EUROPEAN COMMISSION
EUROSTAT
Directorate D: Government Finance Statistics (GFS) and Quality

Luxembourg, 29 June 2017

FINAL FINDINGS

EDP dialogue visit to the United Kingdom

28-29 April 2015

Executive summary

Eurostat undertook a standard EDP dialogue visit to the United Kingdom on 28-29 April 2015. The purpose of the visit was to review institutional arrangements, the quality framework as well as the audit and internal control arrangements in place, to review data sources for the EDP data compilation as well as to review the sector classification of units and PPP arrangements in place.

Eurostat welcomed the independent nature of the classification work done by the National Accounts Classification Committee. The quality management framework currently in place was reviewed in detail. There is now a fully aligned UK version of the ESS Code of Practice and in addition the ONS has its own Quality Management Strategy, with a specific version for National Accounts on top of that. Moreover, data sources were discussed focussing in particular on the Central government database (OSCAR), and on data sources of devolved administration and of local government.

The progress made by the UK authorities on the open action points from the EDP visit of January 2013 were also discussed and a few remaining issues from the April 2015 EDP notification were clarified. The application of the ESA2010 methodological rules was also discussed. The sector classification of several units, like the Financial Services Compensation Scheme, the Central Stockholding Entity, Hinkley Point and the Asset Finance Vehicle were discussed in detail.

Particular attention was paid to the classification of PPP projects and to how the assessment of projects is done in the UK. The Private Finance model (PF2) was discussed in some detail and also new school projects. Eurostat emphasized the importance of properly examining signed project contracts in detail and to evaluate them as a whole.

Eurostat appreciated the information provided by the UK authorities before and during the EDP standard dialogue visit. Eurostat also thanked the UK authorities for their co-operation during the mission, and considers that the discussions were productive and constructive.

Final findings

INTRODUCTION

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, 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 28-29 April 2015.

The delegation of Eurostat was headed by Mr Eduardo Barredo Capelot, Director of Directorate D: Government Finance Statistics (GFS) and quality. Eurostat was also represented by Mr Luca Ascoli and Ms Mira Lehmuskoski. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers.

The United Kingdom was represented by the Office for National Statistics (ONS), Her Majesty's Treasury (HM Treasury), the Bank of England and the Department of Communities and Local Government (DCLG).

The previous Eurostat EDP dialogue visit to the United Kingdom took place on 24-25 January 2013.

Eurostat carried out this EDP dialogue visit in order to discuss the quality framework and the audit and internal control arrangements in place, to review data sources for the EDP data compilation and the sector classification of units as well as PPP arrangements in place.

With regard to procedural arrangements, the *Main conclusions and action points* would be sent to United Kingdom for review. Then the *Provisional findings* would be sent to the United Kingdom for review. After this, *Final Findings* will be sent to United Kingdom and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Since the Eurostat EDP dialogue visit to the United Kingdom, several action points have been discussed and the ONS has provided additional documents. The outcome of these action points is presented in the annex to this document.

Eurostat appreciated the fact that the UK authorities contributed to the smooth organisation of the visit with their open and constructive approach during the meeting as well as with documents provided before the visit.

1. STATISTICAL CAPACITY

1.1. Institutional responsibilities and EDP process

Introduction

Eurostat enquired about the current division of work for the EDP data compilation between ONS and HM Treasury and asked if there have been any changes. The classification work done by the National Accounts Classification Committee (NACC) was also discussed.

Discussion

The Office for National Statistics (ONS) and HM Treasury (HMT) are jointly responsible for the measurement of government deficit and debt, as published, for instance, in the monthly Public Sector Finances (PSF) bulletin. The ONS calculates historical data for past years and HM Treasury provides forecasts for future years. The classification of bodies to the General Government sector is the sole responsibility of the ONS (notably, the National Account Classification Committee). The Bank of England has a relatively small role, providing banking data.

