 1997 to 2014, with data for 2014 balanced for the first time. Data for 2012 to 2013 have been fully re-balanced. Data from 1997 to 2011 have been revised to incorporate changes required under new international standards and guidelines, as well as to make sure the data are comparable and meet user needs. The article Commentary on Supply and Use balanced estimates of annual GDP, 1997 to 2014 has further details.

Further general information regarding the supply and use framework and the balancing process can be found in the guidance and methodology.

3 . Current price analysis

The analyses of gross value added and other variables by industry, shown in tables 2.1, 2.1A and 2.2 reflect estimates based on Standard Industrial Classification 2007 (SIC 2007). These tables are based on current price data reconciled through the input-output supply and use framework from 1997 to 2014.

Estimates of total output and gross value added are valued at basic prices, the method recommended by European System of Accounts 2010 (ESA 2010). Therefore, the only taxes and subsidies included in the price will be those paid or received as part of the production process (such as business rates), rather than those associated with the production of a unit of output (such as VAT).

4 . Chained volume indices (2013=100) analyses

Table 2.3 shows chained volume estimates of gross value added at basic prices by industry. The output approach provides the lead indicator of economic change in the short-term. In the longer-term, the output measure of real gross domestic product (GDP) is required to follow the annual path indicated by the expenditure measure of real GDP (usually to within 0.2 per cent of the average annual gross value added growth). To achieve this, balancing adjustments are sometimes applied to the output-based gross value added estimates.

We have developed an automatic function for assigning the annual adjustments to gross value added. This is designed to minimise changes to the quarterly path while adjusting the overall annual growth rate to align to the expenditure measure. For technical and other reasons the adjustments are not, at present, made to retail or the non-service industries for any years.

5 . Workforce jobs by industry

Workforce jobs (WFJ) is the preferred measure of the change in jobs by industry. A person can have more than 1 job; therefore the number of jobs is not the same as the number of people employed.

Table 2.4 breaks down WFJ into 10 broad industry groupings on SIC 2007.

The main component of WFJ is employee jobs. Estimates for employee jobs are obtained mainly from surveys of businesses selected from the Inter-Departmental Business Register (IDBR). All other business surveys collecting economic data also use this register.

WFJ also includes Her Majesty’s Forces (within industry section O) and government supported trainees from administrative sources (split by industry using the Labour Force Survey).

The Labour Force Survey (LFS), a household survey, is used to collect self-employment jobs. It codes respondents according to their own view of the industry they work in; therefore the industry breakdown is less reliable than that for the business surveys.

6 . Summary supply and use tables for the UK

Table 2.1a: Summary Supply and Use tables 2011

Table 2.1b: Summary Supply and Use tables 2012

Table 2.1c: Summary Supply and Use tables 2013

Table 2.1d: Summary Supply and Use tables 2014

7 . Gross value added (GVA)

The UK National Accounts, The Blue Book provides a comprehensive industry breakdown of gross value added (GVA), with activities grouped into 20 broad sections in accordance with SIC 2007.

The Blue Book also includes supplementary information for the different components that make up GVA for each industry. Under the income approach, GVA is split into compensation of employees (CoE), taxes less subsidies, gross operating surplus (GOS) and mixed income. Estimates of each industry's intermediate consumption and total output are also published, with the difference between the 2 equalling GVA.

This additional information, available in The Blue Book, allows for more detailed analysis of national output to be conducted. For example, CoE can be used to calculate how much of an industry's production income is spent on wages and salaries and employers' social contributions, whereas GOS data can be used to estimate how much profit is generated by companies after considering labour costs and taxes less subsidies.

Compendium

Non-financial corporations

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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30 September 2016

Following a quality review it has been identified that the methodology used to estimate elements of purchased software within gross fixed capital formation (GFCF) has led to some double counting from 1997 onwards. When this issue is amended in The Blue Book 2017 it will reduce the level of GFCF across the period by around 1.1% per year. The average impact on quarter-on-quarter GFCF growth is negative 0.02% and the average impact on quarter-on-quarter GDP growth is 0.00%.

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1 . Non-financial corporations

Non-financial corporations produce goods and services for the market and do not, as a primary activity, deal in financial assets and liabilities.

This sector includes retailers, manufacturers, utilities, business service providers (such as accountancy and law firms), caterers, haulage companies, airlines, construction companies and farms, amongst others.

The non-financial sector is broken down into 2 sub-sectors:

- public sector non-financial corporations
- private sector non-financial corporations

Tables 3.1.1 to 3.1.9 relate to non-financial corporations as a whole. Tables 3.2.1 to 3.2.9 relate to public non-financial corporations, which are government owned trading businesses. Tables 3.3.1 to 3.3.9 relate to private non-financial corporations, which are trading businesses in the private sector.

Further information on sector classifications and classification decisions can be found in National accounts classifications on our website.

Compendium

Financial corporations

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . Financial Corporations

Financial corporations sector (S.12) consists of institutional units which are independent legal entities and market producers, and whose principal activity is the production of financial services. Such institutional units comprise all corporations and quasi-corporations which are principally engaged in:

(a) financial intermediation (financial intermediaries) and/or

(b) auxiliary financial activities (financial auxiliaries).

Also included are institutional units providing financial services, where most of either their assets or their liabilities are not transacted on open markets.

Financial intermediation is the activity in which an institutional unit acquires financial assets and incurs liabilities on its own account by engaging in financial transactions on the market. The assets and liabilities of financial intermediaries are transformed or repackaged in relation to, for example, maturity, scale, risk, etc. in the financial intermediation process.

Auxiliary financial activities are activities related to financial intermediation but which do not involve financial intermediation themselves.

Financial corporations are presented in the following groupings:

- Monetary financial institutions (MFI)
- Financial corporations except MFI and ICPF
- Insurance corporations and pension funds (ICPFs)

Further information on sector classifications and classification decisions can be found in National accounts classifications on our website.

Compendium

General government

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . General government

The general government sector is made up of units providing services for collective or individual consumption that are not sold at market prices. These units are usually funded by compulsory payments from units in other sectors (taxes) and may be involved in the redistribution of national income (for example, benefits and state pension).

The sector includes government departments and agencies, local authorities, the devolved administrations in Northern Ireland, Scotland and Wales, the state education system, the National Health Service, the armed forces and the police. Non-departmental public bodies are also included in the general government sector.

The United Kingdom National Accounts: The Blue Book 2016 presents estimates for the general government sector and sub-sector breakdowns for:

- central government
- local government

Further information on sector classifications and classification decisions can be found in National accounts classifications on our website.

Compendium

Households and non-profit institutions serving households

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . Households and non-profit institutions serving households

The household sector covers both consumers and producers. Households as consumers is made up of groups of people sharing the same living accommodation who share some or all of their income and collectively consume certain types of goods and services, such as food, electricity or housing. This sector also includes the self-employed who are treated as producers. A smaller group of units within the household sector is made up of those living permanently in institutions with little economic autonomy, such as prison populations and members of religious orders living in monasteries.

Non-profit institutions serving households (NPISH) are institutions that:

- provide goods and services, either free or below the market prices
- mainly derive their income from grants and donations
- are not controlled by government

In the UK the NPISH sector includes:

- most charities
- trade unions
- religious organisations
- political parties
- the majority of universities

The United Kingdom National Accounts: The Blue Book 2016 presents combined estimates for the household and NPISH sectors.

Further information on sector classifications and classification decisions can be found in National accounts classifications on our website.

Compendium

Rest of the world

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . Rest of the world

The rest of the world sector includes all those institutions or individuals not resident in the UK that have economic interactions with resident units. It can include overseas corporations, charities, governments or private individuals. The sector also includes foreign embassies and consulates on UK soil.

Further information on sector classifications and classification decisions can be found in National accounts classifications on our website.

Compendium

Gross fixed capital formation supplementary tables

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . Gross fixed capital formation supplementary tables

Gross fixed capital formation (GFCF) is the estimate of net capital expenditure (acquisitions less the proceeds from disposals) on fixed assets by both the public and private sectors. Fixed assets are purchased assets used in production processes for more than 1 year. Examples of capital expenditure include; spending on machinery and equipment, transport equipment, software, artistic originals, new dwellings and major improvements to dwellings, other buildings and major improvements to buildings, and structures such as roads. Additional assets, research and development and military weapons systems, were introduced into the definition of GFCF in Blue Book 2014.

In Blue Book 2016 we have included corrections to the following estimates, as a result of further quality assurance of the Blue Book 2015 dataset:

- dwellings – to reflect the correction of a processing error in the VAT data used in the dwellings estimates
- agriculture – to reflect a processing error in the calculation of disposals for the agricultural industry which artificially inflated its gross fixed capital formation estimates

Blue Book 2016 was the earliest opportunity at which to revise these estimates. Due to the integrated nature of the accounts and the need to re-open supply and use balancing, these processing errors could not be taken on any earlier. This is also in-line with the National Accounts revisions policy.

