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Directorate C: National and European Accounts  
**Unit C-3: Public finance**



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**- FINAL FINDINGS -**

**EDP dialogue visit to the UK**  
**12-13 January 2009**

## Executive summary

Eurostat undertook an EDP dialogue visit to the UK on 12-13 January 2009 as part of its regular visits to Member States and with the aim to assess the existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to clarify the issues relating to EDP tables raised in the context of previous notifications, to examine the statistical treatment of public interventions relating to the financial turmoil, to review the progress achieved in implementing ESA 1995 methodology (classification of units and the implementation of Council Regulation 2516/2000) and to assure that provisions from the ESA 1995 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the UK EDP tables and national accounts.

First, Eurostat enquired about the institutional arrangements and division of responsibilities with respect to the reporting of data under EDP. Actual data are reported by the National Statistical Institute and forecasts are reported separately by the Ministry of Finance. The needs for information for EDP reporting are specified in formal agreements of cooperation ("*Service Level Agreements*") for central and local government data.

UK statistical authorities indicated that *Whole Government of Accounts* (WGA) are planned to be published for the first time for the financial year 2009/2010 for central government and 2010/2011 for local government.

It was also noted that there were still ten pending action points from the EDP dialogue visit in 2007 that need to be completed by the UK statistical authorities. Eurostat took note that the progress on these has been delayed by the priority given to financial crisis issues.

Concerning the EDP tables, a few issues were discussed. The working balances in EDP tables 2 are on an ESA95 basis and therefore no corrections are needed. However the UK statistical authorities agreed to provide to Eurostat an additional table showing reconciliation of *Central government net cash balance with the resource balance*. As regards EDP tables 3, Eurostat invited the UK statistical authorities to reflect on the revision of the statistical discrepancy and to further investigate the calculation of "*Other volume changes (OCV) in financial liabilities*" (K.10). Eurostat welcomed the progress in providing the split of equity and other shares. The UK statistical authorities were also invited to complete the pilot exercise for the EDP related questionnaire.

Eurostat welcomed the progress made in sector classification since the last EDP dialogue visit. As regards the classification of public hospitals, Eurostat took note that a new payments system for the Foundation Hospitals is being introduced and welcomed the initiative of the UK statistical authorities to inform Eurostat of any work related the classification of these hospitals.

Regarding the recording of taxes and social contributions, it was concluded that the regulation 2516/2000 was generally satisfactorily applied by the UK. As regards the methodology for the calculation of central government accrued interest payables, Eurostat took note that the interest payments of the Treasury bills (T-bills) are not accrued across the life of the bills as they are typically issued with short maturity. Nevertheless it was agreed that if more T-bills with maturities of 6 - 9 months are recorded the interest would be accrued over time.

Several cases of government interventions into financial institutions, in the context of the financial turmoil were discussed, and Eurostat welcomed the transparency of the UK statistical authorities in providing to Eurostat all relevant information. Eurostat agreed that the proposed treatment for some cases seemed to be appropriate.

As regards as EU funds, Eurostat encouraged HM Treasury to cooperate with ONS to solve the issue of the identification of the final recipient in the case of the EU structural funds.

The issue of military equipment was already discussed during the last EDP dialogue visit and the possibility was raised of introducing a one-off questionnaire in order to collect information for the largest military projects.

The issue regarding Public Private Partnerships recording still remains open and Eurostat concluded that it is not possible to confirm that the accounting guidelines of the UK statistical authorities are in line with the relevant Eurostat decision. ONS agreed to analyse three PPP projects and provide the results to Eurostat.

As regards nuclear plants decommissioning, the UK statistical authorities agreed to provide to Eurostat the existing note on this subject with a short covering note describing the latest developments.

Concerning the treatment of the UMTS licences, the UK authorities explained that they maintain their view, and confirmed that they believe the Eurostat decision is not in line with the ESA 95. Eurostat underlined that the decision is fully in line with ESA95.

Some other issues were also discussed such as capital injections, guarantees, debt assumptions, debt cancellations and debt write-offs and swaps. It was noted that the recordings applied are in line with the relevant decisions taken by Eurostat.

Concerning the ESA95 transmission programme, Eurostat congratulated the UK authorities for the improvements achieved in the consistency between EDP and ESA tables.

## Provisional findings

### Introduction

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005, amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in the UK on 12-13 January 2009.

The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of the Eurostat Public Finance Unit (C3). The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The UK was represented by the Office for National Statistics (ONS), Ministry of Finance (HM Treasury) and the Bank of England.

Eurostat carried out this EDP dialogue visit with the aim to assess the existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to clarify the issues relating to EDP tables raised in the context of previous notifications, to examine the statistical treatment of public interventions relating to the financial turmoil, to review the progress achieved in implementing ESA 1995 methodology (classification of units and the implementation of Council Regulation 2516/2000) and to assure that provisions from the ESA 1995 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the UK EDP tables and national accounts.

In relation to procedural arrangements, Eurostat explained the new procedure, in accordance with article 8 of Regulation 3605/1993 as amended, indicating that the *Main conclusions and action points* would be sent within days to the UK statistical authorities, who may provide comments. Within weeks, the *Provisional findings* would be sent to the UK statistical authorities in draft form for their review. After adjustments, *Final Findings* will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

### 1. Statistical capacity issues

#### 1.1 Institutional responsibilities in the framework of reporting of data under the EDP and government statistics compilation

##### *Introduction*

Eurostat enquired about the institutional arrangements and division of the responsibilities in the framework of the reporting of data under the EDP and government finance statistics.

