Changes to National Accounts: Review of the Non-Profit Institutions Serving Household Sector

Executive summary

This article covers the changes to methods and data sources that compile the Non-Profit Institutions Serving Households (NPISH) sector that will be introduced when revised figures for the UK National Accounts, consistent with Blue Book 2014, are published in September 2014.

The change to the NPISH sector is as a result of ensuring comparability in measuring Gross National Income (GNI) across EU countries.

ONS have conducted a review of the units in the NPISH sector looking at both the methodology and data sources used to compile the estimates within the National Accounts. A number of improvements are being made to improve both quality and compliance with European System of Accounts 1995 (ESA95) guidance.

1 Introduction

Gross National Income (GNI) is an important statistic within the National Accounts. It is used in the calculation of a Member State’s contribution to the EU budget. Due to the operational importance, the EU Statistical Office (Eurostat) carries out regular audits of the methods and data used to estimate GNI. In 2012, following a comprehensive audit of the methods used across EU countries, a number of areas for improvement were identified which Member States have to address by 2014. The UK National Accounts, consistent with Blue Book 2014, will be published in September 2014 and will include improvements to methods and data to address these issues in respect to the UK.

One of the improvements is to the methods and data sources used to compile the NPISH sector estimates, this article provides a technical overview of associated methodology. This article does not provide a numerical assessment of the impact; this can be found in the article 'Impact of ESA95 changes on current price GDP estimates'.

ONS have completed a project to review each of the NPISH components and implement new data sources and methods, delivering as part of the package of ESA changes for the Blue Book 2014 publication.

During the review, each component of NPISH was scrutinised and the quality of existing data sources and methods considered. ONS worked closely with sector regulators, such as the Charities Commission and Trade Union Certification Office and data suppliers to find new suitable sources, updating methods to improve quality and ensure compliance with ESA95.

2 National Accounts concepts

2.1 Definition of NPISH sector

The NPISH sector is defined in the ESA95 as non-profit institutions which serve households. Their principal resources, apart from those derived from occasional sales are derived from voluntary contributions in cash or in kind from households in the capacity as consumers, from payments made by general government and from property income.1

In other words, the NPISH sector includes non-profit organisations that provide goods or services to households (i.e. the general public) and are funded predominantly by voluntary...
contributions from households, government grants and income from property. It is worth stating that the NPISH sector is not the same as the ‘third’ or ‘voluntary’ sectors due to classification differences specified by ESA95, although there is overlap.

The NPISH sector includes the following kinds of organisations:

- Charities, relief and aid organisations financed by voluntary transfers in cash or in kind from other institutional units
- Universities
- Further Education Colleges (classification decision awaiting implementation – see section 3.7)
- Trade Unions
- Political Parties
- Professional or learned societies
- Consumers’ associations
- Churches or religious societies
- Social, cultural, recreational and sports clubs

2.2 Valuation of Output

Within the National Accounts, output is valued at basic prices. However, as the NPISH sector is a non-market producer, providing its goods and services either free or below market value, the majority of their output is non-market. Non-market output is calculated as the cost of production. This will be made up of raw materials, labour costs and a charge for the depreciation of fixed assets such as machinery. This approach is known as the ‘sum of costs’ approach.

The NPISH sector may have market output where some goods and services are sold in a similar way to standard businesses at economically significant or market prices. This output is measured as standard output is measured – through the total sales figure.

3 Data sources and methodology

3.1 Current approach

The estimates for the sector, as published since the late 1990s, were benchmarked to historic sources of data and extrapolated forward annually using standard National Accounts forecasting techniques but reflected double counting between NPISH and other sectors having occurred due to incomplete implementation of classification changes.

An example of the issue with historic sources of data is the estimates for charities, which are based on a 1995 ONS Survey of Charities which is used as a benchmark and extrapolated forward.

3.2 New approach to be implemented in September 2014

The current methodology is outdated in terms of data sources and some methods redevelopment was required to bring it in line with the ESA95 guidance. The changes will be applied in Blue Book 2014, with revisions to data from 1997. Historic revisions pre-1997 are not currently compiled for the NPISH series which is in line with the ONS historic revisions policy; however, the potential to create a historic back series using the new approach is currently being investigated.

During the review, each component of NPISH was scrutinised and the quality of existing data sources and methods considered. ONS worked closely with sector regulators such as
the Charities Commission and the Trade Union Certification Office and data suppliers to find new suitable sources, updating methods to improve quality and ensure compliance with ESA95.

Following the review, estimates of the sector will better represent the sector’s contribution to the economy, as well as providing more reliable industry and product information with which to inform the Supply and Use table balancing process. As the data sources have been updated, using administrative accounts data rather than a fixed growth rate; the revised series will appear more volatile than previously.

The sources and methods are detailed below.

3.3 Charities

3.3.1 Data Source

Charities are the largest single component to feed into NPISH sector, comprising 51% of the sector’s total output in 2009.