Compendium

National balance sheet

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . National balance sheet

The national balance sheet is a measure of the national wealth, or total net worth, of the UK. It shows the estimated market value of financial assets, for example, shares and deposits at banks and non-financial assets like dwellings and machinery. Market value is an estimate of how much these assets would sell for, if sold on the market.

The estimates are used for international comparisons and to monitor economic performance and inform monetary and fiscal policy decisions.

Financial assets and liabilities include:

- means of payment, such as currency
- financial claims, such as loans
- economic assets, which are close to financial claims in nature, such as shares

Non-financial assets include both produced and non-produced assets.

Produced non-financial assets include:

- buildings and other structures
- machinery and equipment
- certain farming stocks, mainly dairy cattle and orchards
- intellectual property products, such as computer software and databases and research and development
- inventories
- valuables, such as works of art and precious stones

Non-produced assets include:

- contracts, leases and licenses
- natural resources

Data sources include:

- other government departments and agencies
- annual reports of public corporations and major businesses
- industry publications
- Chartered Institute of Public Finance and Accountancy report on Local Authority Assets
- ONS's National Balance Sheet survey

Where non-financial asset market valuations are not readily available, we use a proxy based on the UK net capital stocks data, modeled in the Perpetual Inventory Method (PIM). For central government, data are taken from returns made by government departments to HM Treasury.

Local authority housing is shown in the public non-financial corporations sector. This is because government-owned market activities are always treated as being carried out by public corporations, either in their own right or via quasi-corporations.

The National Balance Sheet publications are available on our website. The 2016 bulletin will be published on 18 August 2016 and data published in Blue Book 2016 are consistent with this publication.

Compendium

Public sector supplementary tables

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . Public sector supplementary tables

The majority of government income is provided by taxes and social contributions. Table 10.1 provides a breakdown of the main taxes and social contributions payable by UK residents to both the government (both central and local government) and to the European Union.

2 . Taxes and social contributions payable by UK residents

Taxes on production are included in GDP at market prices.

Other taxes on production include taxes levied on inputs to production. This includes national on-domestic rates, also known as business rates, and a range of compulsory unrequited levies that producers have to pay.

Taxes on products are taxes levied on the sale of goods and services, this includes Value Added Tax (VAT) and Fuel Duty.

Taxes on income and wealth include income tax and corporation tax. Income tax is the largest single source of tax revenue paid by UK residents. This category also includes a number of other charges payable by households including Council Tax, the BBC licence fee and taxes such as motor vehicle duty, which, when paid by businesses, are classified as taxes on production. The totals include tax credits and reliefs recorded as expenditure in the National Accounts, such as Working Tax Credit and Child Tax Credit.

The European System of Accounts 2010 (ESA 2010) has a specific category of payments to government called compulsory social contributions. These are payments associated with social security schemes, such as unemployment benefit and pensions. In the UK accounts this category includes all National Insurance contributions. Details of total social contributions and benefits are shown in Tables 5.2.4S and 5.3.4S.

Capital Taxes are taxes levied at irregular or infrequent intervals on the values of assets, gifts or legacies. In the UK the main capital tax is Inheritance Tax.

Some UK taxes are recorded as the resources of the European Union (EU). These include taxes on imports, which are payable to the EU under the EU treaties.

Compendium

How our statistics are used by the European Union

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . How our statistics are used by the European Union

The European Union (EU) uses National Accounts data for a number of administrative and economic purposes. Gross national income (GNI) is one of the four measures used by the EU and is calculated in accordance with the European System of Accounts. GNI is used to set the EU budget and to calculate part of member states' contributions to the EU budget and is based on the European System of Accounts 1995 (ESA 1995).

2 . UK transactions with the institutions of the European Union

Table 11.1 shows payments flowing between the European Union and the UK. The first part of the table shows the payments flowing into the UK in the form of European Union expenditure. The second part of the table shows the UK contribution to the EU budget, which depends on UK GNI. An explanatory note detailing GDP, GNI and the UK's contribution to the EU budget was published on 8 September 2015.

3 . Data to monitor government deficit and debt

The convergence criteria for the Economic and Monetary Union (EMU) are set out in the 1992 treaty on European Union (The Maastricht Treaty). The treaty, plus the Stability and Growth Pact (SGP), requires member states to avoid excessive government deficits – defined as general government net borrowing and gross debt as a percentage of GDP. The treaty does not determine what constitutes "excessive". This is agreed by the Economic and Finance Council (ECOFIN).

Member States report their planned and actual deficits, and the levels of their debt, to the European Commission. Data to monitor excessive deficits are supplied in accordance with EU legislation.

The UK submitted the estimates in Table 11.a to the European Commission in October 2015.

Table 11.a: UK government deficit and debt, 2009 to 2015, UK

	2009 to 2010	2010 to 2011	2011 to 2012	2012 to 2013	2013 to 2014	2014 to 2015	2015 to 2016
General government deficit							
Net borrowing (£ billion)	162.1	143.2	123.9	126.5	103.9	90.7	74.4
As a percentage of GDP	10.8	9.1	7.6	7.5	5.9	5	4
General government debt							
Debt at nominal value (£ billion)	1,074.0	1,212.6	1,345.6	1,420.7	1,521.3	1,601.6	1,649.2
As a percentage of GDP	71.4	77	82.6	84.6	86.6	87.4	87.7

Source: Office for National Statistics

UK environmental accounts

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . UK environmental accounts

Environmental accounts are:

- "satellite accounts" to the main national accounts
- compiled in accordance with the System of Environmental-Economic Accounting (SEEA), which closely follows the United Nations System of National Accounts (SNA)

Environmental accounts measure:

- the impact of the economy on the environment
- how the environment contributes to the economy by using the accounting framework and concepts of the national accounts

Environmental accounts are used to:

- inform sustainable development policy
- model impacts of fiscal or monetary measures
- evaluate the environmental impacts of different sectors of the economy

Environmental accounts data:

- are mostly provided in units of physical measurement (mass or volume)
- can be provided in monetary units, where this is the most relevant or only data available

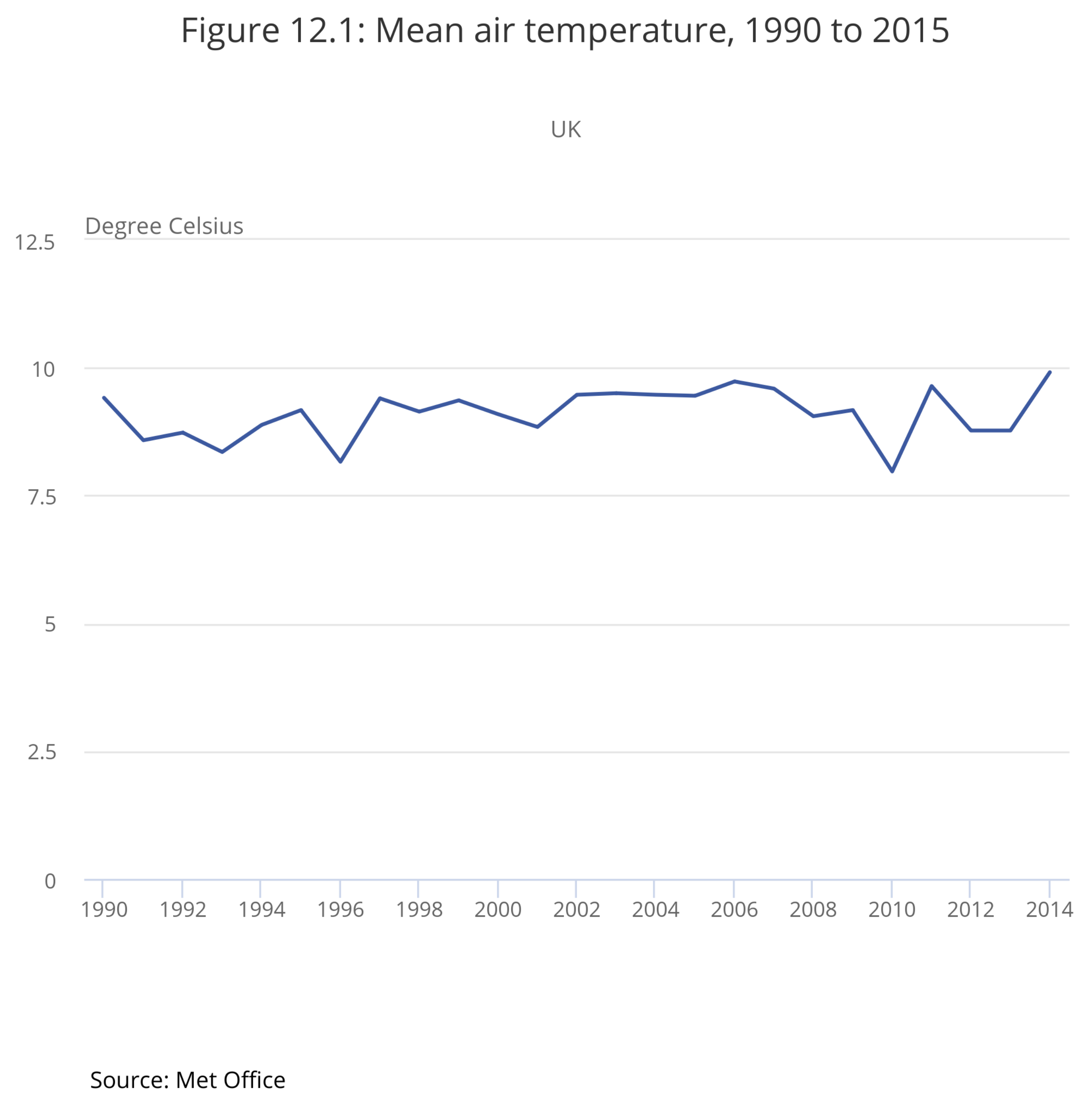
Tables 12.1 to 12.5 show estimates of oil and gas reserves, energy consumption, atmospheric emissions and material flows. More data, information and other environmental accounts (including fuel use, environmental goods and services sector, waste, water use, environmental taxes, environmental protection expenditure, low carbon and renewable energy economy and experimental natural capital accounts) can be found on the UK Environmental Accounts release page on our website.