The UK authorities confirmed that there had not been any substantial changes to the UK institutional arrangements regarding the compilation and publication of EDP data since the last Eurostat dialogue visit to the UK in 2013. However, there have been some changes in staff and in the internal divisional structure of the ONS since the last dialogue visit.

The EDP statistics are compiled by the ONS within the Government, Corporations and Classification division, which is in the National Accounts and Economic Statistics directorate. The public sector part of the division contains a number of different teams (or branches). The Public Sector Finances (PSF) and EDP delivery branch is the team responsible for compiling the EDP data (and GFS ESA Tables 2, 9, 25, 27 & 28), transmitting it to Eurostat and publishing it in UK statistical publications. To do this, the branch has its own EDP compilation processes and systems but it is reliant both on the data and work of other ONS branches and on administrative data provided by government bodies.

The central and local government delivery branches compile the general government (and sub-sector) financial and non-financial accounts for the UK National Accounts. To do this, it draws on data supplied by HMT through its Online System for Central Accounting and Reporting (OSCAR) database, the Department for Communities and Local Government (DCLG), HM Revenue & Customs (HMRC), other government departments, devolved administrations and other National Accounts teams within the ONS. The above mentioned branches also produce ESA Table 11.

The UK authorities explained how the classification work is organised in the ONS. The classifications branch manages the National Accounts classification process and maintains the Public Sector Classification Guide. The ONS runs the National Accounts Classification Committee (NACC) - which changed its name to the Economic Statistics Classification

Committee (ESCC) after the visit - which is a panel of experts in national accounting responsible for establishing the correct statistical treatment of all the units and transactions covered by the UK national accounts. To help the ESCC in reaching its decisions, the National Accounts classification branch gathers relevant information, collates the relevant guidance and presents the evidence for consideration. The classification work is the sole responsibility of the ONS.

The ONS has cooperation agreements with their key data suppliers: HM Treasury, HM Revenue & Customs, Department for Communities and Local Government (DCLG) and the Bank of England.

Findings and conclusions

1. *Eurostat takes note of the complete independence of ONS in deciding on the classification of units and treatment of transactions via the National Accounts Classification Committee and considers this as an example of good practice.*

1.2. Quality management framework

Introduction

The discussion focused on quality mechanisms in place and how they are applied in the UK.

Discussion

The UK Statistics Authority (UKSA) has a wide range of policies and activities governing the production of quality data. There is a fully aligned UK specific version of the ESS Code of Practice setting out the framework under which UK National Accounts are produced and published in the UK Statistics Authority Code of Practice for Official Statistics:
http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html

The code applies not only to the ONS statistics but to all official statistics produced by the Government Statistical Service (GSS) network. The UKSA is empowered to enforce the code under the Statistics and Registration Service Act 2007. To ensure compliance with these practices/policies, the UKSA carries out periodic assessments of each statistical output.

Additionally the ONS has its own Quality Management Strategy which was undergoing a significant rewrite at the time of the visit. National Accounts has its own Quality Management Strategy based on the ONS version. Statistics on Public Sector Finances was at the time undergoing a UKSA assessment, and the ONS PSF/EDP team was scheduled to receive preliminary findings of this exercise in May 2015 (the previous similar kind of assessment was done in 2011).

In addition to Service Level Agreements (SLAs) with external data providers, there are Internal Delivery Agreements with National Accounts data providers. EDP supplier meetings are arranged prior to the quarterly rounds and these meetings are used as an opportunity to discuss any issues arising with data providers. In these internal meetings, possible problems related to data, like source data delays, are discussed and these internal discussions feed backwards as well. For example, if there is a problem with source data, it is communicated to the source data providers in order to have them corrected/reviewed. Following the Eurostat

EDP Quality Management System (QMS), the UK has developed its own EDP QMS, where all processes are documented in flow charts and in more detail in the instructions to the EDP branch desk. These are stored in the central database with widespread access.