The UK transmits the EDP notification for financial<sup>1</sup> and calendar years. The forecasts are provided only for financial years.

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<sup>1</sup> The UK government's financial year runs from 1 April to 31 March.

### *Discussion and methodological analysis*

The UK statistical authorities gave a detailed account and explanations of the institutional arrangements in place for the EDP reporting. The EDP tables (actual data) are reported by the National Statistical Institute (NSI) – *ONS (Office for National Statistics)* and EDP tables (forecasts) are reported separately by the Ministry of Finance – *HM Treasury*.

ONS explained that their needs for information for EDP reporting for central government are recorded in a formal agreement of cooperation ("*Service Level Agreement*") between ONS and HM Treasury. The needs for information for EDP reporting for local government are formalised in the "*Service level Agreement*" between ONS and Department for Communities and Local Government (DCLG).

It was also explained that Bank of England (BoE) has a very limited role in the EDP reporting and does not directly participate in the EDP compilation process; it provides banking data.

### *Findings and conclusions*

Eurostat took note of the institutional arrangements and responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation.

***Action point 1:*** *The UK statistical authorities agreed to provide to Eurostat the "Service Level Agreement" between Office for National Statistics (ONS) and HM Treasury and the "Service Level Agreement" between the ONS and Department for Communities and Local Government (DCLG) before the April 2009 EDP notification.*

***Action point 2:*** *Eurostat welcomed the agreement of the UK statistical authorities to merge actual data (responsibility of ONS) and forecasts (responsibility of HM Treasury) in the same EDP notification tables when reporting EDP data for financial years in the April 2009 EDP notification.*

## **1.2. EDP inventory**

### *Introduction*

The consolidated version of the EDP inventory completed by ONS provides a description of data sources and methods used for EDP data compilation. An updated version of the UK EDP inventory is published in Eurostat's website as well as nationally in the website of ONS.

The UK government runs its business on a full accruals basis, following the introduction in 2001 of accrual based system Resource Accounting and Budgeting (RAB). The UK Budgeting system uses national accounts sector definitions.

### *Discussion and methodological analysis*

Central government data are assembled by HM Treasury. According to the UK statistical authorities this is efficient because the information can be collected once and then used for all purposes. It also ensures a full consistency between reports compiled by HM Treasury and national accounts.

The previous system (GEMS) used by central government departments (also non-departmental public bodies - NDPBs<sup>2</sup>) and devolved administrations to report expenditure data has been replaced by a new system, the Combined Online Information System (COINS).

HM Treasury presented in detail the COINS database and explained that quality checks are built around the system. The database contains detailed individual accounting entries of each department on a monthly basis and each line in the database is translated into national accounts. The ONS also has access to the database.

Eurostat further enquired about the reporting of interest as it was not clearly presented in the EDP inventory. ONS confirmed that the source data of interests is on a cash basis and it converts them to an accruals basis. This will be clarified in the EDP inventory.

Local government data is assembled on behalf of ONS by a number of central government bodies responsible for monitoring the conduct of local government and its finances. The collection mechanisms are broadly similar for each of the countries making up the UK, but the detailed arrangements differ slightly. The UK statistical authorities presented the position for England.

The data is collected for the ONS by the Department for Communities and Local Government (DCLG), which is the central government department responsible for overseeing local government in England and Wales. There are regular *Data Quality Group meetings* between ONS and DCLG, which also involve HM Treasury, to oversee the data supply.

Eurostat also enquired about revision policy. The UK statistical authorities explained that the sources for the first and second notification are the same. However, the quality of data improves for the second notification due to updated data sources. ONS explained that it regularly checks historical data and follows a revision policy.

#### *Findings and conclusions*

Eurostat took note of the COINS database used by central government departments to report expenditure data and welcomed the quality checks built around the system.

**Action point 3:** *The UK statistical authorities agreed to clarify / correct the information in the EDP inventory on the sources and methods used for the calculation of interest on accrual basis before the October 2009 EDP notification.*

**Action point 4:** *The UK statistical authorities agreed to provide the updated list of Non-Departmental public bodies within the general government sector when completed and updated (expected at the beginning of February 2009).*

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<sup>2</sup> Each non-departmental public body (NDPB) has its sponsoring department, which must ensure that the NDPB has a satisfactory system of financial control.

### **1.3. Whole of Government Accounts (WGA)**

#### *Introduction*

The WGA project addresses the issue of accrual-based accounting in the whole public sector. It aims to improve and present public sector data by drawing up consolidated public sector balance sheets and financial statements.

#### *Discussion and methodological analysis*

The position has not changed much since the last EDP dialogue visit. The UK Pre-Budget Report 2008 announced the Government's intention that WGA will be published for the first time for the financial year 2009/2010. This will also be the year that IFRS (International Financial Reporting Standards) are to be implemented by central government bodies and the NHS (National Health Service). The Local Government implementation of IFRS is foreseen to follow in 2010/2011. There are still a few technical issues to resolve but the key one is the valuation of infrastructure assets held by local government.

WGA will consolidate the accounts of about 1300 bodies from within central government, the health service, local government and public corporation.

#### *Findings and conclusions*

Eurostat took note of the planned timetable for the introduction of the Whole of Government Accounts (WGA) reporting.

### **2. Follow-up of the EDP dialogue visit of 25-26 January 2007**

#### *Introduction*

Eurostat noted that there remained ten action points to be implemented by the UK statistical authorities, as agreed in the EDP dialogue visit to the UK in 2007, of which three have been partly implemented.

