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FINAL FINDINGS

EDP Dialogue Visit to the United Kingdom

26-28 January 2011

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EXECUTIVE SUMMARY

On 26-28 January 2011 Eurostat carried out an EDP dialogue visit to the United Kingdom.

Eurostat and the UK authorities discussed **institutional issues**, namely the relocation of part of the Office for National Statistics (ONS) from London to Newport and the possibility to broaden the membership of the National Accounts Classification Committee. Further discussions focused on Service Level Agreements between the relevant national authorities, the creation of the Office for Budget Responsibility, and ONS access to the Combined On-line Information System (COINS). The UK authorities confirmed that the September 2009 version of the EDP inventory was the most up to date version.

The UK authorities explained the revision policy applicable to national accounts data and public sector finance data. In connection with data sources, the UK authorities agreed to provide information on the Whole of Government Accounts (WGA) and OSCAR projects, as well as to work to reduce statistical discrepancies.

As a **follow-up to the January 2009 visit**, Eurostat welcomed the fact that, out of 15 action points agreed during the previous dialogue visit in January 2009, ten had been entirely completed. The UK authorities agreed to complete the outstanding action point on the classification of the North-South bodies. Other outstanding action points were discussed in the context of specific transactions and the reporting of data in EDP table 3.

As a **follow-up to the October 2010 notification**, the UK authorities agreed to inform Eurostat about the plausibility of the algorithm used to calculate forecast data on a calendar year basis.

Given that the UK's EDP tables 2A-2D are largely empty, the UK authorities agreed to regularly provide the reconciliation of central government net cash requirement and net borrowing/net lending (B.9) figures.

In connection with EDP table 3, the UK authorities will check the availability of source data for a breakdown of loans. The UK authorities confirmed that there were no data available to distinguish between portfolio and other investment, and committed to better explain the methodology used for compilation of other accounts receivable/payable.

Eurostat and the UK authorities discussed a number of potential improvements to the data in EDP table 3: the treatment of accrued interest receivable, the difference in other financial assets in EDP table 3A and EDP questionnaire table 4.1.1, possible reclassification of certain government deposits in banks as loans, and the recording of data on financial derivatives.

The UK authorities explained significant issuances above/below nominal value in 2008 and 2009, and agreed to ensure that the line for other volume changes in financial liabilities in EDP table 3 contains no discrepancy/balancing items. With regard to local government data, Eurostat and the UK authorities discussed the classification of Arms Length Management Organisations (ALMOs).

Eurostat encouraged the UK authorities to provide further data in EDP Table 4, according to availability.

The UK authorities acknowledged the need to provide more detailed information in EDP questionnaire table 1.1.2, especially with regard to major reclassifications. They confirmed that there were no recent securitisation and sale/leaseback operations on the part of general government (parts 12 and 13 of the EDP questionnaire). Other tables and parts of the EDP questionnaire were discussed in the context of specific transactions.

In connection with the supplementary table on financial turmoil, Eurostat and the UK authorities discussed the recording of interest payable (part 1 of the supplementary table), pre-financing to Icesave depositors, and a bilateral loan to Ireland. The UK authorities confirmed that they were not aware of any cases of buy-back of shares at a premium.

As part of **methodological issues**, Eurostat and the UK authorities reviewed the ongoing process to develop guidance on the classification of publicly-controlled bad banks as well as the classification of UK Financial Investments Ltd (UKFI), the Financial Services Compensation Scheme (FSCS), the Pension Protection Fund (PPF) and Network Rail. Further discussions focused on classification issues related to Foundation Trust Hospitals, the London Olympics and nuclear decommissioning.

In the context of the implementation of the accruals principle, Eurostat and the UK authorities discussed the time-adjusted cash (TAC) method, the 2010 questionnaire on taxes and social contributions and the recording of tax credits. The recording of accruals adjustments in connection with income tax errors and the issue of recording of “coupon sold” were also discussed.

Further discussions focused on **specific transactions**. The UK authorities accepted the need to comply with the Eurostat decision on accounting treatment of UMTS proceeds. With regard to EU flows, issues relating to the final recipient, timing and disallowance were discussed. Eurostat also stressed the importance of providing more data in table 8 (central government claims, debt cancellation) and table 9 (guarantees) of the EDP questionnaire. Further discussions focussed on the difference between debt assumptions and cash calls, as well as on export credit guarantees.

