Office for National Statistics

Article

Economic statistics sector classification - classification update and forward work plan: Mar 2016

The ONS assesses bodies and transactions against international rules to decide how they should be treated in the National Accounts. A small 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 team are continuing improvements to products such as the classifications information on the ONS website and the Public Sector Classifications Guide. This update lists the cases that ONS expects to assess between Quarter 2 (April-June) 2016 and Quarter 1 (January-March 2017). These cases have been prioritised on the basis of the impact they will have on key statistics (an impact of at least £1bn on the government deficit or £10bn 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.

Contact:
Daniel Ker
econstats.classifications@ons.gsi.gov.uk

Release date:
29 March 2016

Next release:
29 April 2016

Table of contents

1. Announcement

The Office for National Statistics (ONS) intends to make changes to this release in future. From the next edition (June 2016) onwards, the following changes will be made:

- forthcoming work will be categorised into decisions expected in the coming 3 months, and the following 9 months - this will cover the same period as current forward work-plans
- where decisions have been delayed, we will provide an update in the next forward work-plan

We hope these changes will make the release more transparent and easy to use. If you have any comments or questions please let us know at econstats.classifications@ons.gsi.gov.uk

2. 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). We are 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. Our 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 the ONS 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 work plan provides an up-to-date list of the cases we expect to classify over the coming year.

3. 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 (e.g. GDP), roughly classified as:
- small - an insignificant/minor impact on aggregates
- large - a significant/noticeable impact on aggregates
- period of expected completion

4. Cases scheduled for assessment

1. **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: April 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. ONS will establish how these bonds should be recorded in economic statistics.

2. **Lifetime ISA**

   Current classification: not classified

   Reason for assessment: Introduction of new government bonds

   Impact on Fiscal Aggregates: large

   Impact on National Accounts: small

   Expected completion: April 2016

   The government, through the 2016 Budget has announced the introduction of new bank accounts that can be opened by 18 to 40 year olds and will allow savers to contribute up to £4,000 a year. The government will pay a 25% bonus on each pound paid into the accounts up to an annual cap of £1,000 until the saver’s 50th birthday. ONS will establish how these payments should be recorded in economic statistics.

3. **Miscellaneous Pension Schemes**

Current classification: pension funds

Reason for assessment: ESA10 rules

Impact on Fiscal Aggregates: large

Impact on National Accounts: small

Expected completion: June 2016

ESA 2010 provided new rules on pension administrators, pension managers, pension funds, and multi-employer pension schemes. ONS 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. ONS has concluded the assessment of the National Audit Office (NAO), Bradford and Bingley, and BT pension schemes; all are subject to Crown guarantees, and that work will help inform the assessment of other Crown Guarantee schemes.

4. **Scottish Canals**

Current classification: central government

Reason for assessment: ESA10 rules

Impact on Fiscal Aggregates: small

Impact on National Accounts: small

Expected completion: June 2016

Scottish Canals was formed in July 2012 and classified to central government sector by ONS in September 2012 using 1995 European Systems of Accounts rules. The classification will be reviewed against the 2010 European System of Accounts to check whether the organisation is a market or non-market producer.

5. **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: June 2016

The ONS 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.

6. **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: July 2016

   The ONS 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.

7. **Universities**

   Current classification: Almost all universities classified as NPISHs; tuition fee payments (where relevant) classified as transactions not at economically significant prices

   Reason for assessment: policy - significant increases in tuition fee maxima (in England) and other changes in university funding

   Impact on Fiscal Aggregates: not applicable

   Impact on National Accounts: medium

   Expected completion: July 2016 to September 2016

   ONS will review the classification of universities in the UK based on the 2010 European System of Accounts rules, in particular rules for assessing whether institutional units are 'market' or 'non-market' producers.

8. **Grants paid to Private Registered Providers of social housing in England**

   Current treatment: Grants

   Reason for assessment: to clarify whether these receipts are indeed grants

   Impact on Fiscal Aggregates: medium

   Impact on National Accounts: small

   Expected completion: November 2016

   ONS will review this to determine the correct treatment of the transfers from the Homes and Communities Agency to Private Registered Providers of social housing used to develop properties.

9. **Registered providers of social housing (known also as registered social landlords in Wales) including registered housing associations in Wales, Scotland, and Northern Ireland**

Current classification: Private Non-Financial Corporations (S.11002)

Reason for assessment: Implementation of the 2010 European System of Accounts

Impact on Fiscal Aggregates: large

Impact on National Accounts: small

Expected completion: October 2016 to December 2016

ONS last assessed the classification of social housing providers in devolved governments in 2003 under the 1995 European System of Accounts rules. The existing classification will be reviewed to assess the impact of the latest 2010 European System of Accounts Rules and, where relevant, of changes in legislation which have occurred since the previous assessment. This will establish whether these bodies should be recorded in the public or private sectors for statistical purposes and whether they are market or non-market producers. Altogether, this will establish in which statistical sector their activities (including their assets and liabilities) should be recorded. As part of this review, ONS will also consider the classification of the associated social housing regulators where applicable.

10. **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: October 2016 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). ONS will assess UK Corporation Tax relief schemes in the context of these new rules.

11. "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: December 2016 to March 2017

Trust Ports are independent statutory bodies each governed by their own, unique, statutes and controlled by a local independent board. In October 2013, ONS 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 ONS undertook to consider trust ports with annual revenues below this threshold ("minor" Trust Ports) on a case-by case basis. ONS has been contacted by a number of such Trust Ports requesting classification reviews. ONS plans to begin considering these cases in 2016, subject to the demands of cases of higher priority.

12. Scottish Integration Joint Boards

Current classification: not classified

Reason for assessment: new/units requests from Scottish government

Impact on Fiscal Aggregates: small

Impact on National Accounts: small

Expected completion: December 2016 to March 2017

The Public Bodies (Joint Working) (Scotland) Act provides the framework with which to support the improvement of the quality and consistency of health and social care services in Scotland. This framework requires the integration of certain local authority services with health services. One of the proscribed methods of delivery requires the delegation of powers from both Health Boards and local authorities to a new integration joint board established as a body corporate, the Health Board and the local authority agreeing the amount of resources to be committed by each body to the integration joint board for the delivery of services to support the functions delegated.

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: December 2016 to March 2017

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.

5. Background notes

1. **Contact**

If you wish to hear more about any of the cases outlined in this work plan, or our other work, please email the Economic Statistics Classifications Team: econstats.classifications@ons.gsi.gov.uk