The action points are:

1. to review data on other volume changes (OCV) in financial liabilities for years 2002 and 2003 in the EDP table 3 and provide explanations - *partly done*;
2. to improve data availability of the EDP table 3 (further breakdown of shares and other equity and loans) – *partly done*;
3. to attempt re-estimating the data series for trade credits in local government;
4. to provide the arguments on the treatment of UMTS licences (treated as rent) in writing and, if deemed useful, a request for re-examination of the issue;
5. to provide time-series or estimates of the amounts of the EU funds to the government as final receipt and to make a progress in order to correct the error in deficit;
6. to provide documentation and analysis of three PPP (Public-Private Partnerships) contracts;
7. to report EDP tables 2D and 3E as well as other ESA tables by showing a social security sub-sector;

8. to further reflect and investigate the issue on North-South bodies – *partly done*;
9. to improve table VI of EDP related questionnaire; especially on equipment built over many years;
10. to prepare a note concerning the nuclear plants decommissioning in the UK.

#### *Discussion and methodological analysis*

The UK statistical authorities explained that the progress on the action points from the 2007 EDP dialogue visit has been delayed by the priority given to financial crisis issues.

Concerning the follow-up of the action point "*to attempt re-estimating the data series for trade credits in local government*", ONS explained that there is no source for trade credits by local government, thus the data series can not be estimated. However the payment rules in local government require short payment deadlines and there is not a marked surge of expenditure at year-end, which provides an assurance that the amounts involved are not large or volatile.

As regards the follow-up of the action point "*to report EDP tables 2D and 3E as well as other ESA tables by showing social security sub-sector*", the UK authorities informed Eurostat that this is not one of their short-term priorities. The same conclusion applies to the possible creation of a State sub-sector.

As regards the *North- South bodies*, ONS explained that CSO Ireland was leading a review of these bodies, but there has not been any progress. However, the UK statistical authorities did some work in order to improve grant receipt and expenditure reporting and consequently some of these bodies are now being included in UK receipts and expenditure.

The rest of the outstanding action points were discussed under different items of the agenda.

#### *Findings and conclusions*

Eurostat took note of the explanations of the follow-up of the actions points "*to re-estimate the data series for trade credits in local government*" and "*to report EDP tables 2D and 3E as well as other ESA tables by showing social security sub-sector*".

**Action point 5:** Eurostat welcomed the work done on the North-South bodies and *encouraged the UK statistical authorities to further co-operate with the Irish statistical authorities (CSO) to complete it for the October 2009 EDP notification.*

### **3. Follow-up of the October 2008 EDP reporting – analysis of EDP tables**

#### *Introduction*

Eurostat analysed the EDP tables and the questionnaire related to the EDP notification tables, as reported in the October 2008 EDP notification.

The UK statistical authorities also send a note annexed to the EDP tables with each EDP notification, explaining major data revisions, follow-up of the EDP dialogue visit, methodological treatments and providing additional information to the EDP related



questionnaire. Eurostat welcomed this note as it reduces the number of questions during the EDP notification period.

The UK statistical authorities did not provide pilot exercise tables for the EDP related questionnaire.

## ***EDP tables 2***

### *Discussion and methodological analysis*

EDP tables 2 are basically empty for the UK, owing to a situation where the working balances are on an ESA95 basis and, accordingly need no correction. Thus the transition items in the EDP tables 2A and 2C are reported as "not applicable", except for swaps for central government. Eurostat makes the amendment for UMTS in the EDP table 2A (under other adjustments and B.9).

In this respect Eurostat asked if an additional table showing reconciliation of Central government net cash balance with the resource balance could be provided by ONS in addition to the EDP notification tables (for the EDP table 2A). ONS agreed to provide the additional table as requested.

### *Findings and conclusions*

***Action point 6:*** *In the context of future EDP notifications, the UK statistical authorities agreed to provide to Eurostat an additional table showing reconciliation of Central government net cash balance with the resource balance from the October 2009 EDP notification onwards.*

## ***EDP tables 3***

### *Discussion and methodological analysis*

Eurostat noted that a separate split of shares and other equity has been regularly provided since the last EDP dialogue visit in a note annexed to the EDP tables. ONS informed Eurostat that the split of shares and other equity will be included directly in the EDP tables 3 in the April 2009 EDP notification.

The requested split of loans is still not possible. In this context Eurostat indicated that amendments of the EDP notification tables are being foreseen, which would be also discussed in the Financial Accounts Working Group (FAWG). The proposed amendment is to allow reporting of net transactions in short-term loans.

The issue of a rather high statistical discrepancy of 0.3% of GDP reported for the year 2007 was discussed. The statistical discrepancies for table 3B have been revised for all the years (2004-2007) in the October 2008 EDP notification. ONS explained that this revision was due to the offset of "Difference between interests accrued and paid" in "Other statistical discrepancies".

Eurostat welcomed the revision for the years 2004-2006, but was concerned about the revision in 2007 as it results in a higher statistical discrepancy. In this respect the UK

statistical authorities informed Eurostat about ongoing work on the reduction of the statistical discrepancies. The statistical discrepancy is expected to be included in "*Other volume changes in financial liabilities not elsewhere covered (K.10)*". Eurostat expressed concerns whether it was appropriate to put a statistical discrepancy in this line.