Eurostat stressed the need to ensure consistency between EDP questionnaire tables 10.1 and 10.2, to provide more information about capital injections and dividends, and to carry out an analysis for possible super-dividends. In addition, the UK authorities agreed to analyse a past hospital-related public private partnership (PPP) contract and two new PPP projects of their choice. With regard to military equipment, the UK authorities accepted to verify the source of data provided in EDP questionnaire and to verify whether military expenditure data was recorded on a delivery basis.

In the context of other transactions, Eurostat and the UK authorities reviewed the recording of emission trading permits and new developments in the area of high speed rail lines.

Other issues included the ESA 95 transmission programme, the Renewable Energy Obligations Certificate (ROC) scheme and the recording of imputed subsidies.

INTRODUCTION

In accordance with Article 11 of Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to the United Kingdom on 26-28 January 2011.

Eurostat was represented by Mr John Verrinder, the head of unit C.4 “Statistics for Excessive Deficit Procedure II”, Mr Gabe de Vries and Mr Martynas Baciulis. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meetings as observers. The UK was represented by the Office for National Statistics (ONS), Her Majesty’s Treasury (HM Treasury) and the Bank of England.

Eurostat carried out the EDP dialogue visit with the main aims of (1) assessing the existing institutional arrangements and statistical compilation in the UK in view of the relocation of ONS national accounts tasks to Newport, (2) understanding the adjustment of budgetary data for purposes of national accounts, and (3) encouraging the UK authorities to provide more information in EDP tables and questionnaire.

In relation to procedural arrangements, Eurostat explained the established procedure, in accordance with Article 11 of Regulation 479/2009, 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.

Eurostat thanked the UK authorities for the documents provided before the dialogue visit. The discussions were open and constructive, and Eurostat appreciated the explanations provided by the UK authorities.

The following points were discussed:

1. INSTITUTIONAL ISSUES

1.1. Relocation to Newport

Introduction

Eurostat enquired about the impact on statistical compilation of the relocation of part of ONS from London to Newport, and about the risks this could pose for the April 2011 EDP notification.

Discussion and methodological analysis

The UK authorities informed Eurostat that the handover process related to the relocation of ONS from London to Newport was almost complete and that all teams had been

operating in Newport for 12 months. ONS explained that there remained a lack of experience of some of the staff.

Eurostat was also informed that, in order to ensure maximum experience and expertise, the membership of the National Accounts Classification Committee (NACC) could be broadened to include external experts. In the UK the NACC makes classification decisions for the national accounts.

Findings and conclusions

Eurostat took note of the ONS explanations. With regard to the NACC, Eurostat shared the experience of other EU Member States where similar classification committees operated, composed of the National Statistical Office, Ministry of Finance and Central Bank.

1.2. Institutional Responsibilities

Introduction

Eurostat enquired about new developments in the area of institutional responsibilities. Discussions focused on Service Level Agreements between the relevant national authorities, the creation of the Office for Budget Responsibility (OBR), and ONS access to the Combined On-line Information System (COINS).

Discussion and methodological analysis

ONS described the framework for cooperation with HM Treasury (for central government data), the Department for Communities and Local Government (DCLG, local government data for England), and the Bank of England. The cooperation between ONS and HM Treasury is governed by a Service Level Agreement which was to be reviewed in the near future. ONS also has a Service Level Agreement with the Bank of England. The cooperation between ONS and the DCLG takes the form of quarterly meetings; there is no Service Level Agreement between them.

According to the UK authorities, their cooperation has not substantially changed following the creation of the Office for Budget Responsibility. The OBR was formed in May 2010 to make an independent assessment of the public finances and the economy for each Budget and Pre-Budget Report.

HM Treasury confirmed that the OBR and the DCLG had direct access to COINS, a database used by HM Treasury to collect financial data from across the public sector. ONS does not have direct access to COINS, but relies on HM Treasury to provide reports based on data extractions from COINS.

Findings and conclusions

Eurostat and the UK authorities agreed on the importance of a full transparency of coding of transactions in COINS, and therefore of the note maintained by HM Treasury on the adjustments made to COINS data before sending them to ONS. Eurostat will be provided with copies of the existing Service Level Agreements that ONS has with HM Treasury and the Bank of England.

Action point 1. *By 31 March 2011, the UK authorities will provide Eurostat with a copy of the existing Service Level Agreement between ONS and the Bank of England, and the (recently updated) HM Treasury document on adjustments made to COINS data before sending them to ONS. The UK authorities will also send to Eurostat the updated Service Level Agreement between ONS and HM Treasury, when it is available.*

1.3. EDP Inventory

Introduction

Eurostat wanted to know whether the September 2009 version of the EDP inventory was the most up to date. The UK authorities were informed about the new EDP inventory format. The possibility of introducing sub-sectors of state government (S.1312) and social security funds (S.1314) for the purposes of national accounts was mentioned.

