Office for National Statistics

Article

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

This forward work plan sets out the units and transactions which we expect to assess and classify in the coming 12 months.

Contact:
David Beckett
david.beckett@ons.gsi.gov.uk

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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 and 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.

This forward work plan sets out the units and transactions which 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. These include confidential assessments of government and devolved administration policy proposals (as explained in our classification process document); we do not announce or discuss such policy proposal assessments as a matter of course in order to afford policy-makers the space to develop policy. At such a time that a policy is implemented we will publish a classification decision.

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

- the significant impact they will have on key 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

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.

2 . Impacts on fiscal aggregates

Approximate potential impacts on fiscal and/or national accounts are given in this section.

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 would occur if a unit is classified into the public sector or reclassified from public to private. 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 household savings ratio.

The 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

As announced in the March 2016 Forward Work Plan 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.

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: October 2016

   The government, through National Savings and Investment (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.

   Update: Completion was originally expected in April 2016. Due to resource issues and competing priorities the assessment is still on-going but is expected to reach completion in October 2016.

2. **Scottish Canals**

Current classification: Central government

Reason for assessment: ESA10 rules

Potential impact on fiscal aggregates: small

Potential impact on national accounts: small

Expected completion: October 2016

Scottish Canals was formed in July 2012 and classified to the central government sector in September 2012 using 1995 European System of Accounts rules. The classification will be reviewed against 2010 European System of Accounts to check whether the organisation is a market or not market producer.

Update: Completion was originally expected in June 2016. Due to resource issues and competing priorities the assessment is still on-going but is expected to reach completion in October 2016.

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

Potential impact on fiscal aggregates: medium

Potential impact on national accounts: small

Expected completion: October 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.

Update: This assessment was included in the March 2016 Forward Work Plan with completion originally expected in June 2016. The June 2016 Forward Work Plan revised the completion date to September 2016. Due to competing priorities the assessment is still on-going but the team responsible for PPP statistics expects to complete the assessment of NPD hospitals in October 2016.

4. **St. Mary's University College Belfast**

Current classification: Central government

Reason for assessment: policy priority, governance changes

Potential impact on fiscal aggregates: small

Potential impact on national accounts: small

Expected completion: October 2016

In October 2010, we concluded a review of St. Mary's University College Belfast - classifying it into the central government sector due to Northern Ireland Executive controls over the university's borrowing. Since that time, changes have been made and this review will establish if these should lead to a change of classification

Update: This assessment was included in the June 2016 Forward Work Plan with completion originally expected in August 2016. Due to resource issues and competing priorities the assessment is still on-going but is expected to reach completion in October 2016.

5. **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

Potential impact on fiscal aggregates: medium

Potential impact on national accounts: small

Expected completion: November 2016

Private registered providers receive "grants" from the Homes and Communities Agency (central government body) to develop properties to be used for social housing.

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

If a provider subsequently disposes of a property, the outstanding amount of SHG/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 Registered Providers of Social Housing in Scotland, Wales and Northern Ireland. Due to competing priorities the assessment is still on-going but it is expected to reach completion in November 2016.

6. **Scottish Integration Joint Boards**

Current classification: not classified

Reason for assessment: new units, policy priority

Potential impact on fiscal aggregates: small

Potential impact on national accounts: small

Expected completion: November 2016

The Public Bodies (Joint Working) (Scotland) Act 2014 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 prescribed 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.

Update: In the June 2016 Forward Work Plan, completion was originally expected to be within 12 months; this has been brought forward due to statistical and policy priority.

7. **Miscellaneous pension schemes**

Current classification: Pension funds

Reason for assessment: ESA10 rules

Potential impact on fiscal aggregates: large

Potential impact on national accounts: small

Expected completion: December 2016

ESA 2010 provided new rules on pension administrators, pension managers, pension funds, and multi-employer pension schemes. We have been assessing various schemes in the context of these rules and have published classification decisions on the Bradford & Bingley pension scheme, British Coal Staff Superannuation Scheme, Mine Workers' Pension Scheme, BT Pension Scheme, National Library of Wales Pension Scheme, National Museum of Wales Pension Scheme, Audit Commission Pension Scheme, BBC Pension Scheme, Local Government Pension Scheme and Transport for London (TfL) Pension Scheme in 2016. We are continuing this work to evaluate a number of pension schemes against these rules including the Railway Pension Scheme and Crown Guarantee schemes.

Update: This assessment was included in the March 2016 Forward Work Plan with expected completion revised to September 2016 in the June 2016 Forward Work Plan. Due to competing priorities the assessment is still on-going with several schemes still to be assessed but it is expected to reach completion in December 2016.

8. **Friendly societies**

Current classification: not yet classified

Reason for assessment: new detail required as part of ESA 2010 non-profit institutions serving households (NPISH)/household split

Potential impact on fiscal aggregates: none

Potential impact on national accounts: small

Expected completion: December 2016

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 on-going but is expected to reach completion in December 2016.

9. **Priority School Building Programme**

Current classification: not formally classified

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

Potential impact on fiscal aggregates: medium

Potential impact on national accounts: small

Expected completion: December 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.

Update: This assessment was included in the June 2016 forward work plan with expected completion dependent on us receiving input from Eurostat prior to taking this case to completion. As we are still awaiting input from Eurostat, the completion date has been revised to December 2016.

10. **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 2010 European System of Accounts rules, in particular rules for assessing whether institutional units are "market" or "non-market" producers.

11. **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 later in 2016.

12. **"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 that 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. **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)

Potential impact on fiscal aggregates: small

Potential impact on national accounts: small

Expected completion: within 12 months

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.

Update: This assessment was included in the December 2015 Forward Work Plan with completion expected in March 2016. However, in order to complete this assessment, input is awaited from Eurostat on a separate case which will provide clarity on the correct interpretation of the new rules around protection funds in the MGDD.

14. **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.

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 Manual on Government Deficit and Debt (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 rerouted. As such, we need to await the outcome of this work.

4 . 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