Office for National Statistics

Article

National Accounts Sector Classification: December 2015

The Office for National Statistics (ONS) assesses bodies and transactions against international rules to decide how they should be treated in the UK National Accounts. A small secretariat team gather and analyse the information required to enable the Economic Statistics Classifications Committee (ESCC) to reach a decision on the appropriate accounting treatment. There is high demand for assessments as well as a considerable volume of ad-hoc requests for advice on policy proposals and other issues. Meanwhile, the secretariat are initiating improvements to products such as the classifications information on our website and the Public Sector Classifications Guide. This update lists the cases that we expect to assess in 2016. These cases have been prioritised on the basis of the impact they will have on main statistics (an impact of at least £1 billion on the government deficit or £10 billion on government debt), their importance to public policy, and their priority for Eurostat (the statistical body of the European Union, which oversees member states' compliance with the European System of Accounts and other rules under which the UK statistics are produced). However, this list does not include other cases with smaller impacts which may be assessed in this period.

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1. Introduction

National Accounts provide a framework for describing and analysing what is happening in national economies. They are compiled according to internationally agreed definitions and standards, and in accordance with rules issued by Eurostat (the statistical body of the European Union). The ONS is responsible for the production of the UK National Accounts and Public Sector Finance statistics and hence for applying and interpreting the rules for the UK situation.

In these accounting frameworks, it is a fundamental principle that the economy is composed of a large number of "institutional units" such as businesses, government bodies, universities, hospitals, charities, and households; and that these individual units are classified into groups according to their characteristics for analytical purposes. One of the main classifications systems puts units into "institutional sectors" according to the different economic incentives they face. For example, businesses exist to make profits while some other units do not (such as government bodies, charities, and households), so this is one reason why these each belong to different institutional sectors.

Additionally, each unit engages in financial transactions, paying out and receiving money for reasons such as buying and selling goods and services, paying taxes, or collecting tax revenues. These transactions are also classified within the statistical system.

In the majority of cases the classification of units and transactions is straightforward, but in some cases detailed investigation is required to ensure the economic reality is reflected in the statistics. The ONS Economic Statistics Classifications Committee (ESCC) exists to consider such cases and recommend the appropriate statistical treatment. A published formal process is followed to agree the most appropriate classification of each unit and transaction. Decisions are authorised by the Chair of the ESCC, or by the Director of National Accounts and Economic Statistics, depending on the nature of the decision and size of the impact on main statistics such as the government debt or current deficit. More information on the classification process is available on our website.

Common decisions include:

- whether a body is in the private or public sector
- for public sector bodies, whether they are government bodies or public corporations
- whether certain transactions count as taxes or service fees

Classifications are particularly pertinent in the areas of public expenditure, revenues, borrowing, debt, and tax burden. This applies both domestically, and within the European Union where statistics based on the "European System of Accounts" (ESA) are used in:

- the Maastricht Treaty "Excessive Deficit Procedure" (EDP) measures, particularly for estimates of government debt and deficit, where they determine the "convergence criteria" for potential entrants to the monetary union, and performance against the Growth and Stability Pact for Eurozone members
- the measurement of Gross National Income (GNI), one of the main determinants of member states' contributions to the European Union's budget

It is a legal requirement for European Union countries to compile specified statistical returns on the basis of the ESA. From September 2014 onward, statistics have been compiled in accordance with the 2010 ESA (which replaced the 1995 ESA). The 2010 update is consistent with the 2008 revision of the System of National Accounts (SNA 2008) and is accompanied by updates to the Eurostat "Manual on Government Deficit and Debt" (MGDD). Under these new guidelines, information on classifying units has been extended and strengthened. Changes to the rules have driven the inclusion of several cases in this Forward Work Plan and the ONS will apply these latest guidelines going forward.

Since 1997, the UK fiscal policy frameworks have also been based on the National Accounts; fiscal policy objectives are described in terms of National Accounts aggregates and as a result main fiscal targets are dependent on National Accounts definitions and classifications.

There is high demand for classification assessments and at any one time we progress a number of active cases. This forward work plan highlights only those cases which will be prioritised due to:

- the significant impact they will have on main statistics (an impact of at least £1 billion on the government deficit or £10 billion on government debt)
- their importance to public policy
- their priority for Eurostat

As such, this forward workplan does not cover all cases which will arise over the coming year; further minor cases (with smaller statistical and policy impacts) will be assessed as resources allow. We often have to respond to external developments – including developments in government policy; such developments and unanticipated complexity of the cases being assessed may lead to delays in reaching final classification decisions. Where possible, reasons for delays compared with previous published timescales will be highlighted.

The published classification process allows government departments to seek classification advice on policy proposals during their development. As a result, a considerable volume of ad-hoc requests for advice on policy proposals and other issues are also received. These are not included in any published work plan unless details of the proposal are already in the public domain.