Discussion and methodological analysis

ONS confirmed that the September 2009 version of the EDP inventory was the most up to date and that no update was imminent.

Eurostat informed the UK authorities about the new EDP inventory format which would involve structural changes and require more detailed information. Eurostat explained that the new format was being introduced to improve the availability of information on “upstream” data and to take into account the new powers of Eurostat.

The UK authorities have no current plans to introduce sub-sectors for state government (S.1312) and social security funds (S.1314) for the purposes of national accounts. Currently, the devolved administrations of Scotland, Wales and Northern Ireland are included in the sub-sector of central government (S.1311). The administration of social security funds in the UK is also treated as an integral part of central government.

Findings and conclusions

Eurostat and the UK authorities took note of the information provided.

1.4. Revision Policy and Data Sources

Introduction

Eurostat enquired about the UK’s data revision policy, COINS, the Whole of Government Accounts (WGA) project, and the move from the Generally Accepted Accounting Principles (GAAP). The issue of statistical discrepancies was also discussed.

Discussion and methodological analysis

ONS explained that revisions to national accounts data are restricted to an open period (approved by national accountants), whereas no formal restrictions apply to revisions of public sector finance data.

HM Treasury explained that COINS was used for fiscal management, parliamentary and statistical purposes as well as for the preparation of WGA. Eurostat was also informed

that HM Treasury undertook routine classification matters and consulted ONS for difficult or novel cases.

The UK authorities informed Eurostat that the Whole of Government Accounts for 2009/2010 financial year will be published for the first time in 2011. WGA addresses the issue of accrual-based accounting in the whole public sector, excluding public banks. Eurostat was also informed about the new OSCAR project, intended to establish procedures for all adjustments to data from source to publication, and to ultimately replace COINS. Eurostat requested more information about the project when it is available.

The UK authorities confirmed that reporting of central government data had moved from a UK GAAP basis to International Financial Reporting Standards (IFRS). Reporting of local government data will move to IFRS in 2011.

Eurostat underlined that statistical discrepancies remained large, particularly given that both cash and resource accounts are compiled in an integrated framework for central government, and stressed the need to work to reduce them.

Findings and conclusions

The UK authorities agreed to provide feedback on the WGA project and more information on the OSCAR project, and to reduce statistical discrepancies.

Action point 2. By 30 September 2011, the UK authorities will provide Eurostat with feedback on the pilot exercise for 2009 of the Whole of Government Accounts project, especially with regard to the possible impact on statistics.

Action point 3. In due course, the UK authorities will provide Eurostat with information on the OSCAR project, especially on its role in providing source data for fiscal statistics.

Action point 4. By 30 September 2011, the UK authorities will investigate the statistical discrepancies between financial and non-financial accounts, for example by assessing the quality of data on other accounts receivable/payable (cf. action point 8).

2. FOLLOW-UP OF THE JANUARY 2009 VISIT

Introduction

Eurostat and the UK authorities discussed the progress report provided by the UK authorities before the dialogue visit.

Discussion and methodological analysis

Eurostat welcomed the fact that, out of 15 action points agreed during the previous dialogue visit in January 2009, ten had been entirely completed.

The UK authorities acknowledged the need to complete the previous action point on the

classification of the North-South bodies. These so-called implementation bodies, created by the Good Friday Agreement of 1998, are considered as international organisations both in the UK and in Ireland. As they do not have diplomatic status, such a classification is not in line with the methodological framework of national accounts. Both ONS and the Irish statistical authorities have agreed to follow the Eurostat's recommendation to include the North-South bodies in the general government sectors of the UK and Ireland, in proportion to their funding.

Other outstanding action points on EU flows (2009 action point 12), military equipment (2009 action point 13) and public private partnerships (2009 action point 14) were discussed under agenda point 4.3. Specific Transactions. The outstanding action point on the calculation of K.10 (2009 action point 7) was discussed under 3.4. EDP Table 3.

Findings and conclusions

The UK authorities accepted the need to complete the outstanding action points.

Action point 5. To complete the 2009 action point 5, ONS will liaise with the Irish statistical authorities to agree an appropriate recording of North-South bodies by 31 March 2011.

3. FOLLOW-UP OF THE OCTOBER 2010 EDP NOTIFICATION

3.1. General Review

Eurostat recalled the tight deadlines applicable to both Eurostat and national authorities during the EDP notification. Eurostat expressed the hope that a smooth interaction will take place during the April 2011 EDP notification. Eurostat also encouraged ONS to send a note at each EDP notification round, explaining significant changes and revisions between EDP notifications, to anticipate possible Eurostat requests for clarification.

