

Improvements to the Non-Financial Balance Sheet

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Abstract

This article describes the improvements going to be made to the Non-Financial Balance Sheet 2012, using the European System of Accounts 1995 (ESA95) classifications and descriptions of assets. These will appear in chapter 10 of the Blue Book 2012. It explains the role of non-financial assets in the Non-Financial Balance Sheet and the asset boundary as defined in the System of National Accounts 1993 (SNA93) and in ESA95. It introduces the full classification of non-financial assets and maps these to previously published non-financial asset classifications. It also explains the conceptual change of removing non-marketable tenancy rights from the non-financial assets and quantifies the impact of this revision to net worth.

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Improvements to the National Balance Sheet

Introduction

This article follows from previous improvements described by Griffin (1975), West (1998) and Clifton-Fearnside (1999), as part of the continuous improvement process of the concepts, sources and methods used to compile estimates of National Accounts. Furthermore, in preparation for compiling estimates in line with the new European System of National Accounts 2010 (ESA 2010), ONS has recently reviewed the presentation of the National Balance Sheet.

The role of the National Balance Sheet

SNA93 defines the National Balance Sheet as a statement of a nation's value of assets owned and other financial claims and liabilities against the owner of those assets. Similarly ESA95 explains that the Balance Sheet enables users to identify net worth as the balancing item. Net worth is often used as a measure indicating the wealth of an economy. In the UK, the National Balance Sheet is

compiled annually for institutional sectors, by type of asset and at an aggregate level for the total economy. The National Balance Sheet appears in:

- Table 1.6.9 “UK summary of accounts” of the *“Blue Book”* (ONS 2011).
- Chapter 10 of the *“Blue Book”* (ONS 2011). This chapter was previously titled ‘The Non-Financial Balance Sheet’.
- The *“National Balance Sheet”* statistical bulletin (ONS 2011). This was previously titled the *“Non-Financial Balance Sheet”*.

In National Accounts, the balance sheet completes the sequence of accounts, showing the final position of the entries in the production, distribution and use of income and accumulation accounts.

There are three main parts:

1. The opening balance sheet: which shows the value of assets and liabilities at the beginning of the accounting period, for the total economy and for each sector. The layout includes assets on the left hand side, split into non-financial and financial whilst the right hand side exhibits financial liabilities. The balancing item of the opening balance sheet is the net worth at the opening period.
2. The changes in balance sheet: which shows how the value of assets and liabilities has changed. It shows the change in net worth due to:
 - saving and capital transfers
 - other changes in the volume of assets and
 - nominal holding gains/losses
 for the total economy and for each sector.
3. The closing balance sheet: which shows the value of assets and liabilities at the end of the accounting period for the total economy and for each sector. The value of an asset or liability in the closing balance sheets is equal to the sum of its value in the opening balance sheets and the amount recorded for each item in the changes in the balance sheet account.

The opening and closing balance sheet value for a given asset is represented by:

1. the value of the stock of a specific type of asset in the opening balance sheet.
2. the total value of the assets acquired, less the total value of those disposed of in transactions that take place within the accounting period.
3. the value of other positive and negative changes in the volume of the assets held for example, as a result of the discovery of a subsoil asset or the destruction of an asset (as a result of war or a natural disaster). These changes are recorded as ‘other changes in the volume of assets account’.

The value can also change due to holding gains and losses and these should be in the revaluation account.

Defining the asset boundary

To assist users in the analysis of net worth, it is important to define the asset boundary in the National Accounts terminology. All non-financial assets recorded in the National Balance Sheet are economic assets and we therefore distinguish between the economic and legal owner. A legal owner is the institutional unit entitled in law to claim the benefits associated with the asset. The economic owner is the institutional unit entitled to claim the benefits associated with the use of the asset in the course of an economic activity by virtue of accepting the associated risk.

Thus, economic benefits from these assets may be derived by their owners by simply holding them, as in the case of valuables or by using them over a period of time.

There are three exclusions from the asset boundary.

1. Human capital: as it does not meet the 'ownership rights' criteria.
2. Natural assets: that have no economic value or ownership is not enforced (for example, air).
3. Consumer durables: as they do not provide services to the production process and therefore are household final consumption expenditure.

Classifications in the National Balance Sheet

ESA95, distinguishes two broad types of non-financial assets; these are produced and non-produced. Produced non-financial assets are those assets which have 'come into existence as outputs from the production processes', (ESA95, p.128). They are separated into fixed assets, inventories and valuables. Non-produced assets are economic assets that come into existence other than through processes of production. They consist of tangibles such as land and subsoil assets and intangibles such as patented entities, leases and other transferable contracts. Annex A shows the full ESA95 classification of assets. Table 1 describes the non-financial asset classifications that will be included in the UK National Balance Sheet, to be published in 2012.

Table 1: Non-financial assets to be published in 2012 Balance Sheet

ESA95 code	Description
AN	Non-financial assets
AN.1	Produced assets
AN.11	Fixed assets
AN.111	Tangible fixed assets
AN.1111	Dwellings
AN.1112	Other buildings and structures
AN.11121	Non-residential buildings
AN.11122	Other structures
AN.1113	Machinery and equipment
AN.11131	Transport equipment
AN.11132	Plant and machinery
AN.1114	Cultivated assets
AN.112	Intangible fixed assets
AN.1129	Other intangible fixed assets
AN.12	Inventories
AN.2	Non-produced assets
AN.22	Intangible non-produced assets
AN.229	Other intangible non-produced assets

Previously the Balance Sheet included a breakdown of non-financial assets and a value for net financial assets/liabilities. The new layout of the National Balance Sheet will enable users to compare contributions to net worth from non-financial assets as well as financial assets and liabilities, making it a more transparent presentation. This presentation is also consistent with the ESA95 structure. Estimates for financial assets and liabilities are consistent with annual estimates published in the UK *Blue Book* classification of assets. Annex B provides a full description of each asset category consistent with ESA95 definitions.