Revisions analysis is conducted via excel spreadsheets on all source data series delivered by data suppliers. Any significant revisions and growth rates are immediately investigated with the data supplier. In addition, data suppliers provide briefings each quarter to explain the revisions. The briefings clearly illustrate the movement in the data series and explain why the series have been revised.

Revisions analysis is repeated on the output tables to ensure that all revisions can be explained. Revisions analysis workbooks have been created in excel in order to illustrate the differences between the current EDP tables and the previous submission. This is to ensure that the data are internally consistent and revisions can be explained.

Findings and conclusions

Eurostat took note of existing quality management procedures and of revision analysis in place.

1.3. Audit and internal control arrangements

Introduction

The discussion focused on current audit arrangements.

Discussion

During the 2013 EDP dialogue visit, the UK authorities explained that external audits of central government entities are carried out by the National Audit Office (NAO) and regional audit offices (Audit Scotland, the Wales Audit Office and the Northern Ireland Audit Office). Until recently, the Audit Commission carried out a similar role for local government, but it has been abolished. The ONS and NAO hold regular high-level meetings where accounting issues are discussed. During those meeting new issues that have emerged are discussed, and how they are recorded under IFRS. UK public sector reporting has been based on full accruals concept since 2002.

External audit arrangements differ across general government bodies. All central government Departments, Agencies and other public bodies (in total some 420 bodies) are audited by the National Audit Office. Local government bodies are currently audited by a range of private sector audit firms that are appointed by the Audit Commission on fixed term contracts, following a competitive tendering procedure. When the Audit Commission stops and these contracts come to an end, it is intended that local government bodies would be able to appoint their own auditors under a regulatory regime, although with additional safeguards, to ensure independence and to take into consideration the wider regularity and value for money requirements placed on external auditors in the public sector. Certain health sector bodies (Foundation Trusts) have already the power to appoint their own auditors. All auditors must follow international audit standards. NAO also sets up auditing standards for local government units.

Eurostat asked whether there have been changes to EDP data based on NAO reports, but the UK authorities explained that there has been no need to change data based on those reports. The UK authorities explained that a professional, independent and objective internal audit service is recognised as one of the key elements of good governance throughout the UK public sector. Although not mandatory for all general government bodies, all major central and local government bodies (e.g. Departments, principal local authorities, NHS Trusts) have an internal audit service in place, in order to evaluate and improve the effectiveness of risk management, control and governance processes. This may take the form of an in-house, outsourced or shared-service arrangement. The Relevant Internal Audit Standard Setters (RIASS) have recently adopted a common set of Public Sector Internal Audit Standards (PSIAS) which encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), with additional requirements and interpretations for the UK public sector. Where an internal audit service is in place, then these standards must be followed.

Findings and conclusions

Eurostat took note of the current general government audit and internal control practices.

1.4. EDP Inventory

Introduction

The discussion focused on the progress made in drafting ESA2010 version of the EDP inventory for the UK.

Discussion

The current published EDP inventory was last updated in October 2011. During the 2013 EDP visit the UK authorities said that they were working on the new EDP inventory, having grouped the chapters as work packages and identified a leading author for each of them. Before the current visit, the ONS had provided a partial draft of EDP inventory under ESA2010 requirements. It has been agreed in the FAWG that the Member States should provide an updated version to comply with requirements of ESA 2010 and the plan is to publish the ESA2010 inventories by Eurostat before the end of 2015.

During the discussion, the ONS committed to provide a full draft of the new EDP inventory during the summer, which would allow Eurostat to make possible comments, and the final version of the inventory would be provided to Eurostat by September in order to be published on Eurostat website before the end of 2015. It was also agreed that Eurostat and the ONS would bilaterally agree on the level of detail to be included to the annex of the inventory. representing the list of general government units.

Findings and conclusions

2. *The ONS will provide a new version of the inventory on sources and methods to Eurostat, which will provide comments, with the view to finally publish it before the end of 2015. Deadline: September 2015*[1]

[1] The ONS has since provided the EDP inventory and Eurostat considers this action point completed.