The Charities Commission is the regulator for the charitable sector for England and Wales (separate regulators exist in Scotland and Northern Ireland) with the responsibility to regulate charities and maintain the charities register, a comprehensive list of all registered charities. Those charities over the annual income threshold of £5,000 (previously £10,000) have a legal obligation to submit annual accounts to the commission. The National Council for Voluntary Organisations (NCVO) and the Third Sector Research Centre (TSRC) compile an annual dataset random sample of the charities accounts from the Commission’s register (stratified by income). ONS has worked closely with NCVO to use these data to provide annual estimates for use in the National Accounts for charities.

This data set contains the detailed accounts information of around 10,000 charities each year and categories each variable in line with the Charities Statement of Recommended Practice (SORP) guidance for the accounts which tells charities where to include different types of income and expenditure within their accounts. As the data is an admin source, the coverage is good with very low rates of late or non-response (around 6% annually), which is accounted for as part of the grossing.

There are two exceptions to the requirement to submit accounts that are therefore not included in the data, excepted and exempt charities which we need to make adjustments for.

- charities which were granted ‘excepted ’ status in the 1958 Charities Act allowing certain groups of charities that, while still regulated by the Commission, are not required to submit accounts – these are churches or chapels belonging to some Christian denominations, schools charities, guide and scout groups and armed forces charitable service funds;
- exempt status meaning they are charities regulated elsewhere by a public body, for example the national museums and galleries.

The National Audit Office estimates that in 2012, excepted and exempt charities had a combined income of £400million2. We have taken on this estimate to ensure coverage of these charities and have adjusted for definitions and modelled the back series in line with the sampled charities growth using excepted National Accounts methods. This contributes less than 1% to NPISH total output.

The charities data also includes smaller, less specific components of NPISH; namely:

- Professional or learned societies
- Social, cultural, recreational and sports clubs
- Churches or religious societies

These organisations are predominantly registered charities; some, particularly small clubs and religious organisations, may be excepted or exempt charities.
As the data source is an administrative regulatory account source, there is around an 18 month lag in being able to provide real data to publications. The 18 month data gap will be filled with forecasting completed with up to date Charities Commission population income\(^3\), this is used to inform and validate the series which is updated with real data at the earliest opportunity.

### 3.3.2 Classifications

In order to correctly implement ESA95, it should be noted that not all charities are classified as NPISH. ESA95 states that:

‘If more than 50% of production costs are covered by sales, the institutional unit is a market producer and classified to the non-financial and financial corporations sectors; if less than 50% of production costs are covered by sales, the institutional unit is an other non-market producer and classified to the sector NPISH. But other non-market Non-Profit Institutions that are controlled and mainly financed by general government are classified to the general government sector.’\(^{11}\)

To employ this, a market test calculation was created to quantify the level of market output (or the value of total genuine ‘sales’ – see section 2.2) as a percentage of the production costs. This value of sales and production costs for each charity was done using the charities’ annual accounts\(^4\) and reconciling these to map to National Accounts concepts in line with ESA95.

For a charity to be classified as NPISH, a figure of less than 50% is required for the market test indicating that the majority of their production costs is covered by income from non-market sources. ESA95 also specifies that this market test must be consistent for more than one year, to reduce the impact of particularly large windfalls or unusual spending in one year giving charities the wrong sector classification. The dataset used has two years of data (taken from the annual reports), if the market test result is consistently below 50% for two consecutive years, the charity is classified as NPISH. If the market test result is not consistently below 50%, then the charities would fall into the private non-financial corporations (PNFC) sector. Once applied, this removes around 20% of charities from the NPISH sector, classifying them within the PNFC sector.

### 3.3.3 Trading Subsidiaries

It is not uncommon for charities to have trading subsidiaries from which to run the trading arms of the parent charity, for example charity shops. The Inter-Departmental Business Register (IDBR) is a comprehensive list of UK businesses that is used by government for statistical purposes, providing the main sampling frame for surveys of businesses carried out by the ONS.

Trading subsidiaries are commonly recorded separately from their parent charities on the IDBR and are thus captured by business surveys feeding into the private non-financial corporation sector. The charities data was adjusted to reconcile the overlap between the NCVO data and the IDBR in capturing these trading subsidiaries.

### 3.3.4 Adjustments

Between 2002 and 2007, there is no suitable data available for charities. For these years, the data have been modelled using back-casting techniques based on the years of actual data and population income totals from the Charities Commission to inform the model for the missing years. Methods used were consistent with National Accounts standard practice.

In order to make the data representative for the UK, adjustments need to be made to take account of the charities registered in Scotland and Northern Ireland. NCVO have provided ONS with the estimates from their sister organisations, the Scottish Council for Voluntary Organisations (SCVO) and the Northern Ireland Council for Voluntary Action (NICVA). They
have excluded those charities that have dual-registration (registered in more than one UK country) and therefore have removed the chance of double counting.