Also a large revision of the line "Other volume changes in financial liabilities (K.7, K.8, K.10)" for 2006 was observed in EDP table 3D. Eurostat noted that this issue was already discussed in the previous EDP dialogue visits and observed that the amounts in this line are rather high, especially for local government. Eurostat also stressed that most EU countries report zeroes in this line.

ONS explained that there is no impact on government deficit or debt as K.10 relates to the intra-government loans and that new systems have been set up to correctly calculate K10. Eurostat recommended to check that the treatment of instruments in foreign exchange currency and recording of the financial interactions between local and central government are appropriate.

The UK statistical authorities also provided a detailed breakdown of *Other accounts receivable and payable (F.7)* and explained that *Other accounts payable* include a hidden discrepancy. The main reason is that the source expenditure data are on an accruals basis, with no source for the equivalent cash expenditure. The F.79 is estimated, and uses the discrepancy as a guide.

Eurostat noted high amounts of hidden discrepancy in 2004, while on the contrary in 2006 they amounted to zero. Eurostat enquired about the reasons for such big variations. The UK statistical authorities indicated that the hidden statistical discrepancy might be so high in 2004 due to the late payments. It seemed that in 2006 the accounts were balanced.

#### *Findings and conclusions*

Eurostat welcomed the progress in providing the split of equity and other shares.

Eurostat invited the UK statistical authorities to reflect on the revision of the statistical discrepancy, in particular whether it would be appropriate to put statistical discrepancy in line K.10.

**Action point 7:** *Eurostat expressed concerns about rather high values in the line "Other volume changes (OCV) in financial liabilities" (K.10). In this respect, Eurostat encouraged the UK statistical authorities to further investigate the system for the calculation of K.10 before the October 2009 EDP notification; in particular to check that the treatment of instruments in foreign exchange currency and the recording of the financial interactions between local and central government are appropriate.*

#### ***Questionnaire related to EDP notification***

##### *Discussion and methodological analysis*

Eurostat noted that the amount of data provided in the EDP related questionnaire has increased significantly since the last EDP dialogue visit.

The UK statistical authorities did not provide any feedback on the pilot exercise tables for the EDP related questionnaire. However ONS indicated that there should be no additional problems in providing data as required by the pilot exercise tables.

#### *Findings and conclusions*

Eurostat welcomed the progress made in completing the tables of the EDP related questionnaire since the last EDP dialogue visit.

**Action point 8:** *Eurostat invited the UK statistical authorities to complete the pilot exercise for the EDP related questionnaire in the context of the April 2009 EDP notification.*

## **4. Methodological issues and recording of specific government transactions**

### **4.1 Delimitation of general government, application of 50% rule in national accounts**

#### **4.1.1. Sectorisation and follow-up since last EDP dialogue visit**

##### *Introduction*

The ONS has overall responsibility for national accounts sectorisation in the UK, but has delegated decisions at a decentralised level. ONS and HM Treasury have produced guidelines to help government departments sectorise units/activities for National Accounts purposes.

In November 2008 HM Treasury announced the creation of a new arm's Length Company "UK Financial Investments Limited (UKFI)" with the main aim to manage government investments on a commercial basis. The company would manage the government's investment and protect the value for the taxpayer as shareholder (for example in Northern Rock and B&B).

In November 2008 ONS also re-examined the classification of *Financial Services Compensation Scheme (FSCS)* and concluded that it should be provisionally re-classified to the central government sub-sector from the financial auxiliaries sub-sector.

##### *Discussion and methodological analysis*

As regards the sector classification of units, the UK statistical authorities explained that a complete assessment of public corporations and central government bodies is done by the ONS with a systematic (automatic) checking of the 50 % rule.

The UK statistical authorities also explained that there were three borderline cases observed since the last EDP dialogue visit and, after an exhaustive examination, these were all judged to be classified inside general government.

As regards the classification of the newly created unit UKFI, the UK statistical authorities explained that it is wholly government owned. Membership of the UKFI Board comprises private sector members and government officials from HM Treasury. UKFI does not borrow. The main concern was whether the unit had the characteristics of a separate institutional unit. The ONS had judged that it should be classified inside general government sector as a separate institutional unit.

As to the re-classification of FSCS the UK statistical authorities explained that the re-classification was based on the judgement that FSCS acts collectively on behalf of households (depositors) rather than financial corporations (banks). As the fees to be paid by the banks for participating in the scheme are compulsory, these are treated as tax and not as sale of service, which according to the market / non-market test leads to the classification as a non-market unit inside general government.

Eurostat pointed out that in other EU countries such deposit guarantee bodies are usually classified outside the general government sector, but also recognised that the re-classification inside general government has been appropriately justified by the UK statistical authorities.

#### *Findings and conclusions*

Eurostat welcomed the progress made in the sector classification since the last EDP dialogue visit.

Eurostat took note of the classifications of UKFI and FSCS.

### **4.1.2. Public hospitals, universities**

#### *Introduction*

In 2003 ONS announced that NHS (National Health Service) Foundation Trusts are provisionally classified as central government bodies. The decision was based on the judgement that government has control in the general corporate policy of NHS Foundations Trusts.

The issue of universities was discussed during the common meeting between Eurostat, the ONS and the CSO (Ireland) during the last EDP dialogue visit in 2007. Being non market institutions, they are classified in the NPISH (S.15) sector. The conclusion then was "*that this topic should be further discussed with the Financial Accounts Working Party and that, for the moment, Ireland and the UK do not need to change the classification of universities*".