Reclassifying the non-financial assets to the ESA95 classification of assets

Table 2 shows how the non-financial assets from the previously published non-financial balance sheet have been mapped to the non-financial assets classified in ESA95, enabling users to make a comparable analysis of the continuation in the time series.

The main difference in the reclassification exercise is that ESA95 identifies the main categories of non-financial assets as produced and non-produced assets, where the previous Balance Sheets focused on tangible and intangible assets.

Following international treatment of the sale of phone licenses (Stokoe, 2011) the asset Spectrum has been reclassified from a tangible asset to AN.229 as an intangible non-produced asset. This reclassification has no impact on the value of net worth.

Table 2: Mapping previous non-financial asset description to ESA95 code classification

Previous non-financial asset	ESA95 code	New non-financial asset
Non-financial assets	AN	Non-financial assets
Tangible assets	AN.111	Tangible fixed assets
Residential buildings	AN.1111	Dwellings
Agricultural assets	AN.1114	Cultivated assets
Commercial, industrial and other buildings	AN.11121	Non residential buildings
Civil engineering works	AN.11122	Other structures
Plant and machinery	AN.11132	Machinery and equipment
Vehicles, including ships, aircraft etc	AN.11131	Transport equipment
Inventories	AN.12	Inventories
Spectrum	AN.229	Other intangible non-produced assets
Intangible assets	AN.112	Intangible fixed assets
Non-marketable tenancy rights	n/a	
Other intangible assets	AN.1129	Other intangible fixed assets

Implementing conceptual changes

There has been one conceptual change in the compilation of the 2012 National Balance Sheet. Estimates for non-marketable tenancy rights no longer contribute to the net worth as they do not meet the definitions of an economic asset defined in ESA95 and described in the above section.

Non-marketable tenancy rights were previously recorded as intangible assets. They were derived from average house prices by region, from various administrative sources such as, the Office of the Deputy Prime Minister and council tax bands. These were divided by a proportion for the market value of properties with tenants for both local authorities and private sector, sourced in 1995 from the Department for the Environment, the Valuation Office Agency for local authority and private rented properties.

Revisions to net worth

Non-marketable tenancy rights were previously classified as a non-financial asset for the Households and Non-Profit Institutions Serving Households (NPISH) sector. Deducting the value of non-marketable tenancy rights from the Households and NPISH sector has reduced the net worth of the UK economy in 2010 by approximately £600 billion. This change has not had a significant impact on the value of non-financial assets as a percentage of net worth. Table 3 shows the revisions to net worth from 2001 to 2010 as a result of this conceptual change. Annex B compares the presentation of non-financial assets between the previous non-financial balance sheet and the 2012 National Balance Sheet.

Future developments

As the Office for National Statistics prepares for the implementation of the new ESA 2010, further developments will be introduced in the compilation of the National Balance Sheet. These include:

- working with environmental accounts who compile estimates in line with the United Nation System of Environmental-Economic Accounts (SEEA) to include estimates for non-produced assets such as sub-soil assets.
- working with new and existing sources to capture estimates for the level for valuables.
- working with existing survey source and other government departments to introduce estimates for new non-financial assets such as land underlying buildings and structures and other land and associated surface water, databases and weapons systems.
- Improving methodology to introduce the other changes in volume of assets account.
- Improving the methodology to develop a direct feed for annual capital stocks estimates into the values of non-financial assets.

For further information on ESA2010 changes please email ESA2010@ons.gov.uk.

Conclusion

This article provides details covering the latest set of improvements to non-financial assets and the National Balance Sheet and future developments. The new Balance Sheet published in 2012 will help users make a more comparable analysis of the key components contributing to net wealth by directly comparing non-financial assets with financial assets and liabilities. It will also enable users to make direct comparisons of National Balance Sheet components and net worth with other EU member states as it will include the ESA95 classification codes and will derive net worth without the value of non-marketable tenancy rights.

As part of our continuous engagement strategy, we welcome comments on how else we might improve the National Balance Sheets. If you have recommendations for the improvement of the National Balance Sheets, please see the contact information below.

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Background notes

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

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This document is also available on our website at www.ons.gov.uk.

Supporting Information

Glossary

For further information please contact

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References

1. References

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Annexes

A - Annex A: ESA95 Classification of Assets, sourced from Annex IV ‘Classifications and accounts’ page 287

<http://circa.europa.eu/irc/dsis/nfaccount/info/data/esa95/en/een00538.htm#1cb9d9d7>

B - Annex B: ESA95 Definition of Assets, Sourced from Annex 7.1 ‘Definition of each asset category’ pages 136-144

<http://circa.europa.eu/irc/dsis/nfaccount/info/data/esa95/en/een00338.htm>

C - [Annex C: New layout for the 2012 National Balance Sheet compared with the previous Non-Financial Balance Sheet](#)