Given all of the above, this workplan provides an up-to-date list of the cases we expect to classify over the coming year.

2. Format of the work plan

The following section gives an overview of the cases we expect to classify over the next 12 months, in order of when they are expected to be completed. For each case, the following are listed:

- Current classification
- Reason for assessment - that is impact on main aggregates, policy needs, rules changes, Eurostat request

  Impact on Fiscal Aggregates – estimated scale of the potential impact of the decision on the UK or European Fiscal Measures (Public Sector Net Borrowing and Public Sector Net Debt for the UK, General Government Consolidated Gross Debt and General Government Net Borrowing for European measures). These are roughly defined as:

  - small: less than £100 million change
  - medium: between £100 million and £1 billion change
  - large: more than £1 billion change

- Impact on National Accounts aggregates (for example GDP), roughly classified as:

  - small - an insignificant/minor impact on aggregates
  - large - a significant/noticeable impact on aggregates
  - Period of expected completion

3. Cases scheduled for assessment

1. **Miscellaneous Pension Schemes**

   Current classification: pension funds

   Reason for assessment: ESA10 rules

   Impact on Fiscal Aggregates: large

   Impact on National Accounts: small

   Expected completion: January to March 2016

   ESA 2010 provided new rules on pension administrators, pension managers, pension funds, and multi-employer pension schemes. We will evaluate a number of pension schemes against these rules including the Railway Pension Scheme, Transport for London (TfL) pension scheme, Local Government pension scheme, and Crown Guarantee schemes. In particular, we will conclude an assessment of the National Audit Office (NAO) pension scheme, which is subject to a Crown Guarantee, in January 2016; this will help to inform the following assessment of other Crown Guarantee schemes.

2. **British Screen Finance Ltd.**

   Current classification: Public Non-Financial Corporation (S.11001)

   Reason for assessment: Eurostat Excessive Deficit Procedure (EDP) Mission action

   Impact on Fiscal Aggregates: small

   Impact on National Accounts: small

   Expected completion: January 2016

   Following the 2015 EDP Mission, in which Eurostat made a routine visit to the UK to discuss the EDP statistics, we have been requested by Eurostat to review the classification of British Screen Finance to assess whether it should remain classified as a Public Non-Financial Corporation or be recorded as a Public Financial Corporation. We will complete this assessment in order to meet this requirement.

3. **Hospitals built under the Scottish Government "Non-Profit Distributing" (NPD) model for Public-Private Partnerships (PPPs)**

   Current classification: not formally classified

   Reason for assessment: new units

   Impact on Fiscal Aggregates: medium

   Impact on National Accounts: small

   Expected completion: March 2016

   We will establish the correct statistical classification of 2 hospitals being constructed under the Scottish Government NPD model for PPPs: Edinburgh Children's Hospital and the Dumfries and Galloway Royal Infirmary.

4. **Pension Protection Fund**

   Current classification: Public Insurance Corporations and Pension Funds (S.12501)

   Reason for assessment: new rules in the 2014 Manual on Government Deficit and Debt (MGDD)

   Impact on Fiscal Aggregates: small

   Impact on National Accounts: small

   Expected completion: March 2016

   The Pension Protection Fund was established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation. In the 2014 MGDD, new rules on the treatment of "protection funds" were introduced; we are reviewing the classification of the Pension Protection Fund in accordance with those rules but are currently awaiting advice from Eurostat on a separate case which will act as a precedent.

5. **Priority School Building Programme**

   Current classification: not formally classified

   Reason for assessment: new government school building scheme, Eurostat priority

   Impact on Fiscal Aggregates: medium

   Impact on National Accounts: small

   Expected completion: March 2016

   We will establish the classification of contracts under the Priority Schools Building Programme, which are public-private partnerships under the UK government's new Private Finance 2 (PF2) model.

6. **Pensioner Bond Scheme**

   Current classification: not classified

   Reason for assessment: issuance of new government bonds

   Impact on Fiscal Aggregates: large

   Impact on National Accounts: small

   Expected completion: March 2016

   The government, through NS&I, has made available £10 to 15 billion of "65+ Guaranteed Growth Bonds". These are lump sum investments that earn a fixed rate of interest over set 1-year or 3-year terms. These bonds bear interest at above-market rates. We will establish how these bonds should be recorded in economic statistics.

7. **Food Standards Scotland**

   Current classification: not classified

   Reason for assessment: new unit

   Impact on Fiscal Aggregates: small

   Impact on National Accounts: small

   Expected completion: March 2016

   Food Standards Scotland was launched on 1 April 2015 to assume responsibilities for food safety in Scotland from the (formerly) UK-wide Food Standards Agency. We will establish the correct classification for this new unit.