2 . Temperature

Figure 12.1 shows the change in mean air temperature between 1990 and 2014. This measure helps to contextualise some of the changes observed across the environmental accounts. For example, the average temperature fell to 8.0 degrees Celsius (°C) in 2010 from 9.2°C in 2009, which contributed to the increases in energy consumption and greenhouse gas emissions observed during that year. At the same time, GDP started to recover following the economic downturn, which may also explain the increases in consumption and emissions. Between 2013 and 2014, the average air temperature increased by 1.1°C (from 8.8°C to 9.9°C). This warmer weather can help to partly explain the decline in energy consumption over this period.

Figure 12.1: Mean air temperature, 1990 to 2015

UK



Source: Met Office

3 . Oil and gas reserves

Table 12.1 presents non-monetary estimates of the oil and gas reserves and resources in the UK. “Resources” are minerals that are potentially valuable and could eventually be extracted, whereas “reserves” refer to discovered minerals that are recoverable and commercially viable.

Reserves can be proven, probable or possible depending on the confidence level:

- proven reserves (based on the available evidence) are virtually certain to be technically and commercially producible, that is, have a better than 90% chance of being produced

- probable reserves are not yet proven but have a more than 50% chance of being produced

- possible reserves cannot be regarded as probable at present, but are estimated to have a significant (but less than 50%) chance of being technically and commercially producible

Oil is defined as both oil and the liquids that can be obtained from gas fields. Shale oil is not included in the estimates. Total (discovered; proven and probable, plus possible reserve and undiscovered) oil reserves and resources for 2014 were estimated to be between 1,504 million tonnes and 2,404 million tonnes. The upper range for total oil reserves decreased between 2013 and 2014 by 0.5%, whilst the lower range decreased by 2.1%.

Gas includes gas expected to be available for sale from dry gas fields, gas condensate fields, oil fields associated with gas and a small amount from coal bed methane projects. Shale gas is not included in these estimates. These reserves include onshore and offshore discoveries, but not flared gas or gas consumed in production operations. Total gas reserves and resources were estimated between 959 billion cubic metres (bcm) and 1,594 bcm in 2014. The lower range for total gas reserves and resources had fallen by 4.8% between 2013 and 2014, and the upper range had fallen by 3.2%.

4 . Energy consumption

Table 12.2 presents energy consumption by industry for the UK. Energy consumption is defined as the use of energy for power generation, heating and transport. This is essential to most economic activities, for example, as input for production processes. “Direct use of energy” refers to the energy content of fuel for energy at the point of use, allocated to the original purchasers and consumers of fuels. For “reallocated use of energy”, the losses incurred during transformation1 and distribution2 are allocated to the final consumer of the energy rather than incorporating it all in the electricity generation sector.

Total energy consumption of primary fuels and equivalent was 202.7 million tonnes of oil equivalent (Mtoe) in 2014, 5.4% lower than in 2013. Fossil fuels remained the dominant source of energy supply in 2014; however, less primary fuel was consumed than in previous years. Energy consumption from fossil fuels in 2014 was at the lowest level since 1990 at 172.7 Mtoe. This represented 85.2% of total energy consumption.

Although fossil fuels are the main source of energy for consumption, other sources (including nuclear, net imports, and renewable and waste sources) are becoming increasingly important. Total energy consumption from other sources was 30.0 Mtoe in 2014, 2.7% higher than in 2013.

5 . Atmospheric emissions

Tables 12.3 and 12.4 show emissions of greenhouse gases, acid rain precursors (ARP) and other pollutants by industry for the UK.

Atmospheric emissions of greenhouse gases are widely believed to contribute to global warming and climate change. In 2014, emissions of greenhouse gases were estimated to be 608.6 million tonnes of carbon dioxide equivalent (mt CO_2e), the lowest level since 1990. Across the time series, the largest annual fall in emissions of greenhouse gases occurred in 2009, following the onset of the economic downturn in 2008, when emissions decreased by 8.5%. Between 2013 and 2014, emissions decreased by 33.0 mt CO_2e (5.1%). This was primarily due to reductions in carbon dioxide and methane emissions from the “energy supply, water and waste” sector.

Carbon dioxide (CO_2) was the dominant greenhouse gas, accounting for 84.8% of the UK’s total greenhouse gas emissions in 2014. The remainder of greenhouse gas emissions comprised methane (8.8%), nitrous oxide (3.6 %) and fluorinated gases (2.8%).

Acid rain can have harmful effects on the environment and is caused primarily by emissions of sulphur dioxide (SO2), nitrogen oxide (NOX) and ammonia (NH3). For comparability, all figures are weighted according to their acidifying potential, and presented as sulphur dioxide equivalents (SO2e). Since 1990, acid rain precursors (ARP) emissions have decreased sharply, falling by 72.2%, from 6.9 million tonnes of sulphur dioxide equivalent (mt SO2e) to 1.9 Mt SO2e in 2014. Between 2013 and 2014, ARP emissions increased slightly by 1.3%.

6 . Material flows

Table 12.5 presents economy-wide material flow accounts, which estimate the physical flow of materials through the UK economy. The quantity of materials extracted in the UK has been gradually declining and fell to 419 million tonnes in 2013, the lowest point since 2000. However, between 2013 and 2014, total domestic extraction increased by 3.8% to 435 million tonnes.

Biomass includes material of biological origin that is not from fossil, such as crops, wood and wild fish catch. In 2014, 136 million tonnes were extracted, 4 million tonnes more than in 2013 (132 million tonnes). Of this, crop residues, fodder crops and grazed biomass accounted for 66.2% (90 million tonnes).

Non-metallic minerals are mainly construction and industrial minerals, including limestone and gypsum, sand and gravel, and clays. There has been an overall fall in extraction of non-metallic minerals since 2000. However, extraction of non-metallic minerals increased by 7.7% between 2013 and 2014 (from 196 million tonnes to 211 million tonnes).

Fossil energy materials and carriers include coal, peat, crude oil and natural gas. Since 2000, extraction has continually decreased and fell to 88 million tonnes in 2014, 2.2% lower than in 2013 (90 million tonnes). The decline in the extraction of fossil energy materials is due primarily to a drop in North Sea oil and gas production.

Physical imports increased by 41.4% between 2000 and 2014, rising from 210 million tonnes to 297 million tonnes in 2014. Contrary to this, physical exports have gradually decreased, peaking at 197 million tonnes in 2002 and falling to 153 million tonnes in 2014 – the lowest point since 2000. The rise in imports partly offsets the decline in domestic extraction.

The physical trade balance (PTB) shows the relationship between imports and exports and is calculated by subtracting the weight of exports from the weight of imports3. The UK has a positive PTB, meaning that more materials and products are imported than are exported.

In 2000, the PTB was relatively small at 16 million tonnes. It generally increased until 2007, but then fell between 2008 and 2010 during the economic downturn. Since 2010, the PTB has increased, peaking at 148 million tonnes in 2013. However, the PTB decreased by 2.7% in 2014 (to 144 million tonnes). Despite this, the amount of materials and products that were imported (297 million tonnes) was almost twice the amount of materials and products that were exported (153 million tonnes), suggesting that the UK may be becoming more reliant on the production of materials in other countries.

Direct material input (DMI) (domestic extraction plus imports) measures the total amount of materials that are available for use in the economy.

Domestic material consumption (DMC) (domestic extraction plus imports minus exports) measures the amount of materials used in the economy, and is calculated by subtracting exports from DMI.

In 2014, the UK consumed 563 million tonnes of material, consisting of 205 million tonnes of non-metallic minerals (36.4%), 173 million tonnes of biomass (30.7%), 170 million tonnes of fossil fuels (30.2%) and 15 million tonnes of metal ores (2.7%).