#### *Discussion and methodological analysis*

The UK authorities explained that a new payments system for the Foundation Hospitals is being phased in. The new system is introducing payments by results, which would probably be classified as market revenue according to the MGDD specific rules. This might lead to the re-classification of Foundation Hospitals outside the general government sector.

ONS indicated that would inform Eurostat of any work that involves revisiting the classification of these hospitals, but did not plan to revisit the classification until the new system had been fully implemented and the necessary information was available.

Eurostat encouraged the UK authorities to apply the rules of the ESA95 manual on government deficit in debt (MGDD), notably to confirm that private hospitals actually provide services at the same prices as Foundation Hospitals.

This issue of classification of the universities was not discussed at the meeting as it would be discussed in the coming Financial Accounts Working Group.

### *Findings and conclusions*

Eurostat took note of the explanations.

#### **4.1.3. Pension Protection Fund (PPF)**

##### *Introduction*

During the 2007 EDP dialogue visit the UK statistical authorities indicated that the PPF is not classified in general government, but in the Insurance corporations and pension funds (S.125) sub-sector. Government sets the compulsory levies, but does not contribute financially.

The key issue, when classifying this unit, was whether the PPF was judged as more like a defined-benefit (social security) or a defined contribution scheme. The majority of members of the UK National Accounts classification group voted that the PPF is to be classified as a Public Financial Corporation.

The UK statistical authorities indicated that contributions to the PPF were routed in national accounts via general government, in view of their tax-like characteristic and of their redistributive element. Eurostat provisionally agreed to this classification, although felt that this might suggest recognizing the entity as a government unit.

##### *Discussion and methodological analysis*

The UK statistical authorities explained that there were no changes to the operation of the PPF since the last EDP dialogue visit.

##### *Findings and conclusions*

Eurostat will examine the documentation and provide its opinion on the classification of the PPF before the April 2009 EDP notification. It was also agreed that additional information / documentation might be required.

#### **4.2 Implementation of accrual principle**

##### **4.2.1 Accrual taxes and social contributions**

##### *Introduction*

The UK statistical authorities use a time adjusted cash method although with specific features, notably for social contributions where an economic model is being used to estimate National Insurance Contributions accrued data. VAT cash payments are moved backwards over 3 months, resulting in a 2 months average time adjustment.

### *Discussion and methodological analysis*

The UK statistical authorities explained that there were no updates to report to the methods used for the calculation of accrued taxes.

With the introduction of WGA, annual accrued data produced to Generally Accepted Accounting Principles (GAAP) will be available. The UK statistical authorities explained that the current method is based on monthly data and that the alternative annual accrual will probably not provide better information as it involves treatment of rebates / refunds that are different from the National Accounts standards.

The comparisons in methodology have already been made as part of the process of changing the accounting estimates (ONS was also part of the group working on this issue). If they provided better results the process for producing statistical and accounting data would have been merged, as the data for each comes from the same source. An in-depth examination of tax data is undertaken in monthly meetings between the HM Treasury, ONS and the taxation authorities. The annual Trust Statement (revenues) information forms part of these examinations.

It was noted that the reduction of VAT rate from 17 % to 15 % in December 2008 might have a small impact on the calculation of the accrual VAT figures for the 2008 calendar year data. ONS agreed to check this data and make an adjustment, if necessary.

### *Findings and conclusions*

Eurostat took note of the explanations provided and agreed that the methods used for the calculation of accrued taxes are in line with the Council Regulation 2516/2000.

**Action point 9:** *ONS agreed to check the accrual calculation of the VAT taxes for the calendar year 2008 for the April 2009 EDP notification.*

## **4.2.2. Accrued interest**

### *Introduction*

Eurostat enquired about the recording of accrued interest.

### *Discussion and methodological analysis*

The methodology for the calculation of central government accrued interest payables was discussed. ONS confirmed that it calculates the accrued interest for central government.

The UK statistical authorities explained that the interest payments on British government securities (gilts) and National Saving products are accrued over time. On the contrary the interest payments of the Treasury bills (T-bills) are not accrued across the life of the bill. The UK statistical authorities explained that this method is applied as the short-term securities are typically issued with initial maturities of 1 month, 3 months or 6 months, and it would involve a lot of work for little effect. The total stock of the T-bills usually does not vary much over time and the interest rates are rather stable over time.

Nevertheless the UK statistical authorities acknowledged that with the introduction of the Special Liquidity Scheme (SLS), more T-bills with maturities of 6 and 9 months are being issued. In this context ONS agreed, if necessary, to accrue interest on Special Liquidity Scheme bills as an exception to general practice. The UK statistical authorities also indicated that in this case it would probably not be possible to implement a "*security by security*" approach and that estimations would be used (based on average maturity and average interest rate). Eurostat confirmed that such approach might be a good proxy and it was also being used in other EU countries.

### *Findings and conclusions*

**Action point 10:** *It was agreed that it might be necessary to move towards accrual adjustment for T-bills, if more T-bills with maturities of 6 - 9 months are recorded. In this context ONS would, if necessary, accrue interest on Special Liquidity Scheme (SLS) bills as an exception to general practice.*

## **4.3. Recording of specific government transactions**

### **4.3.1. Financial turmoil: actual cases and accounting consequences for government**

#### *Introduction*

In the UK were observed several cases of government interventions into financial institutions, in the context of the financial turmoil, i.e. specific support operations to individual bank as well as general support operations (financial support schemes).