3. *Eurostat and ONS will deal bilaterally on the issue concerning the classification of some units in the EDP inventory, more precisely in the annex of the list of general government units. Deadline: September 2015*[2]

2. REVIEW OF KEY DATA SOURCES

2.1. Central government database (OSCAR) and Whole of Government Accounts

Introduction

The discussion focused on the OSCAR database and the Whole of Government Accounts, and how they are used as source data.

Discussion

OSCAR (Online System for Central Accounting and Reporting) is the HM Treasury database that collects financial information from central government departments and the devolved administrations, for the purposes of parliamentary and statistical reporting and spending control.

Expenditure data and departmental revenue data (i.e. excluding tax revenue and interest receivable data) for the Central Government sub-sector are provided by OSCAR. The data are consolidated by the department or by the devolved administration and provided to the ONS as the definitive estimate of central government spending. The ONS receives a fully detailed data extract from OSCAR that includes transactional data at department/entity level. Central government departmental (and devolved administration) expenditure data (provided via OSCAR) are subject to various validation processes and improve over time.

Eurostat inquired what would happen if some inconsistencies or mistakes are found in the data. The UK authorities explained that, normally, the Treasury will ask the reporting unit itself to change the data in question. The Treasury can also change the data if needed. OSCAR has its own management board where the ONS is also a member.

OSCAR data codes are paired with ESA transaction and COFOG codes within its coding framework and, so, relatively few adjustments are required when reporting the data for the purpose of Government Finance Statistics. However, adjustments may be made to the OSCAR data reported by various departments and devolved administrations in OSCAR.

This is carried out:
(i) where there are methodological differences between ESA2010 and reporting requirements specified in HM Treasury's Government Financial Reporting Manual (FReM) and related guidance;
(ii) where additional information has come to light following departmental returns (typically in regard to monthly profiling of expenditure); and
(iii) where the ONS uses a different data source than OSCAR.

[2] The ONS has since provided the list of general government units and Eurostat considers this action point completed.

OSCAR mainly contains data on expenditures and it is limited to budgetary boundary. In addition to the OSCAR data, the Central Government accounts are compiled with the use of additional data sources, such as:

- tax data supplied principally by HM Revenue & Customs (HMRC);
- imputed or modelled data (such as capital consumption) calculated by the ONS;
- Bank of England survey data from financial corporations on deposit, loan and interest transactions with central government bodies;
- financing data from the Debt Management Office and HM Treasury;
- cash data from HM Treasury.

Eurostat inquired about the status of the OSCAR data for the April and October EDP reporting. The UK authorities explained, that for the April EDP notification much of the data for calendar year t-1 are provisional in-year data as the UK government budgets and reports on a UK financial year basis (April to March). By the time of the October EDP notification the data for t-1 will be much less open to revision as the data will reflect the final year end position, but some further revisions are still likely beyond the end of September as government departments and agencies ensure data are consistent with the final audited data.

In addition, the Whole of Government Accounts (WGA) were also discussed. They are a consolidated set of financial statements for the UK public sector. They consolidate the audited accounts of over 4,000 organisations across the public sector (including central government departments, local authorities, devolved administrations, the health service, academies and public corporations). WGA are based on International Financial Reporting Standards (IFRS), the system of accounts used internationally by the private sector, as adapted or interpreted for the public sector context.

WGA are different from the national accounts and EDP due to both definitional reasons (for example, WGA include liabilities relating to unfunded pension schemes and to certain PPP projects that are statistically considered ‘off-balance sheet’, as well as provisions and contingent liabilities) and to public sector coverage (including public corporations, except public banks). WGA do include, however, a broad reconciliation of statistical public sector debt and deficit measures with near equivalents within WGA. Data for WGA are largely sourced from OSCAR, for central government, and from local authority and public corporations’ accounting systems.