Between 2000 and 2014, DMI and DMC decreased by 21.1% and 23.8% respectively. DMI and DMC have gradually declined since the start of the economic downturn in 2008. This indicates that fewer material resources were being used and consumed in the UK economy. DMI and DMC fell most sharply between 2008 and 2009 (decreasing by 11.4% and 12.2%, respectively). Between 2013 and 2014, DMI increased by 1.5%, from 721 million tonnes to 732 million tonnes. However, DMC decreased by 1.2%, from 570 million tonnes to 563 million tonnes.

7 . More information

There is more information about environmental accounts on the UK Environmental Accounts release page on our website.

Notes

1. Transformation losses are the differences between the energy content of the input and output product, arising from the transformation of one energy product to another.

2. Distribution losses are losses of energy product during transmission (for example, losses of electricity in the grid) between the supplier and the user of the energy.

3. The physical trade balance (imports minus exports) is defined in reverse to the monetary trade balance (exports minus imports). Physical estimates can differ quite significantly from monetary estimates.

Compendium

Flow of funds

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . Flow of funds

The tables in this chapter present estimates of stocks and flows of financial assets and liabilities by institutional sector and financial instrument.

Of these tables:

- table 13.1 presents flows (or transactions) of financial assets and liabilities for each institutional sector and lower-level financial instrument (financial account)
- table 13.2 presents levels (or stocks) of financial assets and liabilities for each institutional sector and lower-level financial instrument (balance sheet)
- tables 13.3.1 to 13.3.8 present both financial flows and stocks by institutional sector and financial instrument

Estimates for all the institutional sectors are brought together in this chapter, to allow changes in assets and liabilities to be compared across the sectors. Estimates for each individual sector are also published in the appropriate sector chapters in this publication.

These financial statistics are important for identifying the build-up of risks in the financial sector and for understanding financial connections among the institutional sectors and sub-sectors within the economy.

2 . What is flow of funds?

“Flow of funds” are the financial flows across sectors of the UK economy and the rest of the world. Information can be presented on debtor and creditor relationships and the changes in financial assets and liabilities in the economy. Flow of funds is based on the principle that the movement of all funds must be accounted for. Across the total economy (UK and the rest of the world), the total sources of funds must equal the total uses of funds and every financial asset transaction must have a counterpart liability transaction.

Since the recent global financial crisis, the international community has had an increased focus on the analysis of financial stability, and the development of improvements to the data which support that analysis. This is particularly important for those countries, like the UK, which have a significant financial sector. An important area identified internationally for improvement is the development of flow of funds counterpart statistics. These improve our understanding of how each individual sector may be exposed to the risk which may build up in other sectors. These statistics support macro-economic analysis and financial stability policy.

Counterpart statistics are not currently presented in this chapter. However, in response to the need for counterpart statistics, ONS and the Bank of England started the joint Flow of Funds Project in 2014. More information on the project and experimental counterpart statistics can be found on our Flow of Funds web pages.

Compendium

Glossary

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . A to B

Above the line

Transactions in the production, current and capital accounts which are above the net lending (positive) or net borrowing (negative) (financial surplus or deficit) line in the presentation used in the economic accounts. The financial transactions account is below the line in this presentation.

Accruals basis

A method of recording transactions to relate them to the period when the exchange of ownership of the goods, services or financial asset applies (see also cash basis). For example, Value Added Tax accrues when the expenditure to which it relates takes place, but Customs and Excise receive the cash some time later. The difference between accruals and cash results in the creation of an asset and liability in the financial accounts, shown as amounts receivable or payable (F.7).

Actual final consumption

The value of goods consumed by a sector but not necessarily purchased by that sector (see also final consumption expenditure, intermediate consumption).

Advance and progress payments

Payments made for goods in advance of completion and delivery of the goods and services. Also referred to as staged payments.

Asset boundary

Boundary separating assets included in creating core economic accounts (such as plant and factories, also including non-produced assets such as land and water resources) and those excluded (such as natural assets not managed for an economic purpose).

Assets

Entities over which ownership rights are enforced by institutional units, individually or collectively; and from which economic benefits may be derived by their owners by holding them over a period of time.

Balancing item

A balancing item is an accounting construct obtained by subtracting the total value of the entries on one side of an account from the total value for the other side.

Balance of payments

A summary of the transactions between residents of a country and residents abroad in a given time period.

Balance of trade

The balance of trade in goods and services. The balance of trade is a summary of the imports and exports of goods and services across an economic boundary in a given period.

Balance sheet

A statement, drawn up at a particular point in time, of the value of assets owned and of the financial claims (liabilities) against the owner of these assets.

Bank of England

This comprises S.121, the central bank sub-sector of the financial corporation’s sector.

Bank of England – Issue Department

This part of the Bank of England deals with the issue of bank notes on behalf of central government. It was formerly classified to central government though it is now part of the central bank and monetary authorities sector. Its activities include, among other things, market purchases of commercial bills from UK banks.

Basic prices

These prices are the preferred method of valuing gross value added and output. They reflect the amount received by the producer for a unit of goods or services, minus any taxes payable, plus any subsidy receivable on that unit as a consequence of production or sale (that is the cost of production including subsidies). As a result the only taxes included in the basic price are taxes on the production process – such as business rates and any vehicle excise duty paid by businesses – which are not specifically levied on the production of a unit of output. Basic prices exclude any transport charges invoiced separately by the producer.

Below the line

The financial transactions account which shows the financing of net lending (positive) or net borrowing (negative) (formerly financial surplus or deficit).

Bond

A financial instrument that usually pays interest to the holder. Bonds are issued by governments as well as by companies and other institutions, for example local authorities. Most bonds have a fixed date on which the borrower will repay the holder. Bonds are attractive to investors since they can be bought and sold easily in a secondary market. Special forms of bonds include deep discount bonds, equity warrant bonds, Eurobonds, and zero coupon bonds.

British government securities

Securities issued or guaranteed by the UK government; also known as gilts.

2 . C to D

Capital

Capital assets are those which contribute to the productive process so as to produce an economic return. In other contexts the word can be taken to include tangible assets (for example buildings, plant and machinery), intangible assets, and financial capital (see also fixed assets, inventories).

Capital formation

Acquisitions less disposals of fixed assets, improvement of land, change in inventories and acquisitions less disposals of valuables.

Capital Stock

A measure of the cost of replacing the capital assets of a country held at a particular point in time.

Capital transfers

Transfers that are related to the acquisition or disposal of assets by the recipient or payer. They may be in cash or kind and may be imputed to reflect the assumption or forgiveness of debt.

Cash basis

The recording of transactions when cash or other assets are actually transferred, rather than on an accruals basis.

Certificate of deposit

A short term interest-paying instrument issued by deposit-taking institutions in return for money deposited for a fixed period. Interest is earned at a given rate. The instrument can be used as security for a loan if the depositor requires money before the repayment date.

Chained volume measures

Chained volume measures are time series which measure gross domestic product (GDP) in real terms (that is excluding price effects). Series are calculated in the prices of the previous year and in current price and all of these two-year series are then "chain-linked" together. The advantage of the chain-linking method is that the previous period's price structure is more relevant than the price structure of a fixed period from further in the past.

Cost, insurance and freight (CIF)

The basis of valuation of imports for customs purposes, it includes the cost of insurance premiums and freight services. These need to be deducted to obtain the free on board (FOB) valuation consistent with the valuation of exports which is used in the economic accounts.

Classification of Individual Consumption by Purpose (COICOP)

An international classification which groups consumption according to its function or purpose. Thus the heading clothing, for example, includes expenditure on garments, clothing materials, laundry, and repairs. Used to classify the expenditure of households.

Combined use table

Table of the demand for products by each industry group or sector, whether from domestic production or imports, estimated at purchaser's prices. It displays the inputs used by each industry to produce their total output and separates out intermediate purchases of goods and services. The table shows which industries use which products. Columns represent the purchasing industries; rows represent the products purchased.

Commercial paper

This is an unsecured promissory note for a specific amount, maturing on a specific date. The commercial paper market allows companies to issue short-term debt directly to financial institutions, who then market this paper to investors or use it for their own investment purposes.

Compensation of employees

Total remuneration payable to employees in cash or in kind. Includes the value of social contributions payable by the employer.

Consolidated Accounts

Those accounts that are drawn up to reflect the affairs of a group of entities. For example, a ministry or holding company with many different operating agencies or subsidiary companies may prepare consolidated accounts reflecting the affairs of the organisation as a whole, as well as accounts for each operating agency or subsidiary.

Consolidated Fund

An account of central government into which most government revenue (excluding borrowing and certain payments to government departments) is paid and from which most government expenditure (excluding loans and National Insurance benefits) is paid.

Consumption

See final consumption, intermediate consumption.

Consumption of fixed capital

The amount of capital resources used up in the process of production in any period. It is not an identifiable set of transactions but an imputed transaction, which can only be measured by a system of conventions.

Corporations

All bodies recognised as independent legal entities that are producers of market output and whose principal activity is the production of goods and services.