Specific support operations:

- Northern Rock
- Bradford and Bingley
- Icelandic banks: Heritable, Kaupthing, Singer & Friedlander and Landsbanki
- London Scottish bank

General schemes

- Special Liquidity Scheme
- Discount window facility
- Credit guarantee scheme
- Loans
- Recapitalisation scheme (Royal Bank of Scotland (RBS), Lloyds TSB and HBOS)

Some of the above mentioned cases, in particular the Special Liquidity Scheme were also discussed at the CMFB Task Force on accounting consequences for government of the financial turmoil.

#### *Discussion and methodological analysis*

The UK statistical authorities presented the specific support operations of government to individual banks due to the financial crisis along with proposed treatments. General schemes were also briefly presented.

The *Northern Rock (NR)* case was already discussed within the Eurostat Task Force on accounting consequences for government of the financial turmoil and bilaterally between the UK statistical authorities and Eurostat. In October 2008 Eurostat took the provisional view that a part of the Bank of England lending to Northern Rock should have government as the principal party of the transaction in the national accounts framework as of October 2007. Thus in the October 2008 EDP notification Eurostat put a reservation on the UK data to this issue with the indication that it has to be clarified by the April 2009 EDP notification.

ONS explained that they are still collecting more information from HM Treasury and the Bank of England in order to clarify whether part of the Bank of England loan to NR in the context of a rescue operation in October 2007 should be re-routed via government.

The cases of Bradford & Bingley, Heritable, Kaupthing, Singer & Friedlander, Landsbanki, London Scottish bank, Royal Bank of Scotland (RBS), HBOs and Lloyds TSB were discussed. The proposed treatment by the ONS seemed to be appropriate at first sight, but would have to be confirmed by Eurostat after its decision on the issues raised in the context of the CMFB Task Force on accounting consequences for government of the financial turmoil.

The government intervention in the case of *Bradford & Bingley* would increase the government deficit by £4.6 billion and government debt by £18 billion in 2008.

*Heritable and Kaupthing, Singer & Friedlander* were UK banks, subsidiaries of the Icelandic banks, with no contributions from the Icelandic scheme. There is no impact on the government deficit from the transactions in both cases. Government debt in 2008 would rise by £0.5 billion in the case of Heritable and by £2.5 billion in the case of Kaupthing, Singer & Friedlander.

*Landsbanki* was a branch of the Icelandic bank in London and it is different from the above mentioned Icelandic cases as the Icelandic scheme was also contributing to the protection of the depositors. As there was a debate whether Iceland would honour its commitments, the UK government compensated the depositors. Accordingly the UK government has a claim on the Icelandic Scheme (government) of £2.2 billion. If the Icelandic government would not pay back to the UK government, this would be recorded as a debt cancellation with a full impact on government deficit. In 2008 there is no impact on government deficit from the transactions undertaken and the government debt would increase by £4.4 billion.

*London Scottish Bank* was declared in default in December 2008. The UK statistical authorities confirmed that the treatment would most probably be the simplified version of the Landsbanki case and indicated that the amounts concerned were rather small.

Royal Bank of Scotland (RBS), HBOS and Lloyds TSB participated in the recapitalisation scheme offered by the UK government, i.e. facility for equity injection in preference shares or indemnity of ordinary share issues.

RBS raised £20 billion, of which £5 billion in preference shares and a rights offer of £15 billion of ordinary shares at fixed price. The market price at close of the offer was below the offer price and government therefore purchased almost all the shares. The UK statistical authorities explained that the share sales were recorded at market price (the price at the close of the offer) with a capital transfer recorded for the difference between the market price and the price paid by government (£3 billion).



The UK statistical authorities indicated that *Lloyds TSB and HBOS* would be merged shortly and that the same recording for the preference share and underwriting impact would be applied as in the case of RBS. Eurostat agreed provisionally to the proposed recording.

*The Special Liquidity Scheme (SLS)* was also discussed. The opinion of the Bank of England (BoE) was that nothing at all should be recorded in the accounts of government. The opinion of Eurostat was, on the contrary, that the securities issued should be recorded as government debt. ONS was of opinion that SLS is not a standard security lending operation, but did not have yet a formal position on the recording. The ECB supported the opinion of the BoE.

However it was acknowledged that this issue was already discussed at the CMFB Task Force on accounting consequences for government of the financial turmoil and would be the subject of a CMFB consultation. The UK statistical authorities also indicated that it might be appropriate that SLS would be the subject of a separate CMFB consultation.

*The Bank of England's Discount Window Facility* was also examined. It provides liquidity to the banks by allowing them to exchange less liquid assets for government securities. It seems to be similar to the SLS, but the maturity date for exchange the assets is lower, i.e. 30 days<sup>3</sup> and there is no government indemnity. It was recognised that the CMFB consultation on SLS may provide a guide for the statistical treatment of the Discount Window facility scheme.

#### *Findings and conclusions*

Eurostat acknowledged the transparency of the UK statistical authorities in providing to Eurostat all relevant information on the specific and general support operations of government to financial institutions in the context of the financial turmoil.

**Action point 11:** As regards the case of Northern Rock the issue remains open and Eurostat took note that *ONS is collecting more information from HM Treasury and Bank of England in order to clarify whether a part of the Bank of England loan to NR should be rerouted via government. The additional information is intended to be provided in advance of finalising the April 2009 EDP notification in March 2009.*

Eurostat agreed that the proposed treatment by ONS for the cases of Bradford & Bingley, Heritable, Kaupthing, Singer & Friedlander, Landsbanki, London Scottish bank and Lloyds seemed to be appropriate.