ONS had previously explained that the WGA figures for local authorities were on a group basis and so included many subsidiary companies (such as Manchester Airport and London Underground) which ONS classified as public corporations. Therefore, for national accounts purposes, the existing data sources for local authorities are still considered to provide more appropriate coverage than the WGA data. During the previous visit, Eurostat encouraged the ONS to check whether differences between WGA and current data sources for local government could be fully explained by consolidation of subsidiaries.

During the 2013 visit the following action point 4 was agreed: "*The ONS will undertake a project to compare direct Whole of Government Accounts and indirect Bank of England (counterparty) data for certain financial instruments in general government by end-2014, providing the results to Eurostat*".

Findings and conclusions

4. *The ONS will inform Eurostat on the amount of cash and deposits held by government at the Bank of England, with the view to determine whether the total amount of financial assets held by government in currency and deposits in the EDP context is consistent with the information coming from the Whole of Government Accounts. Deadline: September 2015*[3]

2.2. Data for Wales, Scotland and Northern Ireland

Introduction

Data sources for Wales, Scotland and Northern Ireland were discussed.

Discussion

In the UK, devolution refers to the statutory granting of powers from the UK Parliament to the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly, and to their associated executive bodies: the Scottish Government, the Welsh Government and the Northern Ireland Executive.

Central Government data for Scotland, Wales and Northern Ireland are compiled in exactly the same way as for other Central Government bodies in the UK with OSCAR data and Bank of England survey data available for the full UK territory. In general, the bodies whose authority is over the full devolved region (i.e. Scotland, Wales or Northern Ireland) are classified as Central Government bodies, whereas those bodies that have more localised regions of authority are classified as Local Government bodies.

Before this visit, the ONS informed Eurostat that, recently, some small taxes (Stamp Duty and Landfill tax) were devolved to Scotland with effect from April 2015. ONS is working closely with Revenue Scotland to collect these tax data directly, as HMRC have stopped collecting this data for Scotland starting from April 2015.

Findings and conclusions

Eurostat took note of the current situation.

2.3. Local Government data

Introduction

Eurostat and the UK authorities discussed data sources for local government, and in particular, the recordings of Housing Revenue Accounts.

Discussion

The data for the local government subsector are collected from statistical returns or administrative sources. The ONS does not collect the data directly. Instead, the data are

[3] The UK authorities have since provided information and Eurostat considers this action point completed (cf. Annex 1).

mainly collected by the Department for Communities and Local Government (DCLG), or by the devolved administrations in Scotland, Wales, and Northern Ireland.

In addition, data for some financial accounts series are provided by other sources. For example local government banking deposits series are provided by the Bank of England. Data for some non-financial accounts series are provided by other teams within the ONS. For instance capital consumption estimates are calculated by the capital stocks team using the perpetual inventory method.

The local government sub-sector is heavily dominated by the spending of Local Authorities in the UK. These include, for example, county councils, city councils, and London borough councils. Total coverage is achieved for these bodies on an annual basis through 100% response rates. For some of the quarterly and monthly data collections, it is sometimes necessary for the surveying body to estimate for missing returns. Other bodies in the local government subsector with notable spending include police and fire authorities, which are also included in statistical data collections, and in recent years Transport for London, including Crossrail, a large infrastructure project in London. In particular, the ONS is carefully separating the data relating to the public corporations and the local government subsectors.

The data collections done by the Department for Communities and Local Government and the devolved administrations are carried out using the same reporting standards wherever possible. The data are provided for a mixture of frequencies, sometimes for months, sometimes for quarters, and sometimes for a financial year (April to March). ONS is working with data suppliers to obtain at least quarterly data wherever possible. When quarterly data are not available, the financial year amounts are divided by four. In order to ensure compliance with ESA 2010, some adjustments are made to the data provided by the Department for Communities and Local Government (DCLG) and by the devolved administrations.

