

Article

# Economic statistics sector classification - classification update and forward work plan: March 2018

Classification of units, transactions and assets for the purposes of economic statistics.

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# 1 . Introduction

Our economic statistics are produced in accordance with international rules and guidance. Central to this are the legally binding rules set forth in the European System of Accounts 2010: ESA 2010 and accompanying Manual on Government Deficit and Debt (MGDD). These include rules on classifying statistical units (organisations or bodies) and the transactions they engage in. A summary of these, and our approach to their application, can be found on our [economic statistics classification page](#).

The forward work plan sets out the units and transactions that we expect to assess and classify in the coming 12 months. There is high demand for classification assessments and at any one time we progress a number of active cases, with new cases often arising. These include confidential assessments of government and devolved administration policy proposals (as explained in our [classification process](#)); we do not announce or discuss such policy proposal assessments as a matter of course in order to afford policymakers the space to develop policy. At such a time that a policy is implemented we will publish a classification decision.

As such, the forward work plan does not cover all cases that will arise over the coming year; furthermore, minor cases (with smaller statistical and policy impacts) will be assessed as resources allow. The cases scheduled in this article have been prioritised due to:

- the significant impact they will have on important 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

We are currently reviewing the forward work plan and assessing the cases listed against current priorities. The outcome of this review will result in the removal of cases that are no longer deemed to be a priority; this will take place in next month's forward work plan.

## 2 . Impacts on fiscal aggregates

Approximate potential impacts on fiscal and/or national accounts are given. The fiscal aggregates are:

- 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

The impact described would occur only if an organisation's classification status changes from public to private sector (or the other way around), or if a new organisation is classified to the public sector. Transactional classifications can also impact the fiscal aggregates.

For indicative impacts on fiscal aggregates the following definitions are used:

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

The main national accounts aggregates include gross domestic product (GDP), gross national income and the households' saving ratio.

Impact on national accounts aggregates (for example, GDP), are roughly classified as:

- small – an insignificant or minor impact on aggregates
- large – a significant or noticeable impact on aggregates

This work plan includes an “update” section within each classification or case. An update is only included if the case has been listed in a previous forward work plan but the expected completion date has changed. 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 . Cases scheduled for assessment**

### **1. Pensioner Bond Scheme**

Current classification: not classified

Reason for assessment: issuance of new government bonds

Potential impact on fiscal aggregates: large

Potential impact on national accounts: small

Expected completion: April 2018

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

Update: completion was originally expected in April 2016. Due to resource issues and competing priorities, the assessment is still ongoing but is expected to reach completion in April 2018.

### **2. Friendly societies**

Current classification: not yet classified

Reason for assessment: new detail required as part of the European System of Accounts 2010: ESA 2010 non-profit institutions serving households (NPISH) and households split

Potential impact on fiscal aggregates: none

Potential impact on national accounts: small

Expected completion: within 12 months

Friendly societies are mutual organisations in the UK that provide financial services for their members. They offer members a wide range of affordable savings, investments, insurance, pensions and specialist annuities and provide other help when needed. This assessment will confirm the classification of such organisations in the context of the rules laid out in the ESA 2010 and whether they should be classified as NPISHs or as a different kind of unit.

Update: completion was originally expected in August 2016. Due to resource issues and competing priorities, the assessment is still ongoing but is expected to reach completion within 12 months.

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

Current treatment: capital transfers

Reason for assessment: to clarify the correct statistical recording of government payments to registered providers

Potential impact on fiscal aggregates: medium

Potential impact on national accounts: small

Expected completion: within 12 months

Private Registered Providers receive “grants” from the Homes and Communities Agency (central government body) to develop or purchase properties to be used for social housing.

Providers fund their developments using a combination of commercially obtained loans or long-term bonds and the Social Housing Grant (SHG) or Housing Action Grant (HAG).

If a provider subsequently disposes of a property, the outstanding amount of SHG or HAG must either be reinvested into new affordable housing or repaid to the Homes and Communities Agency.

Update: this assessment was included in the June 2016 forward work plan with completion brought forward to September 2016 from November 2016 so that it could be done alongside the assessment of Private Registered Providers of social housing in Scotland, Wales and Northern Ireland. Due to competing priorities, the assessment is still ongoing.