It was acknowledged that the CMFB consultation for the Special Liquidity Scheme may provide a guide for the statistical treatment of another general scheme of the Bank of England, the Discount Window facility. Eurostat would examine whether it would be feasible to have a specific CMFB consultation for the SLS.

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<sup>3</sup> On 19 January 2009, the UK government announced a second major financial package, also including the increase from 30 days to 1-year.

### **4.3.2. EU flows**

#### *Introduction*

This issue was discussed during the last EDP dialogue visit, where Eurostat concluded that the Eurostat rules concerning the recording of the EU funds are not being fully applied by the UK statistical authorities, although presumably for relatively small amounts.

The UK statistical authorities indicated a problem in identifying all transfers from the EU structural funds, especially in the case when government is the final recipient. Consequently, some EU flows are only recorded as government expenditure, increasing the government deficit.

#### *Discussion and methodological analysis*

Eurostat expressed concerns that no progress has been made on the treatment of EU funds, i.e. the identification of the final recipients of EU structural funds.

ONS explained that attempts were made in order to improve the data source, which failed due to a lack of information, although there are plans to return to this as the initial investigation revealed that the information should exist. The application form does not include information on the final beneficiary of the EU Structural funds and thus another source would have to be used (or maybe some *proxies*). It would be necessary that HM Treasury would also be engaged in the process of identification of the final recipients.

#### *Findings and conclusions*

Eurostat acknowledged that attempts were made by the ONS to improve the data sources.

***Action point 12:*** Eurostat encouraged HM Treasury to cooperate with ONS to solve the issue of the identification of the final recipient of EU structural funds before the October 2009 EDP notification.

Eurostat concluded that the Eurostat rules concerning the recording of the EU funds are still not being fully applied by the UK authorities and consequently the government deficit might still be systematically overstated.

### **4.3.3. Military equipment expenditures**

#### *Introduction*

The issue was discussed during the last EDP dialogue visit, where Eurostat concluded that at first sight, the Eurostat Decision was being broadly respected. However, the issue of the equipment built over many years should be further investigated.

#### *Discussion and methodological analysis*

The UK statistical authorities explained that data on military equipment built over many years could be obtained neither from the Ministry of Defence nor from the National Audit Office. ONS indicated that it would be more appropriate to identify larger military projects and

acquire all necessary information on them. Eurostat agreed and stressed the importance of receiving this information and highlighted the importance of the co-operation between ONS and HM Treasury when obtaining necessary data from the Ministry of Defence.

Eurostat referred to a similar case from another EU country. The Ministry of Defence provided only data without any description of the projects in order not to reveal any information that was considered a secret. For this purpose a *one-off questionnaire* was designed in order to receive the information for the largest military projects, which should in the end lead to a regular data reporting. Eurostat indicated that it could help the UK statistical authorities with the preparation of such a questionnaire.

#### *Findings and conclusions*

**Action point 13:** *The UK statistical authorities agreed to the common approach and to the possibility of introducing one-off questionnaire in order to receive the information for the largest military projects before the October 2009 EDP notification.*

### **4.3.4. Public Private Partnerships**

#### *Introduction*

The issue was discussed during the last EDP dialogue visit. Eurostat raised some doubts on compliance with the rules and identified a possible problem regarding the treatment of the construction risk. Another possible problem might be the recording of work in progress (when the PPP asset is considered a government asset) in the partner accounts instead of recording it as government expenditure, pending actual delivery.

#### *Discussion and methodological analysis*

ONS informed Eurostat that three appropriate large PPP contracts, covering a variety of asset types, government departments and accounting treatment, were selected.

The legal documents underlying these deals will be analysed, along with a generic example of a standard deal and reporting arrangements, against Eurostat's PPP rules. However analysis had not yet started.

Eurostat asked to receive these individual contracts, or at least the most relevant parts of the contracts, such as balance of risks between partners, guarantees, termination clauses, etc. ONS agreed to provide the most relevant parts of the contracts together with the analysis.

The UK statistical authorities also informed Eurostat about the changes of the UK's PPP public accounting standards due to the implementation of new commercial accounting standards (IFRS), most likely by the end of 2009. It was also indicated that this may result that more projects would be recorded on the balance sheet of government; perhaps more than it would follow from the Eurostat rules.

### *Findings and conclusions*

Eurostat concluded that the issue regarding PPP recording still remains open and that is not possible to confirm that the accounting guidelines of the UK authorities are in line with the Eurostat rules.

**Action point 14:** *ONS agreed to analyse three PPP projects and provide the analysis to Eurostat. It was also agreed that the most relevant parts of the PPP contracts will be sent to Eurostat before the October 2009 EDP notification.*

Eurostat will closely examine the documentation and may require additional information.

### **4.3.5. Nuclear plants decommissioning**

#### *Introduction*

The financial aspects of the decommissioning of the nuclear sites in the UK and their impact on government finance was discussed in 2007 EDP dialogue visit. The UK statistical authorities confirmed that it was mainly British Energy (classified outside general government but in the public sector) who contributes annually to the financing of the Nuclear Liabilities Fund (NLF).

#### *Discussion and methodological analysis*

The UK statistical authorities indicated that there were several changes since the last EDP dialogue visit and agreed to provide a short covering note describing latest developments.

BNFL (British Nuclear Fuels) is in the process of being sold off and shut down. The loss-making parts are generally being shut down or moved to general government. British Energy is again not profitable and some equity has been sold.

In order to better understand the historical aspects of the nuclear decommissioning ONS agreed to provide to Eurostat an existing paper "*National Accounts Sector classification of British Energy*".