Eurostat enquired how well the ONS can get data for dividends, guarantees, non-performing loans and capital injections for local government units. The ONS explained that dividends and capital injections are obtained through data collection from two sides, i.e. data collected from local government units and separately from public corporations. The biggest dividends are seen at the housing revenue accounts. Data collections from two different sides allow also the super dividend test to be applied for dividend income. On the other hand, getting data for guarantees and non-performing loans of local government is more challenging.

In addition, Eurostat enquired how the amounts from the Housing Revenue Association reported in table 10.2 of the EDP related questionnaire were calculated. The ONS explained that every local authority that still owns and manages council houses is required to keep a ring-fenced account for housing services. This is its Housing Revenue Account (HRA) and surpluses received from HRAs to local government units are required to be returned to HRAs. Housing Revenue Accounts are treated as quasi-corporations. HRAs are not independent legal entities, but they do keep separate accounts and behave differently from their local authority parent. Eurostat was not fully convinced of the explanation about the recording of distributions in table 10.2 for distributions and asked the UK authorities to provide a note describing these recordings.

Findings and conclusions

[PREVIOUS ACTION POINT 6]

5. The ONS will send to Eurostat a paper describing the accounting of the Housing Revenue Accounts in Table 10.2 of the EDP questionnaire. Deadline: October 2015[4]

3. FOLLOW UP OF THE JANUARY 2013 EDP DIALOGUE VISIT

Introduction

Eurostat and the UK authorities discussed two follow up points from the last EDP dialogue visit relating to the recordings of EU funds and statistical discrepancies.

Discussion

Out of 34 actions agreed during the previous visit in January 2013, 28 have been completed. Four outstanding actions were discussed under following agenda points:

- 2.1 Whole of Government accounts; Comparison with Bank of England counterparty data (action 4)
- 5.2 Implementation of accrual principle; Interest (actions 11 and 24)
- 5.5 Financial crisis interventions; The classification of NRAM and B&B SPVs (action 32)

The remaining two actions were discussed under this agenda point. During the 2013 EDP dialogue visit, the following action was agreed:

"<u>Action 7.</u> The UK authorities will confirm to Eurostat by end-March 2013 if the timing adjustments for EU funds paid to third parties are reflected by entries in financial accounts."

For the follow up of this point ONS had provided a note explaining their accounting practice for EU funds. The UK receives funding from five principal EU sources:
- European Regional Development Fund (ERDF)
- European Social Fund (ESF)
- Cohesion Fund (CF)
- European Agricultural Fund for Rural Development (EAFRD)
- European Maritime and Fisheries Fund (EMFF).

Each of these funds is managed in the UK by one or more authorised managing authorities. Most of the bodies in receipt of European funds are private sector bodies although some government units are beneficiaries of European funding. All managing authorities in the UK are classified in the government sector.

In general, the European Institutions administering the funds only provide the funds once the expenditure has taken place and they have received all relevant documents in order to provide reimbursement for the appropriate amount. Similarly, the UK central government department, or devolved administration, which is operating as managing authorities, will only disburse EU funding once such payments have been confirmed as allowable for EU grant/subsidy purposes.

[4] The UK authorities have provided the information and Eurostat considers this action point completed (cf. annex 2).

Although the EU funding passes through government accounts, in the UK, the subsidies and grants paid through the EU funds are recorded as being paid directly from the Rest of the World sector (S.2) to the relevant National Accounts Sector (i.e. the sector to which the fund beneficiary belongs). To achieve this, the departmental (or devolved administration) revenue and expenditure data relating to EU Structural and Agricultural Funds, are removed prior to compiling government net borrowing. Only expenditure which relates to grants or subsidies to third parties is excluded. So, where government itself is the final beneficiary for EU funding, then the expenditure (and related revenue) is recorded normally in the government accounts.