3.2. Reporting of Calendar Year Data

Introduction

Eurostat and the UK authorities reviewed the reporting of calendar year data.

Discussion and methodological analysis

Eurostat took note that, owing to the UK financial year differing from the calendar year, the UK authorities do not compile or provide a calendar year forecast in the EDP notification. For internal purposes, Eurostat uses a simple algorithm to convert the UK financial year data into a calendar year forecast, and wished to check the appropriateness of its approach. Following the algorithm, the figures for the calendar year t are the weighted sum of corresponding data for the financial years $t-1/t$ and $t/t+1$ with weights of $1/3$ for the year $t-1/t$ and $2/3$ for the year $t/t+1$:

$$\text{Calendar year}_t = 1/3 \text{ financial year}_{t-1/t} + 2/3 \text{ financial year}_{t/t+1}$$

Findings and conclusions

The UK authorities confirmed that a similar algorithm (however, based on quarters rather than thirds of the financial year) is used by the UK Office for Budget Responsibility and agreed to check the plausibility of Eurostat's approach.

Action point 6. By 31 March 2011, the UK authorities will inform Eurostat about the plausibility of the algorithm used by Eurostat to calculate forecast data for a calendar year, in discussion with the UK Office for Budget Responsibility.

3.3. EDP Table 2

Introduction

Eurostat and the UK authorities discussed the reporting of data in EDP tables 2A-2D which should reconcile, by sub-sector of general government, the working balance reported in a Member State's public accounts or budgetary presentation with net borrowing/net lending.

Discussion and methodological analysis

Eurostat pointed out that the UK's EDP tables 2A-2D are largely empty, with a lack of information on the transition from public accounting concepts to the national accounts concept of net borrowing/net lending (B.9). The UK authorities had provided the relevant reconciliation table only once, in October 2009.

Findings and conclusions

As a follow-up to 2009 action point 6, the UK authorities agreed to regularly provide the reconciliation of central government net cash requirement and net lending/net borrowing (B.9) during each EDP notification round.

3.4. EDP Table 3

Introduction

Eurostat and the UK authorities reviewed the reporting of data in EDP table 3, which reconciles the changes in debt with flows (stock-flow adjustment).

Discussion and methodological analysis

Eurostat pointed out that there was no breakdown of data on loans in EDP table 3 and encouraged the UK authorities to investigate further the available sources for this.

The UK authorities confirmed that there was no data available to distinguish between portfolio and other investment. However, they committed to better explain the methodology used for compilation of other accounts receivable/payable (F.7) and to further break down the relevant data in table 4 of the EDP questionnaire.

Eurostat and the UK authorities discussed a number of potential improvements to the data. Eurostat stressed that the treatment of accrued interest receivable should be

consistent with the relevant provisions of the Manual on Government Deficit and Debt (MGDD) and asked for an explanation for the difference in other financial assets in EDP table 3A and EDP questionnaire table 4.1.1. The UK authorities were also encouraged to consider possible reclassification of certain government deposits in banks (in the context of the financial crisis) as loans and to verify the method used to record data on financial derivatives.

According to HM Treasury, significant issuances above/below nominal value in 2008 and 2009 were explained by a combination of a broadly unchanged supply of gilts and lower yields. Eurostat took note of the explanation.

Eurostat stressed that other volume changes in financial liabilities (K.7, K.8, K.10) remained unusually large. This raises questions about the data provided in the relevant line, given that examples of K.7 (Catastrophic losses) and K.8 (Uncompensated seizures) are very unusual across countries.

With regard to local government data (EDP table 3D), Eurostat enquired about the classification of Arms Length Management Organisations (ALMOs), companies set up by local authorities to manage and improve all or part of their housing stock. ONS confirmed that some 70 such organisation already existed in the UK. According to ONS, ALMOs are owned by local authorities, but run independently and their fees are considered as sales. As a result, ONS classifies ALMOs as public non-financial corporations (S.11001). Eurostat requested more information about the fees charged by ALMOs.

Findings and conclusions

The UK authorities agreed to implement the following action points:

Action point 7. By 30 September 2011, the UK authorities will report to Eurostat on the possible availability of source data for a breakdown (increase/reduction) of loans.

Action point 8. By 30 September 2011, the UK authorities will provide a further breakdown of data in part 4 of the EDP questionnaire and will better explain the methodology (direct accrual data or a model) used for other accounts payable.

