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- FINAL FINDINGS -

EDP dialogue visit to United Kingdom

**Issues discussed during the common meeting with the Irish
authorities**

26 January 2007

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Final findings

Executive summary

The common meeting with the Irish and UK authorities took place on 26 January 2007 with the main aim to discuss the issues that have been raised by the Irish authorities during the EDP dialogue visit in Dublin on 4–5 July 2006 and that concern both countries.

First, Eurostat discussed with the Irish and UK authorities the treatment of TV and radio licences, i.e. the classification in national accounts of compulsory payments by television and radio holders for the right to receive television / radio signals. Both authorities described the nature of the receipts of various public television stations. During the discussions, the differences in various manuals were examined. Eurostat stressed that ESA 1995 is legally binding and its exact wording had to be preferred. It was concluded, with the agreement of both authorities, that according to ESA 1995 the classification of the television licences is to be classified as tax. However this conclusion is being provisional and the issue should be examined on a more general level.

As far as the existence of the social security sub-sector is concerned, it was agreed that the Irish authorities will continue to report data on Social insurance fund separately. Also the UK authorities agreed to send this data to Eurostat as soon as possible.

Further, the appropriate accounting treatment of the North-South Bodies was discussed. These bodies are currently considered, by both authorities, as international organizations. It was agreed that this issue should be, notably in the light of the SNA 1993, further reflected and investigated by the IE and UK authorities.

Finally, the classification of universities was discussed. Both authorities presented the situation and explained the reasons for classifying the universities in the non-profit institutions serving households sector, and not in the government sector, as in the majority of other European countries. It was concluded that this topic should be further discussed with the Financial Accounts Working Party and that, for the moment, IE and UK do not need to change the classification of universities.

Final findings

Introduction

Eurostat undertook an EDP dialogue visit to UK on 25 - 26 January 2007 as part of its regular visits to Member States. On 26 January 2007, a common meeting with the Irish and UK authorities took place.

The main aim of the meeting was to discuss the issues which have been raised by the Irish authorities during the EDP dialogue visit in Dublin on 4–5 July 2006 and concern both countries.

The delegation of Eurostat was headed by Mr. Ascoli, Head of Unit C3 - Public finance. The Directorate General for Economic and Financial Affairs and the European Central Bank (ECB) also participated in the meeting as observer. The Irish authorities were represented by the National Statistical Office and the Ministry of Finance. The UK Authorities were represented by the Statistical Office (ONS) and the HM Treasury.

1. Treatment of TV and Radio licences

Introduction

The issue of the treatment of television (TV) and radio licences had been raised by the IE authorities during the EDP dialogue visit in Dublin (July 2006). The issue concerns the classification of compulsory payments to public entities by television and radio holders in national accounts, generally for the right to receive television or radio signals (i.e. programmes). The issue has consequently an indirect impact on the classification of the institutional unit, because of the market/non-market criteria and the ESA 1995 50% rule.

In Dublin, an ONS paper on the issue was referred to, describing the analysis of the situation of the BBC in the UK, introducing the ONS decision, which treats these licences as other current tax, and not as a sale of service, and reclassifies the BBC into the general government sector.

Discussion and methodological analysis

National arrangements

During this meeting both authorities described the nature of the receipts of various public television stations. In Ireland, RTÉ is financed by the television licences collected by government and by advertising revenues, the latter constituting 50-60% of total revenue (and more than 50% of costs). The Irish language television TG4 is currently a subsidiary of RTÉ and is financed by direct grants from government and from advertising fees. Both entities are classified outside government. In the UK, the BBC is not allowed to raise advertising revenue on transmissions and is therefore basically financed with the television licence fee paid by government (98% of its revenues). The Welsh language channel has small advertisement receipts and is a non-market unit. On the contrary, Channel 4 is a market unit.

The UK authorities explained that the licences are to be paid in all cases when households have an appliance capable of receiving television signals, and that it was not necessary to actually watch TV broadcasts. The Irish authorities explained that there is currently a bill under discussion by the parliament aiming at similar regulations, as currently the licence fee has to be paid only on television sets and not on other appliances also capable of receiving signals (like computers).

The Irish authorities mentioned cases where one of the public services was not accessible but where it had been ruled that the television licence was still payable.

References to manuals

Differences in various manuals (ESA 1979, ESA 1995, SNA 1993, and the ESA 1995 Manual on Government Deficit and Debt) were examined. Eurostat pointed out that as ESA 1995 is legally binding, its exact wording had to be preferred.