### **4. Universities**

Current classification: almost all universities are classified as non-profit institutions serving households (NPISH); tuition fee payments (where relevant) are classified as transactions not at economically significant prices.

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

Potential impact on fiscal aggregates: not applicable

Potential impact on national accounts: medium

Expected completion: within 12 months

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

## 5. Lifetime ISA

Current classification: not classified

Reason for assessment: introduction of new government bonds

Potential impact on fiscal aggregates: large

Potential impact on national accounts: small

Expected completion: within 12 months

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. We will establish how these payments should be recorded in economic statistics.

Update: this assessment was included in the March 2016 forward work plan with completion expected in April 2016. However, it was found that there was insufficient detail available about the practical working of the scheme at that time and so the assessment will recommence once such detail becomes available; this is expected in 2018.

## 6. "Minor" trust ports

Current classification: varies (central government, private non-financial corporations)

Reason for assessment: requests from units

Potential impact on fiscal aggregates: small

Potential impact on national accounts: small

Expected completion: within 12 months

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 Retail Price Index (RPI) inflation between periods), will continue to be treated as public corporations. This is because of 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 its 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 2018, subject to the demands of higher-priority cases.

## **7. Energy Companies' Obligation (ECO)**

Current classification: not classified

Reason for assessment: policy, developing rules from Eurostat

Potential impact on fiscal aggregates: not known

Potential impact on national accounts: not known

Other impacts: statistics on taxation

Expected completion: within 12 months

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 2010.

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.

Update: in March 2016, Eurostat published a new version of the MGDD, which included a new section with guidance on some situations where transactions should be rerouted. These are not readily applicable to UK schemes such as ECO but Eurostat has committed to further work to provide guidance on other situations where transactions should be re-routed. As such, we need to await the outcome of this work.

## **8. Local Enterprise Partnerships (LEPs)**

Current classification: not classified

Reason for assessment: policy

Potential impact on fiscal aggregates: small

Potential impact on national accounts: small

Expected completion: within 12 months

Local Enterprise Partnerships (LEPs) are non-statutory partnerships between the public sector (mainly local authorities) and the private sector. In England there are 38 LEPs actively championed by the Ministry for Housing, Communities and Local Government and the Department for Business, Energy and Industrial Strategy (BEIS). Each LEP is designed to represent a functional economic area.

LEPs are responsible for developing and maintaining their Strategic Economic Plan and determining the key funding priorities to which the Local Growth Fund and other resources should be directed. They identify barriers and solutions to growth and work with local partners to improve the local business environment. This assessment will confirm the classification of LEPs in the context of the rules laid out in the ESA 2010 and accompanying MGDD.

## **9. UK visa fees**

Current classification: fees (payments for non-market output)

Reason for assessment: policy

Potential impact on fiscal aggregates: small

Potential impact on national accounts: small

Expected completion: within 12 months

Visa fees are charged for placing an endorsement within a passport that grants the holder official permission to enter, leave or stay in UK for a specified time period. UK visa fees vary depending on the type of visa application.

This assessment will confirm the classification of the various UK visa fees in the context of the rules laid out in the ESA 2010.

## **10. Welsh Revenue Authority**

Current classification: not classified

Reason for assessment: policy

Potential impact on fiscal aggregates: small

Potential impact on national accounts: small

Expected completion: within 12 months

The Welsh Revenue Authority (WRA) will be responsible for the collection and management of Welsh devolved taxes (Land Transaction Tax and Landfill Disposals Tax) from April 2018. The WRA will support the development of Welsh Government tax policy and provide information, advice and assistance about devolved taxes to Welsh Ministers and taxpayers.

This assessment will confirm the classification of WRA in the context of the rules laid out in the ESA 2010 and accompanying MGDD.

## **11. Scottish Fiscal Commission**

Current classification: not classified

Reason for assessment: policy

Potential impact on fiscal aggregates: small

Potential impact on national accounts: small

Expected completion: within 12 months

The Scottish Fiscal Commission (SFC) informs the Scottish Government's budget by preparing independent forecasts and assessments. It is responsible for preparing reports containing five-year forecasts of receipts from devolved taxes including Non-domestic Rates Income, Land Buildings and Transactions Tax, Scottish Landfill Tax, Air Passage Duty and Income Tax.

This assessment will result in the classification of SFC in the context of the rules laid out in the ESA 2010 and accompanying MGDD.

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