Action point 9. By 31 March 2011, the Bank of England will provide Eurostat with information about the treatment of accrued interest receivable in data sources for EDP Table 3B.

Action point 10. By 31 March 2011, the UK authorities will check whether the difference in other financial assets in EDP table 3A and EDP questionnaire table 4.1.1 can be explained by the allocation of special drawing rights (SDR) by the IMF, and confirm if a correct recording has been applied.

Action point 11. By 31 March 2011, ONS will consider whether certain government deposits in banks (in the context of the financial crisis) should be treated as loans and, if so, will inform Eurostat about the reclassification.

Action point 12. By 31 March 2011, the UK authorities will verify the method used to record data on financial derivatives in EDP table 3 and financial accounts.

Action point 13. As a follow-up to 2009 action point 7, the UK authorities, by 30 September 2011, will ensure that the line for other volume changes in financial liabilities in EDP table 3 contains no discrepancy/balancing items.

Action point 14. By 31 March 2011, ONS will inform Eurostat of the reason why the fees charged by ALMOs are considered as sales for the purposes of determining their market/non-market nature.

3.5. EDP Table 4

Eurostat and the UK authorities reviewed the reporting of data in EDP table 4 which requires further specific information.

Eurostat encouraged the UK authorities to provide further data in the table, according to availability. For instance, more information on banks could be provided under part 3 (government on-lending to public corporations) which ensures better comparability of government debt between Member States.

3.6. EDP Questionnaire

Eurostat explained that the EDP questionnaire was a structured way to provide additional information needed to assess the EDP tables. As a result, the EDP questionnaire helps to anticipate possible Eurostat requests for clarification.

The UK authorities acknowledged the need to provide more detailed information in EDP questionnaire table 1.1.2 (explanation of revisions of net lending/borrowing between two notifications), especially as regards major reclassifications. ONS explained that major reclassifications were usually accompanied by an article published on its website.

The UK authorities confirmed that there were no recent securitisation and sale/leaseback operations on the part of general government (parts 12 and 13 of the EDP questionnaire).

EDP questionnaire table 4.1.1 was discussed under agenda point 3.4. EDP Table 3. EDP questionnaire tables 5 and 6 as well as parts 7, 8, 9 and 10 were discussed under 4. Methodological Issues and Recording of Specific Transactions.

3.7. Supplementary Table on Financial Turmoil

The UK authorities informed Eurostat that they applied a model to calculate interest payable in part 1 of the supplementary table.

Further discussions concentrated on the pre-financing to Icesave depositors, provided by the UK government, and a bilateral loan to Ireland. With regard to pre-financing to Icesave depositors, Eurostat recalled that, after a final agreement is reached, the issues of a potential spread over time and a below-market interest rate would have to be taken into account. With regard to the bilateral loan to Ireland, Eurostat informed the UK authorities about the future questionnaire to be completed on intergovernmental lending.

The UK authorities confirmed that they were not aware of any cases of buy-back of shares at a premium (bank penalties).

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC TRANSACTIONS

4.1. Classification

Introduction

Eurostat and the UK authorities discussed the classification of bad banks, UK Financial Investments Ltd (UKFI), the Financial Services Compensation Scheme (FSCS), the Pension Protection Fund (PPF) and Network Rail. Further discussions focused on classification issues related to Foundation Trust Hospitals, the London Olympics and nuclear decommissioning.

Discussion and methodological analysis

Eurostat provided an update of the ongoing process to develop guidance on the classification of publicly-controlled bad banks, defined as entities whose main purpose is to manage problematic assets. Additional guidance is needed because certain classification issues are not explicitly covered by either the Manual on Government Deficit and Debt (chapter IV.5 on financial defeasance) or the Eurostat decision of July 2009¹. At the moment all three such UK institutions – Bradford & Bingley plc, Northern Rock Asset Management plc (NRAM) and Dunfermline Building Society in administration (DBSia) – are classified as financial corporations (S.12).

ONS informed Eurostat that there had been no changes in the classification of UKFI and FSCS, both of which were classified inside general government. Eurostat was also informed about the creation of UK Asset Resolution (UKAR), the new holding company of Bradford & Bingley plc and NRAM.

ONS informed Eurostat that there were no changes in the classification of the PPF and Network Rail, both of which were classified outside general government. According to ONS, the situation of Network Rail has not changed since the adoption of the Railways Act in 2005, and there was no evidence of government interference.

ONS confirmed that Foundation Trust Hospitals were still classified inside general government.