The Irish authorities explained that they have treated so far television licence fees as sale of services, based on an interpretation of ESA 1995 4.80 (d) that specifically mentions TV and radio licences, as being sale of services, albeit with the mention “mostly” (see below). It was rationalized that this ESA 1995 reference presumably came from an ESA 1979 original guidance (the previous manual that was applicable to EDP and national accounts reporting before March 2000) according to which all TV and radio licences were by convention to be sales of services. The ESA 1979 guidance was perhaps reflecting an original situation often observed at the beginning of the broadcasting activity of television, when a unique public broadcaster (state television) existed, which could have plausibly led national accountants to retain the hypothesis that the licence payment by households was generally required (however this was in practice never the case for the UK). The SNA 1993 paragraph 8.54 takes the same approach as ESA 1979.

However, the ESA 1995 4.80 (d) lists a number of cases of licences (including television licences) deemed to be "**mostly**" sales of services, instead of taxes. This would lead to the fact that whereas the ESA 1995 writers presumed that television licences were generally sale of services, they did not preclude that these could be taxes.

At the same time, it was noted that the delineation between taxes and sales of services is specifically dealt with in ESA 1995 within footnote 5 attached to paragraph 4.80 (d). Licence fees are to be treated as taxes if they are granted automatically (notably because there is no regulatory function attached to the licence that might lead to the non granting of the licence), or if there is a regulatory function but the payment is out of proportion to the costs of the checks carried out by government.

The UK authorities based their analysis on this footnote, stating that licences are automatically granted by government and no regulatory function is conducted. In addition, the ONS felt that given the competitive nature of the broadcasting services market, the payment could not be deemed as a purchase from one of the suppliers, as households cannot plausibly be deemed to make a deliberate act of purchase, as they are without any option to prefer the existing competition (free television).

In the absence of regulatory functions, and given that a licence is provided automatically, a recording of sale would require identifying a service provided directly in exchange. It was

concluded that the service presumably sold cannot be the broadcasting services of a public television, because the consumer cannot choose from existing competitors.

Eurostat considered that the existence of the word “mostly” in 4.80 (d) precluded concluding that a convention existed in ESA 1995 to the effect of classifying the listed licences as sale of services, and that the general tax/service boundary was thus applicable to these, including TV licences.

It was also noted that while the licence fee was a tax paid by the television holder, it remained to examine if the transfer of money from the State to the public broadcasting had the nature of a current transfer or of a purchase of a service (in compensation of public service obligations). It seemed more appropriate treating such payments as current transfers, being out of proportion to the costs imposed by the obligations imposed (e.g. cultural/public programs) and not related to volumes delivered.

Findings and conclusions

Eurostat concluded, with the agreement of the IE and UK statistical authorities, that according to ESA 1995 the classification of the television licences as tax or as sales of services had to be generally tested against the general criteria and that in the British and Irish cases this led to classifying such payments as taxes.

These were deemed as being provisional conclusions, as the issue should be examined on a more general level, probably involving the Financial Accounts Working Party.

Eurostat noted that the classification of RTÉ would not change since the majority of revenues come from advertisement receipts, and these cover more than 50% of costs. Eurostat agreed that the change in government revenue might take effect for the purpose of ESA Table 2 in October 2007 rather than in April 2007, pending the FAWP consultation, given that this would have no impact on the B.9 (EDP notifications).

2. Classification of the Social Insurance Fund

Introduction

The IE authorities introduced their note on the existence of the social security sub-sector, an issue that had been discussed during the EDP dialogue visit to Ireland. The issue is whether it is appropriate that a social security fund sub-sector (S.1314) be identified in Ireland (it comprises one unique entity). Conversely, the UK reports no such social security fund sub-sector, social security being reported within central government (S.1311).

Discussion and methodological analysis

The IE authorities classify the Irish “Social Insurance Fund” (SIF) into S.1314. The doubt about classifying the SIF in S.1314 results from the fact that it was questionable if the SIF has autonomy of decision, since it has no separate legal status (though created by law), no personnel (it is managed by the Ministry for Social and Family Affairs), and its investments are managed by the Treasury. Given the above, it would seem that the Fund does not have autonomy of decision.

However, the IE authorities pointed out the SNA 1993 paragraph 4.112, stating that when the social security funds "...have their own assets and liabilities and engage in financial transaction on their own account..." but they don't have the full attribute of institutional units (autonomy of decision), "nevertheless, so long as they remain separately constituted funds, they must be treated as separate institutional units in the System."

The IE authorities also indicated that the SIF costs can be identified and are thus accounted for in the relevant sub sector.

It was noted that when the Irish Treasury decided to take over some of the surplus of the SIF (1/2 billion Irish pound), it was forced to go the Parliament to do so. Eurostat found this example illustrative of a rather autonomous and ring-fenced nature of the SIF. It noted that, by comparison, owners of 100% subsidiaries could obtain revenue more easily from their subsidiaries, which are nonetheless considered as institutional units.

In addition, users might find it useful for cross country comparability reasons that IE and the UK show a social security sub-sector.