Counterpart

In a double-entry system of accounting, each transaction gives rise to two corresponding entries. These entries are the counterparts to each other. Thus the counterpart of a payment by one sector is the receipt by another.

Debenture

A long-term bond issued by a UK or foreign company and secured on fixed assets. A debenture entitles the holder to a fixed interest payment or a series of such payments.

Depreciation

See consumption of fixed capital.

Derivatives (F.71)

Financial instruments whose value is linked to changes in the value of another financial instrument, an indicator or a commodity. In contrast to the holder of a primary financial instrument (for example a government bond or a bank deposit), who has an unqualified right to receive cash (or some other economic benefit) in the future, the holder of a derivative has only a qualified right to receive such a benefit. Examples of derivatives are options and swaps.

Dividend and Interest Matrix (DIM)

The Dividend and Interest Matrix represents property income flows related to holdings of financial transactions. The gross flows are shown in D.4 property income.

Direct investment

Net investment by UK or foreign companies in their foreign or UK branches, subsidiaries or associated companies. A direct investment in a company means that the investor has a significant influence on the operations of the company, defined as having an equity interest in an enterprise resident in another country of 10% or more of the ordinary shares or voting stock. Investment includes not only acquisition of fixed assets, stock building, and stock appreciation, but also all other financial transactions such as: additions to, or payments of working capital; other loans and trade credit; and acquisitions of securities. Estimates of investment flows allow for depreciation in any undistributed profits. Funds raised by the subsidiary or associate company in the economy in which it operates are excluded as they are locally raised and not sourced from the parent company.

Discount market

That part of the market dealing with short-term borrowing. It is called the discount market because the interest on loans is expressed as a percentage reduction (discount) on the amount paid to the borrower. For example, for a loan of £100 face value when the discount rate is 5%, the borrower will receive £95, but will repay £100 at the end of the term.

Double deflation

Method for calculating value added by industry chained volume measures, which takes separate account of the differing price and volume movements of input and outputs in an industry’s production process.

Dividend

A payment made to company shareholders from current or previously retained profits. Dividends are recorded when they become payable. See Dividend and Interest Matrix (DIM).

3 . E to F

ECGD

See Export Credit Guarantee Department.

Economically significant prices

These are prices whose level significantly affects the supply of the good or service concerned. Market output consists mainly of goods and services sold at "economically significant" prices, while non-market output comprises those provided free or at prices that are not economically significant.

Employee stock options

An employee stock option is an agreement made on a given date (the "grant" date) under which an employee may purchase a given number of shares of the employer's stock at a stated price (the "strike" price), either at a stated time (the "vesting" date) or within a period of time (the "exercise" period) immediately following the vesting date.

Enterprise

An institutional unit producing market output. Enterprises are found mainly in the non-financial and financial corporation's sectors but exist in all sectors. Each enterprise consists of one or more kind-of-activity units.

Environmental accounts

A satellite account describing the relationship between the environment and the economy.

Equity

Equity is ownership of a residual claim on the assets of the institutional unit that issued the instrument. Equities differ from other financial instruments in that they confer ownership of something more than a financial claim. Shareholders are owners of the company whereas bond holders are merely outside creditors.

European System of National and Regional Accounts (ESA)

An integrated system of economic accounts which is the European version of the System of National Accounts (SNA).

European Investment Bank

This was set up to assist economic development within the European Union. Its members are the member states of the EU.

Exchange Cover Scheme (ECS)

A scheme first introduced in 1969 whereby UK public bodies raise foreign currency from overseas residents, either directly or through UK banks, and surrender it to the Exchange Equalisation Account in exchange for sterling for use to finance expenditure in the United Kingdom. HM Treasury sells the borrower foreign currency to service and repay the loan at the exchange rate that applied when the loan was taken out.

Exchange Equalisation Account (EEA)

The government account with the Bank of England in which transactions in reserve assets are recorded. These transactions are classified to the central government sector. It is the means by which the government, through the Bank of England, influences exchange rates.

Export credit

Credit extended abroad by UK institutions, primarily in connection with UK exports but also including some credit in respect of third country trade.

Export Credit Guarantee Department (ECGD)

A non-ministerial government department, classified to the public corporations sector, the main function of which is to provide insurance cover for export credit transactions.

Factor cost

In the System of National Accounts 1968 this was the basis of valuation which excluded the effects of taxes on expenditure and subsidies.

Final consumption expenditure

The expenditure on those goods and services used for the direct satisfaction of individual needs or the collective needs of members of the community, as distinct from their purchase for use in the productive process. It may be contrasted with actual final consumption, which is the value of goods consumed but not necessarily purchased by that sector (see also intermediate consumption).

Financial auxiliaries (S.126)

Auxiliary financial activities are ones closely related to financial intermediation but which are not financial intermediation themselves, such as the repackaging of funds, insurance broking and fund management. Financial auxiliaries therefore include insurance brokers and fund managers.

Financial corporations (S.12)

All bodies recognised as independent legal entities whose principal activity is financial intermediation and/or the production of auxiliary financial services.

Financial intermediation

Financial intermediation is the activity by which an institutional unit acquires financial assets and incurs liabilities on its own account by engaging in financial transactions on the market. The assets and liabilities of financial intermediaries have different characteristics so that the funds are transformed or repackaged with respect to maturity, scale, risk etc., in the financial intermediation process.

Financial leasing

A form of leasing in which the lessee (the lease holder) contracts to assume the rights and responsibilities of ownership of leased goods from the lessor (the legal owner) for the whole (or virtually the whole) of the economic life of the asset. In the economic accounts this is recorded as the sale of the asset to the lessee, financed by an imputed loan (F.42). The leasing payments are split into interest payments and repayments of principal.

Financial Intermediation Services Indirectly Measured (FISIM)

FISIM represents the implicit charge for the service provided by monetary financial institutions paid for by the interest differential between borrowing and lending rather than through fees and commissions.

Fixed assets

Produced assets that are themselves used repeatedly or continuously in the production process for more than one year. They comprise buildings and other structures, vehicles and other plant and machinery, and also plants and livestock which are used repeatedly or continuously in production, for example fruit trees or dairy cattle. They also include intangible assets such as computer software, research and development and artistic originals.

Flows

Economic flows reflect the creation, transformation, exchange, transfer, or extinction of economic value. They involve changes in the volume, composition, or value of an institutional unit’s assets and liabilities. They are recorded in the production, distribution, and use of income and accumulation accounts.

FOB (free on board)

A FOB price excludes the cost of insurance and freight from the country of consignment but includes all charges up to the point of the exporting country's customs frontier.

Futures

Forward contracts traded on organised exchanges. They give the holder the right to purchase a commodity or a financial asset at a future date.

4 . G to H

Gilts

Bonds issued or guaranteed by the UK government. Also known as gilt-edged securities or British government securities.

Gold

The System of National Accounts (SNA) and the International Monetary Fund (IMF) (in the 6th Edition of its Balance of Payments Manual) recognise three types of gold:

- monetary gold, treated as a financial asset
- gold held as a store of value, to be included in valuables
- gold as an industrial material, to be included in intermediate consumption or inventories

The present treatment is as follows:

In the accounts a distinction is drawn between gold held as a financial asset (financial gold) and gold held like any other commodity (commodity gold). Commodity gold in the form of finished manufactures together with net domestic and overseas transactions in gold moving into or out of finished manufactured form (as in; for jewellery, dentistry, electronic goods, medals, and proof – but not bullion – coins) is recorded in exports and imports of goods.

All other transactions in gold (that is those involving semi-manufactures, for example rods and wire; or bullion, bullion coins or banking-type assets and liabilities denominated in gold, including official reserve assets) are treated as financial gold transactions and included in the financial account of the balance of payments.

The United Kingdom has adopted different treatment to avoid distortion of its trade in goods account by the substantial transactions of the London bullion market.

Grants

Voluntary transfer payments. They may be current or capital in nature. Grants from government or the European Union to producers are subsidies.

Gross

Key economic series can be shown as gross (as in, before deduction of the consumption of fixed capital) or net (as in, after deduction). Gross has this meaning throughout this publication unless otherwise stated.

Gross domestic product (GDP)

The total value of output in the economic territory. It is the balancing item on the production account for the whole economy. Domestic product can be measured gross or net. It is presented in the accounts at market (or purchasers') prices.

Gross fixed capital formation (GFCF)

Acquisitions less disposals of fixed assets and the improvement of land.

Gross national disposable income

The income available to the residents arising from GDP, and receipts from, less payments to, the rest of the world of employment income, property income and current transfers.

Gross national income (GNI)

GNI is gross domestic product less net taxes on production and imports, less compensation of employees and property income payable to the rest of the world, plus the corresponding items receivable from the rest of the world.

Gross value added (GVA) (B.1g)

The value generated by any unit engaged in production and the contributions of individual sectors or industries to gross domestic product. It is measured at basic prices, excluding taxes less subsidies on products.