Eurostat was informed that the London Organising Committee of the Olympic and Paralympic Games (LOCOG), the body responsible for preparing and staging the Games, is classified inside central government. ONS observed, however, that the LOCOG's non-market nature might change over time because of income from ticket sales. Management

¹ Eurostat decision on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis (released on 15 July 2009).

and maintenance of the facilities after the Games will be the responsibility of the Olympic Park Legacy Company which is a public unit and receives some government aid, but is classified outside general government.

ONS confirmed that there were no changes in the classification of the Nuclear Liabilities Fund which was still classified inside central government. However, British Energy Group Ltd was reclassified as a private non-financial corporation, following its takeover by Électricité de France (EDF) in 2009. Site Licence Companies, responsible for operating the nuclear sites, were reclassified inside central government.

Findings and conclusions

The UK authorities agreed to review the statistical classification of Bradford & Bingley plc, NRAM and DBSia, taking into account the future Eurostat guidance.

ONS agreed to inform Eurostat about recent developments in the UK rail industry.

Action point 15. By 30 September 2011, ONS will send Eurostat a note on the national accounts classification of Network Rail, taking into account developments in the UK rail industry in recent years.

4.2. Implementation of Accruals Principle

4.2.1. Taxes and Social Contributions

Introduction

Eurostat and the UK authorities reviewed the time-adjusted cash (TAC) method, the 2010 questionnaire on taxes and social contributions and the recording of tax credits. The recording of accruals adjustments in connection with income tax errors was also discussed.

Discussion and methodological analysis

Eurostat took note that the UK authorities mostly used the TAC method to record tax revenue.

Eurostat pointed out the lack of data in the line for capital taxes (D.91) of the EDP questionnaire table 5. Certain information is also missing in the separate questionnaire on taxes and social contributions. Apart from occasional omissions in part 1 (Data sources and institutional arrangements) and part 2 (Methods) of the questionnaire, no information is provided in part 3 (Other issues), part 4 (Changes to methods) and the national tax list.

HM Treasury informed Eurostat that some 20 million cases of income tax errors had been identified, which would necessitate the recording of accruals adjustments. Eurostat suggested considering the possibility of a one-off adjustment, similar to the one applied in the case of tax amnesties.

The UK authorities confirmed that the recording of tax credits follows the OECD rules and international practice.

Findings and conclusions

The UK authorities agreed to implement the following action point:

Action point 16. *By 31 March 2011, the UK authorities will provide the missing information in the questionnaire on taxes and social contributions (cf. parts 3, 4 and the national tax list). In addition, they will provide data on the Financial Services Compensation Scheme (FSCS) in the line for capital taxes (D.91) of the EDP questionnaire table 5.*

4.2.2 Interest

Introduction

The issue of recording of “coupon sold” was discussed.

Discussion and methodological analysis

The issue was discussed during the meeting of the Financial Accounts Working Group (FAWG) on 6-8 December 2010.

“Coupon sold” refers to the amount that government receives in addition to the issue price for the principal of issued securities due to the fact that the new tranche of a bond (holding all the characteristics such as coupon rate and payment dates, maturity, etc.) is issued between two coupon payment dates and thus the investor pays to the issuer the accrued coupon since the last payment. The investor is entitled to receive full coupon amount at the next coupon payment date.

Eurostat underlined that “coupon sold” must not be treated as a revenue, as appears to be the case in the UK.

Findings and conclusions

The UK authorities acknowledged the need to revise accrued data on gilts, so that corresponding amounts were not treated as government revenue at time of issue. Eurostat pointed out that, for the purposes of EDP reporting, revisions should primarily concern four-year time series.

Action point 17. *By 31 March 2011, HM Treasury will discuss data available on coupon sold with the UK Debt Management Office (DMO) and will inform Eurostat about the further work and timescale to revise the relevant time series.*

4.3. Specific Transactions

4.3.1. UMTS

Introduction

Eurostat stressed the need for the UK to comply with the Eurostat decision on the accounting treatment of UMTS proceeds of 2000² and the relevant provisions of the Manual on Government Deficit and Debt (MGDD).

Discussion and methodological analysis

ONS informed Eurostat that it had reflected on revising the treatment of UMTS proceeds. According to the Eurostat decision of 2000, the UK must treat the transaction as a sale of a non-financial asset (one-off impact on net borrowing/net lending), and not as a rent for the use of a non-financial asset (impact on net borrowing/net lending spread throughout the duration of the licence).

ONS enquired about the treatment of UMTS proceeds at the end of the licence. Eurostat explained that this issue would be dealt with when updating the MGDD.

Findings and conclusions

The UK authorities accepted the need to comply with the Eurostat decision of 2000 and the relevant provisions of the MGDD.