Whilst agreeing with IE, the UK delegation mentioned practical difficulties to enforce, quickly, or at least for the moment, a separation between the central government and the social security sub-sectors in national accounts, although perhaps this could be possible in public finance reporting.

Findings and conclusions

Eurostat accepted the position of the IE statistical authorities, finding an advantage in terms of international comparability as well as for EDP monitoring. It also asked the UK authorities to report EDP tables 2D and 3E as well as other ESA tables by showing a social security sub-sector. The UK authorities agreed to send these tables to Eurostat as soon as possible.

3. North-South Bodies

Introduction

During the last EDP dialogue mission to Dublin, the Irish authorities had raised the question of the appropriate accounting treatment of the North-South Bodies, units created by the Good Friday Agreement in 1998.

Discussion and methodological analysis

Eurostat further enquired about the activities and financing of these bodies. The IE authorities explained that these bodies (8 altogether) carry out activities of common interest, some merely bringing together under one roof government activities previously carried out by separate bodies on both side of the border. The IE authorities also handed out a table with the incomes and expenditures of these bodies.

These bodies are currently considered, both in the IE and UK national accounts, as international organizations, and government transfers funding these bodies are treated as current or capital transfers of general government (S.13) to the Rest of the World (S.2).

The IE authorities indicated, answering a question from Eurostat, that these bodies do not have diplomatic status. Eurostat felt that this might be at variance with the SNA 1993 paragraph. 4.164 (c) on the definition of international organizations¹.

Eurostat explained that it had a concern about the classification of such bodies in S.2, and that the bodies' expenditure might be considered for integration in the resident government accounts, in proportion to the funding. Eurostat pointed at SNA 1993 paragraph 14.27 that specifically identifies cases of ventures jointly held by governments, with a recommendation of splitting the unit or of allocating it to either of the general governments.

It was considered that these joint ventures had however come into existence on the basis of an international treaty and that these might not be assimilated to other ad-hoc joint venture between governments for running commercial or even non-commercial operations.

Findings and conclusions

The IE and UK authorities agreed to further reflect and investigate this issue and come back to Eurostat with further details.

4. Classification of universities

Introduction

The IE authorities reviewed the classification of the universities in Ireland in 2003, and reached the conclusion that considering the degree of autonomy from government enjoyed by these institutions, there was no government control. Being non market institutions, they were thus classified in the NPISH (S.15) sector. The question was again raised by the IE authorities during the EDP dialogue visit in July 2006.

Discussion and methodological analysis

The Irish authorities noted the gradual shift from “mainly financed” (ESA 1979) to “controlled and mainly financed” (ESA 1993) to only “controlled”, although “financed” becoming one of the criteria for control (SNA review).

The IE authorities prepared a document analysing the classification of these units and found that, although these are mainly financed by government, they enjoy autonomy in taking decisions. The IE authorities also contacted the Higher Education Agency, which confirmed the independence of operations. The IE authorities showed a table on the financing of these units.

The UK authorities explained the situation in the UK. Though universities receive grants from government, they also have income from tuition fees, research grants and contracts and other various income. When assessing the market/non market criteria, Eurostat asked the share of research contracts versus research grants (and the basis for the distinction) and pointed out that the local government financing of tuitions also needed to be examined. Universities are,

¹ "Because they are established by international agreement, they are accorded sovereign status; that is, international organisations are not subject to the laws or regulations of the country, or countries, in which they are located; they are not treated as resident institutional units of the countries in which they are located."

for the time being, non market (when considered as a whole). Nevertheless, government has no control on universities, and they have full academic freedom, leading to a classification in NPISH. The grant contract was generally lenient in terms of requirements.

Eurostat mentioned that in most European countries universities were classified inside government, and wondered to what extent the institutional arrangements were different to justify these various classifications. Eurostat recalled the ESA 1995 Manual on Government Deficit and Debt, where control of decisions for opening and closing classes would be a key criterion for control. In general control often implied discretionary measures, and whereas financing might sometimes be automatic, it might involve also discretionary elements too.

Several other aspects were discussed, notably examining whether financing might provide a *de facto* control. The ONS indicated that in the UK, there was no restriction, administrative or financial, to new entrants in supplying additional courses. As long as the course was professionally run and thus accredited, it would be eligible to financing. New universities can be established. New classes can be opened by existing universities. The IE statistical authorities indicated that, in Ireland, only universities recognised as such in legislation are accredited by the State and eligible for public funding. However, universities, once so established, are free to open and close classes as they see fit, and are generally independent of Government in their decision-making.

Findings and conclusions

Eurostat concluded that this topic merits further analysis on a more general level and this should be discussed with the Financial Accounts Working Party, to examine the analogy with the treatment of hospitals and to document country practices, with a view to clarify the Manual on Government Deficit and Debt. For the moment IE and the UK do not need to change the classification of universities. The expected impact for IE of a reclassification inside government would be small in deficit and debt terms.