

CORPORATE SERVICES PRICE INDEX (CSPI)

ACCOUNTANCY SERVICES

Introduction

This note summarises the state of play with the development of price indices for accountancy services in the UK and follows on from the paper presented by the Office for National Statistics (ONS) to the Voorburg group in October 1999.

That paper described how data collection had been suspended in April 1999 due to problems with switching contributors from one price collection mechanism to another. It was envisaged that the survey would recommence in early 2000 on a model price collection basis instead of the previously tried fee incomes approach. (The fee incomes approach consisted of collecting data on the total charges per period with a subsequent adjustment for productivity. It was only partially successful because gross fee incomes and the total chargeable hours were rarely provided on the same basis and productivity changes were not measured. Consequently a highly volatile index ensued.)

Current status: model prices

The recommencement has happened and there is also some experimentation with a more sophisticated fee incomes approach for some of the larger accountancy firms.

The model prices approach consists of selecting a real or hypothetical assignment and collecting the total value for that assignment: the change in the total value over time is then a proxy for price changes over time. The approach has been moderately successful so far in that several smaller companies have been willing to return data in such a format because they tend to have small contracts with local businesses which can be referred to relatively easily.

However, some difficulties were encountered with the very large companies such as KPMG, Deloitte and Touche and Ernst and Young. These large companies find it difficult to provide meaningful data for small, specimen contracts. Their contracts are often so large that they employ large numbers of staff from many different grades. The mix of staff often varies considerably from contract to contract.

Amended approach

As indicated in the Voorburg paper additional contributor support has been sought and Deloitte and Touche (D&T) have provided us with an approach which is being offered as an alternative for other large companies to use. It provides data for several different service activities (in line with the existing "family tree"), as they used to when using the fee income approach, e.g. auditing or taxation. However, instead of giving us one figure for a mix of grades they can provide data for each separate grade individually. This data can be modified and used to produce a model price.

The approach D&T have taken is on the basis of providing the kind of data shown in the following tables (dummy figures are given):

Activity heading: Auditing

Grade	Total billings for the quarter	Chargeable hours	Average billing rate
Partner	£167,000	680	£246
Senior Manager	£55,000	330	£167
Manager	£45,000	400	£113
Senior student	£25,000	550	£45
Junior student	£20,000	500	£40

Activity heading: Tax

Partner	£500,000	1200	£417
Senior Manager	£120,000	500	£240
Manager	£40,000	300	£133
Senior student	£30,000	450	£67
Junior student	£35,000	700	£50

As can be seen, there can be fairly large differences between the billing rates by grade for different activities, e.g. the partner has an average billing rate of only £246 when doing auditing but a rate of £417 when doing tax work. This is not unknown in smaller accountancy firms, e.g. they may have a standard charge-out rate for a partner but will supply a different achieved rate depending on the activity being performed. The achieved rate is the one we use.

The hours worked in a quarter by each grade of staff is fixed for a run of quarters, i.e. to represent a kind of standard contract. Actual average billing rates for each grade are then obtained each quarter and multiplied by the hours for each grade and the resulting products are summed to calculate a total cost for the activity. The resulting price relatives are then weighted according to the original sales (turnover) data that was supplied for the original item at recruitment.

The data supplied do not represent a true example contract with a specific client as used by smaller accountancy firms but represent the figure for all the work done by D&T in the quarter on a specific activity. It is regarded as an improvement on the fee income approach but it remains to be seen how much of an improvement it will actually be (data collection on this trial basis has only recently begun).

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