Action point 18. By 31 March 2011, ONS will inform Eurostat about formal steps taken to comply with the Eurostat decision of 2000 in relation to UMTS.

4.3.2. EU Flows

Introduction

Eurostat and the UK authorities reviewed the reporting of data in table 6 of the EDP questionnaire and the outstanding action point 12 of 2009 (identification of the final recipient of EU funds).

Discussion and methodological analysis

Eurostat pointed out the lack of data in EDP questionnaire table 6. Further issues relating to the final recipient, timing and disallowance were also discussed. Eurostat underlined the importance of knowing whether the final recipient of an EU grant is a government unit. Transactions should be recorded on an accrual basis, i.e. when a government unit makes the final expenditure. Eurostat recalled that disallowance should be recorded at the time of the relevant European Commission decision.

² Eurostat decision on the allocation of mobile phone licenses (UMTS), Eurostat News Release No 81/2000 of 14 July 2000.

Eurostat also enquired about the recording of EU grants by local government units and suggested tracking one project as an example.

Findings and conclusions

The UK authorities agreed to implement the following action point:

Action point 19. *By 30 September 2011, the UK authorities will investigate provision of data on EU grants retained by government on its own expenditure, and (if such grants exist) will match the relevant revenue and expenditure. The UK authorities will inform Eurostat whether local government units record grants on an accrual basis. At the same time the UK authorities will verify the time of recording of disallowance and will inform Eurostat whether disallowed grants are recovered from final beneficiaries.*

4.3.3. Guarantees

Introduction

Eurostat and the UK authorities discussed the reporting of data in table 9 of the EDP questionnaire.

Discussion and methodological analysis

Eurostat stressed the importance of providing more data in the table, in view of the probable needs for data on guarantees to support the proposed EU economic governance package. For instance, the table could include the information on contingent liabilities, provided to the UK Parliament.

Further discussions focussed on the difference between debt assumptions and cash calls, as well as on export credit guarantees. According to the UK authorities, the information on cash calls is available in COINS, at least on an annual basis. With regard to export credit guarantees, Eurostat enquired about the risks covered by the Export Credits Guarantee Department (ECGD). The UK authorities explained that the ECGD operated on a break-even basis and did not receive regular government transfers.

Eurostat also encouraged the UK authorities to provide more data in tables 9.2 (debt assumption) and 9.3 (for example, fees received as remuneration for guarantees granted to financial institutions), and to verify the sources of existing data. The UK authorities were asked whether guarantees could be granted by local government.

Findings and conclusions

The UK authorities agreed to implement the following action points:

Action point 20. *By 30 September 2011, the UK authorities will provide more data on government guarantees in table 9 of the EDP questionnaire and will verify the sources of existing data.*

Action point 21. *By 31 March 2011, the UK authorities will inform Eurostat whether in the UK guarantees can be granted by local government.*

4.3.4. Debt Assumptions, Debt Cancellations and Debt Write-offs

Introduction

Eurostat and the UK authorities discussed the reporting of data in table 8 of the EDP questionnaire.

Discussion and methodological analysis

Eurostat pointed out the lack of data in the table and enquired about government claims against developing countries and public corporations. With regard to claims against developing countries, HM Treasury confirmed that there should be some information available for 2010.

Findings and conclusions

The UK authorities agreed to assure the quality of data in table 8 of the EDP questionnaire.

Action point 22. *By 30 September 2011, the UK authorities will provide more information in table 8 of the EDP questionnaire. As a first step, more information will be provided on loans (F.4).*

4.3.5. Capital Injections, Dividends and Super-dividends

Introduction

Eurostat and the UK authorities reviewed the reporting of data in table 9 of the EDP questionnaire.

Discussion and methodological analysis

Eurostat stressed the need to ensure consistency between EDP questionnaire tables 10.1 and 10.2 and to provide total figures in the latter table. In addition, more information is needed about capital injections (e.g. in London & Continental Railways and publicly owned banks) and dividends (e.g. paid by the Bank of England). Finally, the UK authorities were encouraged to carry out the “super-dividend test” for all dividends.

Findings and conclusions

The UK authorities agreed to implement the following action point:

Action point 23. *By 30 September 2011, the UK authorities will provide more data on capital injections and dividends in tables 10.1 and 10.2 of the EDP questionnaire, will ensure consistency between the two tables and will carry out an analysis for possible super-dividends.*

4.3.6. Public Private Partnerships (PPP)

Introduction

Eurostat and the UK authorities reviewed the list of 25 largest PPP projects, provided by the UK authorities before the dialogue visit, and the outstanding action point 14 of 2009 (analysis of three PPP projects).