3.4 Higher Education

Universities constitute a large part of the NPISH sector, 47% of total NPISH output in 2009. Universities receive Government funding as well as fees from students and other income activities. Although still currently classified as non-market producers, these bodies are not controlled by Government according to the criteria for control set out in the Manual for Government Debt and Deficit and so are classified to the NPISH sector.

The Higher Education Statistics Agency (HESA) provides annual summary statistics on the income and expenditure of the university sector. A sample of universities’ annual accounts were analysed and used to calculate average ratios for the transactions required as part of the National Accounts framework. Data are available every year to 2012, forecasting will be used for the most recent periods until data are received.

3.5 Trade Unions

Trade Unions make up one of the smaller components of the NPISH sector in terms of economic contribution, contributing 2% of total NPISH output in 2009. Their main services are providing legal counsel, protection for members and conducting negotiations with other organisations. Considering the nature of their service provision, their expenditure is treated as non-market output compliant with ESA95. As of March 2012, there are 154 listed trade unions in the UK.

Trade Unions are regulated by the Certification Office and, like charities, have a legal obligation to submit annual accounts detailing their income, expenditure, assets and liabilities. However, the data held by the Certification Officer is not published to the level of detail required - only simple exploratory statistics are available.

To obtain the relevant detail of data, the 30 biggest Trade Unions by reported income was taken and their annual reports used to match the accounts to National Accounts concepts. The top 30 represent around 80% of trade union income. Data are available from 2002 – 2010; for those years where data are not available, the time series is modelled using methods consistent with National Accounts standard practice.

3.6 Political Parties

Political parties are the smallest component of NPISH in the UK based upon their contribution to GDP, contributing less than 1% to total NPISH output in 2009. The data obtained is from the Electoral Commission who regulates political party funding and spending. All registered Political Parties are required to submit annual accounts to the Commission. The Electoral Commission publishes total income and total expenditure which has been used to form the detailed National Accounts data series.

The main three political parties constitute 90% of all political party income. Due to the dominance of the three parties, the financial statements of the three were used to calculate the ratios needed to calculate detailed financial information from the total income and expenditure for the whole component to satisfy the National Accounts requirements.

3.7 Further Education Colleges

Further Education Colleges currently sit in the NPISH sector, however the ONS National Accounts Classification Committee made a decision that reclassifies further education colleges for the whole of the UK to the Government sector from 19935. The implementation of this classification decision has been delayed and is planned to be delivered in a package of work on the NPISH sector in 2016.

Please note, a subsequent change in governance has prompted a move for Further Education Colleges in England only from central government to NPISH from April 2012.
The Further Education College data comes from the Online System for Central Accounting and Reporting (OSCAR) data for Government expenditure. There have been no changes to the methods used in this area.

4 Impact of the changes

This article does not provide a numerical assessment of the impacts of implementing this change, however this can be found in an associated article ‘Impact of ESA95 changes on current price GDP estimates’.

This change has affected the level and growth of the NPISH output, intermediate consumption, gross value added and final consumption expenditure. As data sources have improved the coverage and updated the data, the impact is upward. This upward revision to NPISH final consumption expenditure will also feed into GDP, and as the change to data is now better estimating the size of the sector, an upward revision to GDP will also be seen.

The increase to non-market output is met by an increase to household final consumption expenditure as the households consume the goods and services that NPISH provide.

5 Future Developments

There is a scheme of work currently scheduled to be delivered in Blue Book 2016 which will further improve the NPISH estimates. As part of the European System of Accounts 2010 (ESA10) guidance, the NPISH sector must be split from the household sector throughout the National Accounts. They are currently shown as merged accounts within Blue Book and the UK Economic Accounts and this work will result in the delivery of a separate full sequence of accounts for the NPISH sector in its own right.

In addition to this work, National Accounts will be working with the Interdepartmental Business Register (IDBR) team to improve the coverage and classifications of the non-profit institutions on the register to improve data taken from this source.

ONS will also be implementing some historic classification decisions in order to bring the NPISH sector in line with these changes such as implementing the reclassification of further education colleges from the NPISH sector to the government sector.

6 Conclusions

In order to become compliant with the European System of Accounts 1995 a complete review has been undertaken of the units in the non-profit sector within the UK National Accounts. This has resulted in a large piece of work to revise methods and introduce updated data sources from 1997 to the current period, historic revisions are currently being investigated. Each component of NPISH was interrogated individually and the data and methods developed with a bottom up build approach.

ONS have worked closely with the National Council for Voluntary Organisations and the Third Sector Research Council to obtain data and expertise on the charitable sector, as well getting new data sources for trade unions and political parties from their regulators – the Certification Office and Electoral Commission and university data from the sectors statistics agency, HESA. Where the data has not provided for the whole population, adjustments have been made to gross to population income totals. For charities, a market test calculation has been developed and introduced to ensure compliance with the ESA95 guidance.

This work has been the first step in a schedule of work to improve the estimates of the sector and further work is being planned to ensure compliance with ESA2010.
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8 References