#### *Findings and conclusions*

**Action point 15:** *As regards nuclear plants decommissioning, the UK statistical authorities agreed to provide to Eurostat the existing note on this subject with a short covering note describing the latest development in this area before the April 2009 EDP notification.*

#### **4.3.6. Capital injections in public corporations, dividends, privatization**

##### *Introduction*

Eurostat enquired about the capital injections in the UK.

##### *Discussion and methodological analysis*

In terms of capital injections there are very few, reflecting the small size of the UK public corporations sector after an era of privatisation starting in the 1980s. The UK statistical authorities indicated that this may change with the financial crisis leading to nationalisation of banks and a recapitalisation programme in late 2008.

There are very few dividends, either conventional or super-dividends. The Bank of England has an agreement to distribute a fixed percentage of profits, which is a conventional dividend.

##### *Findings and conclusions*

Eurostat took note of the explanations and also noted that the quality of data in the Table Va of the EDP related questionnaire has been improved since the last EDP dialogue visit.

#### **4.3.7. UMTS**

##### *Introduction*

The UK EDP notification tables transmitted to Eurostat have not been following the Eurostat decision on the accounting treatment of the UMTS proceeds since its announcement in 2000 (see News Release No 81/2000, 14 July 2000).

During the 2007 EDP dialogue visit the UK authorities agreed to provide their arguments on UMTS in writing and, if deemed useful, a request for a re-examination of the issue

##### *Discussion and methodological analysis*

The UK statistical authorities explained that their position has not changed and are still planning to request a re-examination of the treatment of UMTS proceeds. It has been delayed by other high priority tasks.

The UK statistical authorities also questioned whether it would be more appropriate to wait for the revision of ESA (European system of accounts).

##### *Findings and conclusions*

There were no changes from the conclusions of the 2007 EDP dialogue visit. Eurostat recalled that Council regulation (EC) No 2103/2005 explicitly provided Eurostat with specific interpretative competences and required consistency of the statistical data in the government sector (ESA1995 transmission programme).

#### **4.3.8. Others: Guarantees, Debt assumptions, debt cancellations and debt write-offs, Sale and leaseback operations, securitisation, Swaps, Carbon trading rights, Payments for the use of roads**

##### *Introduction*

Eurostat enquired about the latest developments in the above mentioned specific government transactions.

##### *Discussion and methodological analysis*

The UK statistical authorities confirmed that the write-offs for Paris Club by Export Credits Guarantee Department - ECGD (classified outside general government) are rerouted via government as a capital transfer with an impact on the government deficit, as agreed during the last EDP dialogue visit.

Concerning the cancellation of swaps, Eurostat noted that Bank of England does cancel swaps of negligible amounts, which are not being spread over time in national accounts. It was agreed that if these amounts would become non-negligible, the Eurostat guidance on swap cancellation would be followed.

The UK statistical authorities informed Eurostat that the UK government had started with Europe's first carbon allowance auction in Phase II (2008 – 2012) of the EU Emissions Trading Scheme, which would be reflected in the April 2009 EDP notification. Eurostat indicated that the methodology of recording of emission permits would be discussed at the Financial Accounts Working Group.

##### *Findings and conclusions*

Eurostat took note of this information.

Concerning the cancellation of swaps it was agreed that if the amounts would become non-negligible, the Eurostat guidance on swap cancellation would be followed.

## **5. Other issues**

### **5.1. ESA95 Transmission Programme (tables 2, 6, 7, 9, 11, 25, 27 and 28)**

Eurostat congratulated the UK authorities for the improvements achieved in the consistency between EDP and ESA tables.

## **6. Any other business**

Eurostat noted that, despite progress achieved on some issues, a number of action points from the last EDP visit had not been completed, or had been only partially completed. Eurostat underlined the importance of following up agreed action points, and expressed a concern that the forthcoming relocation of ONS work dealing with public finance issues might present a

risk to the completion of the agreed action points. Nevertheless, Eurostat explained<sup>4</sup> that the allocation of national statistical resources is a matter for national authorities.

The UK authorities explained that it is ONS policy to relocate all statistical work out of London. While it's likely that the relocation of ONS work would present a risk to the follow-up of action points, methodological work and delivery of data, largely because none of the experienced staff will be relocating, all possible steps would be taken to minimise this risk. ONS will be approaching Eurostat to discuss the possible provision of training. The delivery of data required under European legislation would be prioritised above methodological developments<sup>5</sup>.

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<sup>4</sup> The UK statistical authorities proposed to change "explained" to "accepted".

<sup>5</sup> The UK statistical authorities proposed to replace this paragraph with the following sentence: "The UK statistical authorities noted that it was ONS policy to relocate all statistical work out of London. ONS would meet its European obligations".

## **Annex 1: List of participants**

### **Office for National Statistics**

Mrs. Fenella Maitland Smith  
Mr. Martin Kellaway  
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Mr. Jim Ebdon  
Mr. Chris Hill

### **HM Treasury**

Mr. Tom Josephs  
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Mrs. Amanda Hughes  
Mr. Sam Caughey  
Mr. Tom Orford

### **Bank of England**

Mr. Stephen Sabine

### **Eurostat:**

Mr. Luca Ascoli, Head of unit Public Finance  
Mr. John Verrinder  
Mrs. Simona Frank, desk officer for UK

### **DG ECFIN**

Mr. Karl Scerri

### **ECB**

Mrs. Julia Catz