Holding companies

A holding company is a purely financial concern which uses its capital solely to acquire interests (normally controlling interests) in a number of operating companies.

Although the purpose of a holding company is mainly to gain control and not to operate, it will typically have representation on the boards of directors of the operating firms.

Holding companies provide a means by which corporate control can become highly concentrated through pyramiding. A holding company may gain control over an operating company which itself has several subsidiaries.

Holding gains or losses

Profit or loss obtained by virtue of the changing price of assets being held. Holding gains or losses may arise from either physical or financial assets.

Households (S.14)

Individuals or small groups of individuals as consumers and in some cases as entrepreneurs producing goods and market services (where such activities cannot be hived off and treated as those of a quasi-corporation).

5 . I to J

Imputation

The process of inventing a transaction where, although no money has changed hands, there has been a flow of goods or services. It is confined to a very small number of cases where a reasonably satisfactory basis for the assumed valuation is available.

Index-linked gilts

Gilts whose coupon and redemption value are linked to movements in the retail prices index.

Institutional unit

Institutional units are the individual bodies whose data is amalgamated to form the sectors of the economy. A body is regarded as an institutional unit if it has decision-making autonomy in respect of its principal function and either keeps a complete set of accounts or is in a position to compile, if required, a complete set of accounts which would be meaningful from both an economic and a legal viewpoint.

Input–output

A detailed analytical framework based on supply and use tables. These are matrices showing the composition of output of individual industries by types of product and how the domestic and imported supply of goods and services is allocated between various intermediate and final uses, including exports.

Institutional sector

In the economic accounts the economy is split into different institutional sectors, that is, units grouped according broadly to their role in the economy. The main sectors are non-financial corporations, financial corporations, general government, households and non-profit institutions serving households (NPISH). The rest of the world is also treated as a sector for many purposes within the accounts.

Intellectual property products (AN.112)

Intellectual property products include mineral exploration, computer software, research and development and entertainment, literary or artistic originals. Expenditure on them is part of gross fixed capital formation. They exclude non-produced non-financial assets such as leases, transferable contracts and purchased goodwill, expenditure on which would be intermediate consumption.

Intermediate consumption

The consumption of goods and services in the production process. It may be contrasted with final consumption and capital formation.

International Monetary Fund (IMF)

A fund set up as a result of the Bretton Woods Conference in 1944, which began operations in 1947. It currently has 188 member countries (as of October 2014) including most of the major countries of the world. The fund was set up to supervise the fixed exchange rate system agreed at Bretton Woods and to make available to its members a pool of foreign exchange resources to assist them when they have balance of payments difficulties. It is funded by member countries’ subscriptions according to agreed quotas.

Inventories

Inventories consist of finished goods (held by the producer prior to sale, further processing, or other use) and products (materials and fuel) acquired from other producers to be used for intermediate consumption, or resold without further processing, as well as military inventories.

6 . K to L

Kind-of-activity unit (KAU)

An enterprise, or part of an enterprise, which engages in only one kind of non-ancillary productive activity, or in which the principal productive activity accounts for most of the value added. Each enterprise consists of one or more kind-of-activity units.

Liability

A claim on an institutional unit by another body which gives rise to a payment or other transaction transferring assets to the other body. Conditional liabilities, where the transfer of assets only takes place under certain defined circumstances, are known as contingent liabilities.

Life assurance

An insurance policy that, in return for the payment of regular premiums, pays a lump sum on the death of the insured. In the case of policies limited to investments which have a cash value, in addition to life cover, a savings element provides benefits which are payable before death. In the UK, endowment assurance provides life cover or a maturity value after a specified term, whichever is sooner.

Liquidity

The ease with which a financial instrument can be exchanged for goods and services. Cash is very liquid whereas a life assurance policy is less so.

Lloyd’s of London

The international insurance and reinsurance market in London.

7 . M to N

Marketable securities

Securities which can be sold on the open market.

Market output

Output of goods and services sold at economically significant prices.

Merchant banks

Monetary financial institutions whose main business is primarily concerned with corporate finance and acquisitions.

Mixed income

The balancing item on the generation of income account for unincorporated businesses owned by households. The owner or members of the same household often provide unpaid labour inputs to the business. The surplus is therefore a mixture of remuneration for such labour and return to the owner as entrepreneur.

Monetary financial institutions (MFIs) (S.121-S.123)

MFIs, as defined by the European Central Bank, consist of all institutional units included in the central bank (S. 121), deposit-taking corporations except the central bank (S1.22) and money market funds (S.123) subsectors.

Money market

The market in which short-term loans are made and short-term securities traded. “Short-term” usually applies to periods of under one year but can be longer in some instances.

NACE

The industrial classification used in the European Union. Revision 2 is the “Statistical classification of economic activities in the European Community in accordance with Commission Regulation (EC) No. 1893/2006 of 20th December 2006”.

National income

See gross national disposable income and real national disposable income.

Net

After deduction of the consumption of fixed capital. Also used in the context of financial accounts and balance sheets to denote, for example, assets less liabilities.

Non-market output

Output of own account production of goods and services provided free or at prices that are not economically significant. Non-market output is produced mainly by the general government and non-profit institutions serving households (NPISH) sectors.

Non-observed economy

Certain activities may be productive and also legal but are concealed from the authorities for various reasons – for example, to evade taxes or regulation. In principle these, as well as economic production that is illegal, are to be included in the accounts but they are by their nature difficult to measure.

Non-profit institutions serving households (NPISH) (S.15)

Non-profit institutions serving households (S.15). These include bodies such as charities, universities, churches, trade unions, and members' clubs.

8 . O to P

Operating leasing

The conventional form of leasing, in which the lessee makes use of the leased asset for a period in return for a rental, while the asset remains on the balance sheet of the lessor. The leasing payments are part of the output of the lessor, and the intermediate consumption of the lessee (see also Financial leasing).

Operating surplus

The balance on the generation of income account. Households also have a mixed income balance. It may be seen as the surplus arising from the production of goods and services before taking into account flows of property income.

Ordinary share

The most common type of share in the ownership of a corporation. Holders of ordinary shares receive dividends (see also equity).

Output for own final use (P.12)

Production of output for final consumption or gross fixed capital formation by the producer. Also known as own-account production.

Own-account production

Production of output for final consumption or gross fixed capital formation by the producer. Also known as output for own final use.

Par value

A security's face or nominal value. Securities can be issued at a premium or discount to par.

Pension funds (S.129)

The institutions that administer pension schemes. Pension schemes are significant investors in securities. Self-administered funds are classified in the financial accounts as pension funds. Those managed by insurance companies are treated as long-term business of insurance companies.

Perpetual inventory model (or method) (PIM)

A method for estimating the level of assets held at a particular point in time by accumulating the acquisitions of such assets over a period and subtracting the disposals of assets over that period. Adjustments are made for price changes over the period. The PIM is used in the UK accounts to estimate the stock of fixed capital and hence the value of the consumption of fixed capital.

Portfolio

A list of the securities owned by a single investor. In the balance of payments statistics, portfolio investment is investment in securities that does not qualify as direct investment.

Preference share

This type of share guarantees its holder a prior claim on dividends. The dividend paid to preference share holders is normally more than that paid to holders of ordinary shares. Preference shares may give the holder a right to a share in the ownership of the company (participating preference shares). However, in the UK they usually do not, and are therefore classified as bonds (F.3).

Prices

See economically significant prices, basic prices, purchasers' prices.

Principal

The lump sum that is lent under a loan or a bond.

Production boundary

Boundary between production included in creating core economic accounts (such as all economic activity by industry and commerce) and production which is excluded (such as production by households which is consumed within the household).

Promissory note

A security which entitles the bearer to receive cash. These may be issued by companies or other institutions (see commercial paper).

Property income

Incomes that accrue from lending or renting financial or tangible non-produced assets, including land, to other units. See also tangible assets.

Public corporations (S.11001 and S.12001)

These are public trading bodies which have a substantial degree of financial independence from the public authority which created them. A body is normally treated as a trading body when more than half of its income is financed by fees. A public corporation is publicly controlled to the extent that the public authorities appoint a majority of the board of management, or when public authorities can exert significant control over general corporate policy through other means. Since the 1980s many public corporations, such as British Telecom, have been privatised and reclassified within the accounts as private non-financial corporations. Public corporations can also exist in the financial sector.

Public sector

Central government, local authorities and general government

Purchasers' prices

These are the prices paid by purchasers. They include transport costs, trade margins and taxes (unless the taxes are deductible by the purchaser from their own tax liabilities).

9 . Q to R

Quasi-corporations

Unincorporated enterprises that function as if they were corporations. For the purposes of allocation to sectors and sub-sectors they are treated as if they were corporations, that is, separate units from those to which they legally belong. Three main types of quasi-corporation are recognised in the accounts: unincorporated enterprises owned by government which are engaged in market production, unincorporated enterprises (including partnerships) owned by households, and unincorporated enterprises owned by foreign residents. The last group consists of permanent branches or offices of foreign enterprises and production units of foreign enterprises which engage in significant amounts of production in the territory over long or indefinite periods of time.

