

National Accounts Classifications, Forward Workplan, June 2015

Author Name(s): Daniel Ker, Office for National Statistics

Abstract

The ONS assesses bodies and transactions against international rules to decide how they should be treated in the National Accounts. A small secretariat team gather and analyse the information required to enable the National Accounts Classifications Committee (NACC) 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 the ONS website and the Public Sector Classifications Guide. This update lists the cases that ONS expects to assess in the coming year (Q3 2015 to Q2 2016). 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.

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 National Accounts Classifications Committee (NACC) 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 NACC, or by the Director of National Accounts and Economic Statistics, depending on the nature of the decision and size of the impact on key 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' 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; and
- 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 key fiscal targets are dependent on National Accounts definitions and classifications.

There is high demand for classification assessments and at any one time ONS progresses 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 key statistics (an impact of at least £1bn on the government deficit or £10bn 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. ONS often has 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 to 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 workplan 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 ONS expects to classify over the coming year.

Format of the Work Plan

The following section gives an overview of the cases ONS expects 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 - i.e. impact on key 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

Cases scheduled for assessment

1. Aberdeen Western Peripheral Route

Current classification: not classified

Reason for assessment: new infrastructure project

- Impact on Fiscal Aggregates: medium
- Impact on National Accounts: small

Expected completion: July 2015

The Scottish Government has contracted a private consortium to construct a new 58km road with an expected completion in 2017. ONS will establish the appropriate classification for the venture in economic statistics.

2. English Heritage/Historic England

Current classification: Central Government (S.1311)

Reason for assessment: split of English Heritage into two new units; 'The English Heritage Trust' (retaining the name 'English Heritage') and 'Historic England'

- Impact on Fiscal Aggregates: small
- Impact on National Accounts: small

Expected completion: July 2015

From 1 April 2015, English Heritage separated into two organisations:

Historic England, the new public body that champions and protects England's historic environment, and The English Heritage Trust, a new independent charity, retaining the name English Heritage. This review will establish the nature of these new organisations and the institutional sector(s) they should be classified to.

3. Food and Environment Research Agency (FERA)/FERA Science Ltd.

Current classification: Central Government (S.1311)

Reason for assessment: transfer of responsibilities from FERA to FERA Science Limited.

- Impact on Fiscal Aggregates: small
- Impact on National Accounts: small

Expected completion: July 2015

On 1 April 2015 the business and operations of the Food and Environment Research Agency (FERA), an Executive Agency of the Department for Environment, Food, and Rural Affairs (DEFRA) were transferred to FERA Science Limited (FSL), a Joint-Venture (JV) between DEFRA and Capita (a private non-financial corporation). ONS will assess this new arrangement to establish to which institutional sector the new body should be classified.

4. Remploy Ltd.

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

Reason for assessment: sale of government interest in company

- Impact on Fiscal Aggregates: small
- Impact on National Accounts: small

Expected completion: July 2015

On 7 April 2015, 70 years after it was formed, Remploy left government ownership in a joint venture between MAXIMUS, an international company providing health and employment services on three continents, and Remploy's employees who have a 30% stake in the new business. This review will establish if this change should lead Remploy to be classified in the Private Non-Financial Corporations sector (S.11002 domestic controlled or S.11003 foreign controlled)

5. Glasgow Prestwick Airport

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

Reason for assessment: sale to Scottish Ministers

- Impact on Fiscal Aggregates: medium
- Impact on National Accounts: small

Expected completion: July 2015

In October 2013, Scottish Ministers established TS Prestwick HoldCo Ltd. through which they went on to purchase all shares in Glasgow Prestwick Airport. This review will establish whether this has resulted in Glasgow Prestwick Airport moving in to the public sector, and whether the various units in the group are market or non-market bodies.

6. Financial Conduct Authority (FCA)/Prudential Regulation Authority (PRA)

Current classification: Public Financial Corporation (S.12401)

Reason for assessment: new rules on Market Regulatory Bodies/Supervisory Authorities in 2014 MGDD, Eurostat priority

- Impact on Fiscal Aggregates: small
- Impact on National Accounts: small

Expected completion: July 2015

The FCA and PRA together regulate and oversee the UK financial system. ONS will review the classification of these bodies in light of the new rules on the classification of Market Regulatory Bodies/Supervisory Authorities in 2014 MGDD.

7. 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: July 2015

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' was introduced; ONS will review the classification of the Pension Protection Fund in accordance with this rules.