Discussion and methodological analysis

Eurostat advised that, in case no contract is available, a precautionary approach would lead to the PPP project's assets being included on the government balance sheet.

The UK authorities informed Eurostat that the recording of the Ministry of Justice's Private Finance Initiative (PFI) prison deals in national accounts would be changed. Following a detailed analysis, the assets involved will now be recorded in the balance sheet of the private sector partners, whereas previously they had been recorded as government assets.

The UK authorities explained that under their IFRS-based approach, the classification of PPP assets is subject to a test of control. The move to the IFRS-based approach for resource accounts had the effect of removing the original UK GAAP-based data source that ONS relied on for assessing the economic owner of the PPP assets. To compensate for this, government departments started reporting new deals on a dual basis: according to their IFRS-based analysis for resource accounts purposes and an MGDD-based analysis for national accounts purposes (cf. technical guidance prepared by HM Treasury³). ONS reviews these reports bearing in mind previous classification decisions.

Findings and conclusions

The UK authorities accepted the need to complete the outstanding action point 14 of 2009 and it was agreed that new projects would be scrutinised.

Action point 24. As a follow-up to 2009 action point 14, the UK authorities, by 30 September 2011, will analyse a past hospital-related PPP contract, to verify whether the GAAP classification is consistent with national accounts classification. By the same time, the UK authorities will analyse two new PPP projects of their choice, to verify whether private accounting advice on classification is in line with ESA principles, and will send Eurostat the relevant contracts.

³ Technical Guidance on the Application of the Standards Used in the Production of National Accounts to PFI and Similar Transactions (HM Treasury, 2 September 2009), http://www.hm-treasury.gov.uk/d/tech_guidance_nataccounts_for_pfi.pdf.

4.3.7. Military Equipment

Introduction

Eurostat and the UK authorities discussed the reporting of data in table 7 of the EDP questionnaire and the outstanding action point 13 of 2009 (information on largest military projects).

Discussion and methodological analysis

Eurostat pointed out the lack of data in the table.

The crucial issue of the time of recording was discussed. Eurostat recalled the importance of recording the data on a delivery basis. The distinction between certain specific goods used by the military (single-use military goods) and other goods was also discussed.

Findings and conclusions

The UK authorities accepted the need to assure the quality of data in table 7 of the EDP questionnaire.

Action point 25. By 31 March 2011, HM Treasury will verify the source of data provided in EDP questionnaire table 7.2. By the same time, HM Treasury will verify with the UK Ministry of Defence whether military expenditure data is recorded on a delivery basis in accruals data reported in COINS.

4.3.8. Other Transactions

Financial derivatives were discussed under agenda point 3.4. EDP Table 3 (cf. action point 12).

Discussions concentrated on new developments in the area of emission trading permits. Eurostat reviewed the two main options of reporting – a financial asset and a split asset – presented by a joint OECD/Eurostat Task Force.

New developments in the area of high speed rail lines were also discussed. High Speed 1, or the Channel Tunnel Rail Link, is treated as a concession. High Speed 2, the proposed link between London and the West Midlands, is on the government balance sheet.

5. OTHER ISSUES

5.1. ESA 95 Transmission Programme

Eurostat pointed out occasional delays in data transmission and inconsistency of data not only within certain tables (e.g. table 25, quarterly non-financial accounts) but also between annual and quarterly tables (e.g. table 2 and table 25). The UK authorities were also encouraged to transmit data via eDAMIS and not via email. According to ONS, the inconsistencies can largely be explained by historical differences and different revision policies for national accounts data and public sector finance data.

In addition, the UK authorities were reminded about their obligation to provide consolidated financial accounts data in tables 6 and 7 upon the expiry of the relevant derogation.

5.2. Renewable Energy Obligations Certificate (ROC) Scheme, Imputed Subsidies

Discussions focused on rerouting of transactions in the case of the ROC scheme, and the general issue of recording of imputed subsidies.

The ROC scheme imposes an obligation on electricity suppliers to ensure that a given proportion of the electricity they supply to households and businesses is generated from renewable sources. Although government is not involved in the flows of money from suppliers to generators, ONS decided that the economic reality was that government was forcing these transactions to take place. As a result, ONS decided to impute a tax on suppliers and a subsidy from government to renewable generators covered by the ROC scheme. However, according to Eurostat, the fact that certain transactions took place because of government regulation did not always warrant rerouting them in national accounts.

With regard to the reporting of imputed subsidies, Eurostat informed the UK authorities that this practice was not common among other EU Member States.

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