Real national disposable income (RNDI)

Gross national disposable income adjusted for changes in prices and in the terms of trade.

Related companies

Branches, subsidiaries, associates or parents.

Related import or export credit

Trade credit between related companies, included in direct investment.

Rental

The amount payable by the user of a fixed asset to its owner for the right to use that asset in production for a specified period of time. It is included in the output of the owner and the intermediate consumption of the user.

Rents (D.45)

The property income derived from land and sub-soil assets. It should be distinguished in the current system from rental income derived from buildings and other fixed assets, which is included in output (P.1).

Repurchase agreement (repo)/reverse repo

This is short for “sale and repurchase agreement”. One party agrees to sell bonds or other financial instruments to other parties under a formal legal agreement to repurchase them at some point in the future – usually up to six months – at a fixed price. Reverse repos are the counterpart asset to any repo liability. Repo or reverse repo transactions are generally treated as borrowing or lending within other investment, rather than as transactions in the underlying securities. The exception is for banks, where repos are recorded as deposit liabilities. Banks' reverse repos are recorded as loans, the same as for all other sectors. Legal ownership does not change under a “repo” agreement. It was previously treated as a change of ownership in the UK financial account but under the SNA is treated as a collateralised deposit (F.22).

Reserve assets

Short-term assets which can be very quickly converted into cash. They comprise the UK's official holdings of gold, convertible currencies, special drawing rights and changes in the UK reserve position in the International Monetary Fund (IMF). Also included between July 1979 and December 1998 are European Currency Units acquired from swaps with the European Co-operation Fund, European Monetary Institute (EMI) and the European Central Bank (ECB).

Residents

These comprise general government, individuals, private non-profit-making bodies serving households and enterprises within the territory of a given economy.

Residual error

The term used in the former accounts for the difference between the measures of gross domestic product from the expenditure and income approaches.

Resources and uses

The term resources refers to the side of the current accounts where transactions which add to the amount of economic value of a unit or sector appear. For example, wages and salaries are a resource for the unit or sector receiving them. Resources are by convention put on the right side, or at the top of tables arranged vertically. The left side (or bottom section) of the accounts, which relates to transactions that reduce the amount of economic value of a unit or sector, is termed uses. To continue the example, wages and salaries are a use for the unit or sector that must pay them.

Rest of the world

This sector records the counterpart of transactions of the whole economy with non-residents.

10 . S to T

Satellite accounts

Satellite accounts describe areas or activities not dealt with by core economic accounts. These areas or activities are considered to require too much detail for inclusion in the core accounts or they operate with a different conceptual framework. Internal satellite accounts re-present information within the production boundary. External satellite accounts present new information not covered by the core accounts.

Saving (B.8g)

The balance on the use of income account. It is that part of disposable income which is not spent on final consumption and may be positive or negative.

Secondary market

A market in which holders of financial instruments can re-sell all or part of their holding. The larger and more effective the secondary market for any particular financial instrument the more liquid that instrument is to the holder.

Sector

See institutional sector

Securities

Tradable or potentially tradable financial instruments.

Standard Industrial Classification (SIC)

The industrial classification applied to the collection and publication of a wide range of economic statistics. The current version, SIC 2007, is consistent with NACE, revision 2. See the NACE section of the glossary for further details.

System of National Accounts (SNA)

The internationally agreed standard system for macroeconomic accounts. The latest version is described in System of National Accounts 2008.

Special drawing rights (SDRs) (F.12)

These are reserve assets created and distributed by decision of the members of the International Monetary Fund (IMF). Participants accept an obligation to provide convertible currency to another participant, when designated by the IMF to do so, in exchange for SDRs equivalent to three times their own allocation. Only countries with a sufficiently strong balance of payments are so designated by the IMF. SDRs may also be used in certain direct payments between participants in the scheme and for payments of various kinds to the IMF.

Special purpose entities (SPEs)

SPEs are generally organised or established in economies other than those in which the parent companies are resident; andengaged primarily in international transactions but in few or no local operations.

SPEs are defined either by their structure (for example, financing subsidiary, holding company, base company, regional headquarters), or their purpose (for example, sale and regional administration, management of foreign exchange risk, facilitation of financing of investment).

SPEs should be treated as direct investment enterprises if they meet the 10% criterion. SPEs are an integral part of direct investment networks as are, for the most part, SPE transactions with other members of the group.

Staged payments

See advance and progress payments.

Standardised guarantees

Standardised guarantees are normally issued in large numbers, usually for fairly small amounts, along identical lines. There are 3 parties involved in these arrangements; the debtor, the creditor and the guarantor. Either the debtor or creditor may contract with the guarantor to repay the creditor if the debtor defaults. The classic examples are export credit guarantees and student loan guarantees.

Subsidiaries

Companies owned or controlled by another company. Under Section 1159 of the Companies Act (2006) this means, broadly speaking, that another company either holds a majority of the voting rights in it, is a member of it and has the right to appoint or remove a majority of its board of directors, or is a member of it and controls alone (pursuant to an agreement with other members) a majority of the voting rights in it. The category also includes subsidiaries of subsidiaries.

Subsidies (D.3)

Current unrequited payments made by general government or the European Union to enterprises. Those made on the basis of a quantity or value of goods or services are classified as “subsidies on products” (D.31). Other subsidies based on levels of productive activity (for example numbers employed) are designated “other subsidies on production” (D.39).

Suppliers’ credit

Export credit extended overseas directly by UK firms other than to related concerns.

Supply table

Table of estimates of domestic industries' output by type of product. Compiled at basic prices and includes columns for imports of goods and services, for distributors' trading margins and for taxes less subsidies on products. The final column shows the value of the supply of goods and services at purchasers' prices. This table shows which industries make which products; columns represent the supplying industries, rows represent the products supplied.

Taxes

Compulsory unrequited transfers to central or local government or the European Union. Taxation is classified in the following main groups: taxes on production and imports (D.2), current taxes on income wealth and so on (D.5), and capital taxes (D.91).

Technical reserves (of insurance companies) (F.61)

These reserves consist of pre-paid premiums, reserves against outstanding claims, actuarial reserves for life insurance and reserves for with-profit insurance. They are treated in the economic accounts as the property of policy-holders.

Terms of trade

Ratio of the change in export prices to the change in import prices. An increase in the terms of trade implies that the receipts from the same quantity of exports will finance an increased volume of imports, so measurement of real national disposable income needs to take account of this factor.

Transfers

Unrequited payments made by one unit to another. They may be current transfers (D.5–7) or capital transfers (D.9). The most important types of transfers are taxes, social contributions, and benefits.

Treasury bills

Short-term securities or promissory notes which are issued by government in return for funding from the money market. Each week in the UK, the Bank of England invites tenders for sterling Treasury bills from the financial institutions operating in the market. European currency unit (ECU) or euro-denominated bills were issued by tender each month but this programme has now wound down; the last bill was redeemed in September 1999. Treasury bills are an important form of short-term borrowing for the government, generally being issued for periods of 3 or 6 months.

11 . U to Z

Unit trusts

Institutions within sub-sector S.123 through which investors pool their funds to invest in a diversified portfolio of securities. Individual investors purchase units in the fund representing an ownership interest in the large pool of underlying assets, giving them an equity stake. The selection of assets is made by professional fund managers. Unit trusts therefore give individual investors the opportunity to invest in a diversified and professionally managed portfolio of securities, without the need for detailed knowledge of the individual companies issuing the stocks and bonds. They differ from investment trusts in that the latter are companies in which investors trade shares on the Stock Exchange, whereas unit trust units are issued and bought back on demand by the managers of the trust. The prices of unit trust units therefore reflect the value of the underlying pool of securities, whereas the price of shares in investment trusts are affected by the usual market forces.

Uses

See resources and uses.

Use table

See combined use table.

United Kingdom (UK)

Broadly, in the accounts, the United Kingdom comprises Great Britain plus Northern Ireland and that part of the continental shelf deemed by international convention to belong to the UK. It excludes the Channel Islands and the Isle of Man.

Valuables

Goods of considerable value that are not used primarily for production or consumption but are held as stores of value over time,for example, precious metals, precious stones, jewellery and works of art.

Valuation

See basic prices, purchasers' prices, factor cost.

Value added

The balance on the production account: output less intermediate consumption. Value added may be measured net or gross.

Value Added Tax (VAT) (D.211)

A tax paid by enterprises. In broad terms an enterprise is liable for VAT on the total of its taxable sales but may deduct tax already paid by suppliers on its inputs (intermediate consumption). Therefore, the tax is effectively on the value added by the enterprise. Where the enterprise cannot deduct tax on its inputs the tax is referred to as non-deductible. VAT is the main UK tax on products (D.21).

Compendium

Acknowledgements and contacts

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
+44 (0)1633 455190

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1 . Acknowledgements

The Blue Book is a collaborative effort. We are grateful for the assistance provided by the various government departments and organisations that have contributed to this book.