8. Radioactive Waste Management Ltd.

Current classification: Not formally classified

Reason for assessment: New unit

- Impact on Fiscal Aggregates: small
- Impact on National Accounts: small

Expected completion: July 2015

Radioactive Waste Management Ltd. was established by the Nuclear Decommissioning Authority (itself a Central Government unit) to deliver a geological disposal facility for higher-activity nuclear

waste, and for the provision of waste management solutions. They are currently carrying out preparatory work to plan for geological disposal.

9. 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: August 2015

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

10. 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: August 2015

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.

11. Canal and River Trust

Current classification: not formally classified

Reason for assessment: new unit

- Impact on Fiscal Aggregates: small
- Impact on National Accounts: small

Expected completion: August 2015

The Canal & River Trust is a charitable trust that was set up to look after the waterways of England and Wales. The transfer of ownership from the previous operator, British Waterways (a central government body), took place on 2 July 2012. It is further expected that inland waterways currently managed by the Environment Agency will also transfer to the trust in 2015. ONS will establish the correct classification of this new body for statistical purposes.

12. Revenue Scotland

Current classification: not classified

Reason for assessment: new body

- Impact on Fiscal Aggregates: small
- Impact on National Accounts: small

Expected completion: September 2015

Revenue Scotland has been established as the tax authority responsible for the administration of Scotland's devolved taxes. ONS will establish how Revenue Scotland, and the taxes it collects, should be classified in economic statistics.

13. 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: September 2015

The government, through NS&I, has made available £10-15 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.

14. East Coast Mainline Company Limited

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

Reason for assessment: new franchise arrangement

- Impact on Fiscal Aggregates: small
- Impact on National Accounts: small

Expected completion: September 2015

On 1st March 2015, the East Coast Mainline franchise was taken over by Virgin East Coast - a consortium of Stagecoach and Virgin Trains. It had previously been operated by 'Directly Operated Railways', a Public Non-Financial Corporation. ONS will examine the new operating company to establish whether it is a public or private corporation.

15. Social Security Funds (General Government sub-sector)

Current classification: Central or Local Government

Reason for assessment: new detail in ESA10

- Impact on Fiscal Aggregates: none
- Impact on National Accounts: no impact on key aggregates but, depending on the classification decision, could involve isolating a fourth sub-sector within General Government

Expected completion: September 2015

EU Member States are required to report a breakdown of the 'General Government' (S.13) institutional sector which isolates the following sub-sectors if they exist in the Member State:

- S.1311 - Central Government
- S.1312 - State Government
- S.1313 - Local Government
- S.1314 - Social Security Funds

Currently, ONS only identifies Government units as Central- or Local- Government. Through this work, ONS will establish whether there are units which should be classified as Social Security Funds and hence recorded separately in the National Accounts and Public Sector Finances.

16. Miscellaneous Pension Schemes

Current classification: pension funds

Reason for assessment: ESA10 rules

- Impact on Fiscal Aggregates: large
- Impact on National Accounts: small

Expected completion: September 2015

ESA10 provided new rules on pension administrators, pension managers, pension funds, and multi-employer pension schemes. ONS will evaluate a number of pension schemes against this rules including the Railway Pension Scheme, Transport for London (TfL) pension scheme, and Local Government pension scheme.

17. 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: Quarter 4 (October-December) 2015

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 this new rules.

18. Dead-lock Joint Ventures

Current classification: private sector

Reason for assessment: requirements in ESA10

- Impact on Fiscal Aggregates: small
- Impact on National Accounts: small

Expected completion: Quarter 4 (October-December) 2015

ESA10 introduced new guidance on 50-50 joint ventures where control is precisely equally shared. This may have implications for some ventures between public and private partners such as the Manchester Airport Consortium which is currently recorded as a private non-financial corporation. The ONS will establish the correct treatment of such arrangements in light of this new guidance.

19. 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: Quarter 1 (January-March) 2016

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 is therefore being sought.

20. "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: Half 1 (January-June) 2016

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 - £9.0m 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 (i.e. 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 to begin considering these cases in the last quarter of 2014, subject to the demands of cases of higher priority.

21. Universities

Current classification: Transactions not at economically significant prices.

Reason for assessment: policy - significant increases in tuition fee maxima

- Impact on Fiscal Aggregates: not applicable
- Impact on National Accounts: medium

Expected completion: Half 1 (January-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. ONS 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.

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

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This document is also available on our website at www.ons.gov.uk.

Contact

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