8. **Transfers involving Households and Non-Profit Institutions Serving Households (NPISHs)**

   Current classification: not separately identified

   Reason for assessment: implementation of ESA2010 rules disaggregating the combined "Households and NPISH" sector

   Impact on Fiscal Aggregates: none

   Impact on National Accounts: small

   Expected completion: March 2016

   From 2017, the UK National Accounts will comply with new requirements under ESA 2010 whereby "Households" and "NPISH" are recorded as separate sectors rather than being combined in statistical presentations. As part of this, we will look at the classification of a number of transactions involving these parties including remittances of earnings into and out of the UK, payments of lottery winnings and charity scholarships for students.

9. **Universities**

   Current classification: Transactions not at economically significant prices.

   Reason for assessment: policy – significant increases in tuition fee maxima, and other changes in funding sources

   Impact on Fiscal Aggregates: not applicable

   Impact on National Accounts: medium

   Expected completion: April to June 2016

   From September 2012, the maximum tuition fees which could be charged by universities in England and Wales were increased from around £3,500 to £9,000. We will review the treatment of these fees in light of this change; in particular, whether tuition fees are now charged at "economically significant prices". This is relevant when assessing whether universities are "market" or "non-market" producers.

10. **Deadlock Joint Ventures**

    Current classification: private sector

    Reason for assessment: requirements in ESA10

    Impact on Fiscal Aggregates: small

    Impact on National Accounts: small

    Expected completion: April to June 2016

    ESA 2010 introduced new guidance on 50-50 joint ventures where control is precisely equally shared. In June 2015, we published the results of assessments on Manchester Airport Consortium, which concluded that it was indeed a 50-50 deadlocked joint venture and hence should be recorded as split 50-50 between the public and private sectors in accordance with the new ESA10 rules. We will now identify and establish the correct treatment of other such arrangements in light of this.

11. **Corporation Tax Relief Schemes**

    Current classification: payable/non-payable tax credits

    Reason for assessment: requirements in ESA10

    Impact on Fiscal Aggregates: none

    Impact on National Accounts: small

    Expected completion: July to December 2016

    The UK government operates a number of tax relief schemes which reduce the amount of corporation tax paid by firms undertaking certain activities (such as R&D or video games development for example). ESA10 changed the treatment of tax credit schemes, differentiating between "non-payable" schemes (where the amount of tax credit is limited by the size of the relevant corporation tax liability) and "payable" schemes (where tax credit exceeding the corporation tax liability is paid out to the beneficiary). We will assess UK corporation tax relief schemes in the context of these new rules.

12. **"Minor" Trust Ports**

    Current classification: varies (Central Government, Private Non-Financial Corporations)

    Reason for assessment: requests from units

    Impact on Fiscal Aggregates: small

    Impact on National Accounts: small

    Expected completion: July to December 2016

    Trust Ports are independent statutory bodies each governed by their own, unique, statutes and controlled by a local independent board. In October 2013, we announced that "major" Trust Ports (those which exceed the revenue threshold set out under Section 11 of the Ports Act 1991 – £9.0 million in July 2012, with this threshold adjusted for RPI inflation between periods), will continue to be treated as Public Corporations due to the power of the relevant government sponsoring body to choose to enforce their sale (that is privatisation) under Section 10 of the aforementioned Act and furthermore have the right to a legally defined share of the proceeds from such a sale.

    At the same time we undertook to consider trust ports with annual revenues below this threshold ("minor" Trust Ports) on a case-by case basis. We have been contacted by a number of such Trust Ports requesting classification reviews. We plan to begin considering these cases in 2016, subject to the demands of cases of higher priority.

13. **Energy Companies Obligation (ECO)**

    Current classification: not classified

    Reason for assessment: policy, developing rules from Eurostat

    Impact on Fiscal Aggregates: not known

    Impact on National Accounts: not known

    Other impacts: statistics on taxation

    Expected completion: not known

    ECO was introduced in 2013 as a package of measures aimed at helping to improve the environmental efficiency of UK residential buildings. It requires large energy providers to offer financial support for efficiency measures such as improving insulation or installing a new boiler. It also requires companies to provide assistance to low income and vulnerable households.

    The international guidelines on treatment for such schemes are unclear and this has been discussed on several occasions internationally. The issue is that, while in the real-world financial transactions flow directly from energy providers to consumers, these redistributive transactions would not occur without government impetus. One view is that such flows should be routed via government from energy firms to consumers, to reflect the tax-like nature of the situation. The re-routing of flows to reveal the economic reality of the transactions is an accepted practice in the European System of Accounts.

    However, there is international variation in the treatment of such transactions and this impacts the comparability of statistics on the tax burden in different countries. Further international rules are therefore being sought.

4. 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