2 . Contacts

For information about this publication please contact the editor: Emma Howley +44 (0)1633 455190 (blue.book.coordination@ons.gsi.gov.uk)

Specific data enquiries should be directed to the following:

Gross domestic product (GDP):

Matthew Hughes +44 (0)1633 455827 (gdp@ons.gsi.gov.uk)

Sector and financial accounts:

Phillip Davies +44 (0)1633 456492 (gdp@ons.gsi.gov.uk)

Household expenditure:

Gareth Powell +44 (0)1633 455969 (consumer.trends@ons.gsi.gov.uk)

Household income:

David Matthewson +44 (0)1633 455612 (saving.ratio@ons.gsi.gov.uk)

General government and public sector:

Jamie Pritchard +44 (0)1633 456722 (jamie.pritchard@ons.gsi.gov.uk)

Central government:

Bob Richards +44 (0)1633 456424 (bob.richards@ons.gsi.gov.uk)

Local government:

Katherine Mills +44 (0)1633 456367 (katherine.mills@ons.gsi.gov.uk)

Public corporations:

Vera Ruddock +44 (0)1633 455864 (vera.ruddock@ons.gsi.gov.uk)

Gross capital formation:

Alison McCrae +44 (0)1633 455250 (gcf@ons.gsi.gov.uk)

UK trade and transfers:

Katherine Kent +44 (0)1633 455829 (katherine.kent@ons.gsi.gov.uk)

Gross value added by industry:

Robert S Smith +44 (0)1633 451618 (robert.s.smith@ons.gsi.gov.uk)

Input-output supply and use tables and production accounts:

Robert Doody +44 (0)1633 455803 (robert.doody@ons.gsi.gov.uk)

Non-financial corporations:

Eric Crane +44 (0)1633 455092 (eric.crane@ons.gsi.gov.uk)

Financial corporations:

Daniel Wisniewski +44 (0)1633 456621 (daniel.wisniewski@ons.gsi.gov.uk)

Rest of the world:

Craig Taylor +44 (0)1633 456333 (craig.taylor@ons.gsi.gov.uk)

Capital stock:

Kate Davies +44 (0)1633 455617 (gcf@ons.gsi.gov.uk)

National balance sheet:

Kate Davies +44 (0)1633 455617 (gcf@ons.gsi.gov.uk)

Environmental accounts:

Suzanne Fry +44 (0)1633 456644 (environment.accounts@ons.gsi.gov.uk)

Flow of funds:

Stuart Deneen +44 (0)1633 456129 (stuart.deneen@ons.gsi.gov.uk)

Other customer enquiries:

ONS Customer Contact Centre +44 (0)845 601 3034 (info@statistics.gsi.gov.uk)

Media enquiries:

+44 (0)845 604 1858 (press.office@ons.gsi.gov.uk)

Compendium

Background notes

Contact:
Emma Howley
blue.book.coordination@ons.gsi.gov.uk
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13. Code of practice

1 . What do you think?

1. We welcome your feedback on this publication. If you would like to get in touch, please contact us via email: blue.book.coordination@ons.gsi.gov.uk.

2. As part of our user consultation, we are conducting a Blue Book survey. The aim of the survey is to find out:

   - how you use our statistics
   - your understanding of the data published
   - your views on the quality of the publication

   Your responses will help us improve some of our most important products. We will analyse the responses and publish a summary of the results over the forthcoming months.

   The survey will take about 10 minutes to complete and will close on 09 September 2016. All answers will remain anonymous. Our confidentiality statement has further details.

2 . Release policy

1. This release includes data available up to 2015. Data are consistent with Index of Production, published on 07 July 2016, the current price trade in goods data within UK trade, published on 08 July 2016 and Balance of Payments, Quarterly National Accounts and United Kingdom Economic Accounts, published on 30 June 2016.

3 . National Accounts Work Plan 2015 to 2018

1. On 16 May 2016 all stakeholders were invited to respond to our draft of the first edition of our Economic Statistics and Analysis Strategy (ESAS) to prioritise and guide ONS's work on economic statistics, inviting all stakeholders to comment by 30 June 2016. ONS has already produced a strategy for the National Accounts and the ESAS encompasses this and goes wider to cover all economic statistics.

   This strategy will be reviewed and updated annually in the light of changing needs and priorities, and availability of resources. Making explicit ONS's perceived priorities will allow greater scrutiny and assurance that these are the right ones. In addition, this ESAS will allow research and development priorities to be laid out, making it easier for external experts to see the areas where ONS would be particularly keen to collaborate.

4 . Continuous improvement of sources, methods and communication

1. Prior to publication, we published a series of articles detailing the changes and the impact they would have within Blue Book 2016; these can be found on the National Accounts articles page on our website.

5 . National accounts methodology and articles

1. We regularly publish national accounts methodological information and articles to provide more detailed information on developments within the national accounts. This includes supplementary analyses of data to

help with the interpretation of statistics and guidance on the methodology used to produce the national accounts.

6 . National accounts classification decisions

1. The UK national accounts are produced under internationally agreed guidance and rules set out principally in the European System of Accounts (ESA 2010) and the accompanying Manual on Government Deficit and Debt- Implementation of ESA 2010 – 2016 edition (MGDD) .

2. In the UK, we are responsible for the application and interpretation of these rules. Therefore we make classification decisions based upon the agreed guidance and rules.

7 . Economic context

1. We publish a monthly Economic Review, giving economic commentary on the latest GDP estimate and our other economic releases. The next article will be published on 3 August 2016.

8 . Important quality issues

1. Common pitfalls in interpreting series:

    - expectations of accuracy and reliability in early estimates are often too high
    - revisions are an inevitable consequence of the trade-off between timeliness and accuracy
    - early estimates are based on incomplete data

    Very few statistical revisions arise as a result of "errors" in the popular sense of the word. All estimates, by definition, are subject to statistical "error". In this context the word refers to the uncertainty inherent in any process or calculation that uses sampling, estimation or modelling. Most revisions reflect either the adoption of new statistical techniques or the incorporation of new information which allows the statistical error of previous estimates to be reduced. Only rarely are there avoidable "errors", such as human or system failures, and such mistakes are made quite clear when they do occur.

2. The quality of Blue Book estimates

    Unlike many of the short-term indicators we publish, there is no simple way of measuring the accuracy of the Blue Book dataset. All estimates, by definition, are subject to statistical uncertainty and for many well-established statistics we measure and publish the sampling error and non-sampling error associated with the estimate, using this as an indicator of accuracy. Since sampling is typically done to determine the characteristics of a whole population, the difference between the sample and population values is considered a sampling error. Non-sampling errors are a result of deviations from the true value that are not a function of the sample chosen, including various systematic errors and any other errors that are not due to sampling. The Blue Book dataset, however, is currently constructed from various data sources, some of which are not based on random samples or do not have published sampling and non-sampling errors available, making it very difficult to measure both error aspects and their impact on GDP. While development work continues in this area, like all other G7 national statistical institutes, we don't publish a measure of the sampling error or non-sampling error associated with this dataset.

9 . Reliability

1. Estimates for the most recent quarters are provisional and are subject to revision in the light of updated source information. We currently provide an analysis of past revisions in the GDP and other statistical bulletins that present time series.

   Our revisions to economic statistics page brings together our work on revisions analysis, linking to articles and revisions policies.

   Revisions to data provide 1 indication of the reliability of main indicators. Tables 3 and 4 provide a summary on the size and direction of the revisions that have been made to data covering a 5-year period. A statistical test has been applied to the average revision to find out if it is statistically significantly different from zero. An asterisk (*) shows if the result of the test is significant.

10 . Special events

1. Special events are events that are identifiable; they do not recur on a regular cycle (so are not targeted by seasonal adjustment) and have at least the potential to have an impact on statistics. As explained in our special events policy, it is not possible to separate the effects of special events from other changes in the series.

11 . VAT project

1. An article entitled HMRC VAT project update was published on 12 July 2016, the fifth in a series of articles. This article outlines the latest position of the VAT project, including next steps. Four previous articles have been published in this series:

   - HMRC VAT project update, 4 April 2016.
   - Feasibility study into the use of HMRC turnover data within Short-term Output Indicators and national accounts, 14 August 2015.
   - Exploitation of HMRC VAT data, 7 October 2015.
   - "HMRC VAT project update" 21 December 2015.

12 . Further information

1. You can get the latest copies of this and all our other releases through the release calendar on our website.
2. Details of the policy governing the release of new data are available from the media relations office.
3. We are committed to ensuring that all information provided is kept strictly confidential and will only be used for statistical purposes. Further details regarding confidentiality can be found on our website in the respondent charters for businesses and households.

13 . Code of practice

1. National Statistics are produced to high professional standards set out in the UK Statistics Authority's Code of Practice for Official Statistics. They undergo regular quality assurance reviews to ensure that they meet customer needs. They are produced free from any political interference.