Cash flows in and out of the UK Government related to EU grants and subsidies are included within the F.2/AF.2 data in the government financial accounts. As grants are generally only drawn down from the EU once they are eligible to be paid, it has been assumed that there is no significant timing difference between the cash flows in and the cash flows out, and therefore there are no timing adjustments recorded in the accounts for EU grants. Although over the course of a financial year the flows do balance, this is not necessarily the case on a quarterly basis and therefore any timing differences that do exist will be feeding into the statistical discrepancy.

In the case of EU agricultural subsidies, the UK has recognised that there are timing adjustments between when the cash funds are received from the EU and the distribution of those funds. What the UK assumes is that the payment of EU subsidies to third parties is broadly flat in profile across a financial year, but this contrasts sharply with the timing of the subsidy cash received from the EU which is mostly received in a single quarter of the year (normally in February). A net "other accounts receivable/payable" figure for EU subsidies is calculated based on the cash receipt profile and the assumed flat profile for expenditure. This net timing adjustment is recorded within other accounts payable. Where the assumed flat payment profile for the subsidies differs from the actual timing of the subsidy payments, the difference will be feeding into the statistical discrepancy.

Eurostat asked if the ONS can identify expenditure made on behalf of EU. The UK authorities explained that there are no significant prepayments in the UK and they do not record expenditure of government, and that way B.9 is not impacted. UK spends cash, which is only later on reimbursed and that could potentially introduce discrepancy between non-financial and financial accounts.

The following action was also agreed during 2013 EDP visit:

<u>Action 12.</u> *Eurostat welcomes the progress made on investigating other statistical discrepancies of UK central government and expects the results of this work to be implemented in the April 2013 EDP notification tables. By the October 2013 EDP notification, the UK authorities will complete an investigation of other statistical discrepancies for local government. Eurostat also underlines the need to continue work on discrepancies between financial and non-financial accounts and will follow this up with the ONS during the course of forthcoming EDP notifications.*

Since the 2013 EDP dialogue visit, several steps have been taken to investigate and solve the issue. In the October 2013 notification, the ONS identified the cause for the local government “other statistical discrepancy” as being due to inconsistencies between loan liability flows and levels, which were revised at the time. In addition, when ESA 2010 was implemented in EDP, this has necessarily resulted in reviewing a number of transactions as well as revisions to certain large transactions, such as the transfer of the Royal Mail Pension Plan in 2012.

Following the implementation of ESA 2010 the statistical discrepancy was significantly reduced between 2011 and 2013.

Since the previous visit, the ONS has carried out the review of large transactions of Transport of London and explained it in detail. Transport for London (TfL) is a Local Government body established in 2000 as part of the administrative reform in the Greater London area. It has a relatively complicated organisational structure, with various activities undertaken by over twenty separate companies that together form the Transport for London Group. Previously, most parts of the group were classified as Public Non-Financial Corporations with the exception of Transport for London Corporation itself and Crossrail Limited (a company involved in the construction of a new railway line under the city), both of which are recorded as Local Government bodies. The latest classification review, however, had further identified two other major subsidiaries (Rail for London and Tube Lines Limited) to be classified in the Local Government sub-sector with retrospective effect.

The work to implement this complex classification change identified that complete sets of accounts were available for each unit, but the review also highlighted some areas were improvements for data are needed. It is believed that, because of the changes and specifically the improved coverage of Transport for London's financial transactions, the statistical discrepancy will be further reduced. The precise impact on the statistical discrepancy of the Crossrail data improvements will not be known until the development enters production in August/September 2015.

The ONS explained that even after these reviews of major transactions (last of those the Transport of London), the ONS will continue to review data sources to identify the drivers behind both the annual and quarterly statistical discrepancies. Some seasonality can be observed in the quarterly statistical discrepancy, which suggests that there may be regular cash to accrued timing differences which are not being adequately recorded in accounts receivable/payable (F.89). The ONS will look into this, however, it is worth noting that the UK Government budgets and monitors on an accrual basis and, as a consequence, cash data are only available to the ONS at an aggregated level. This means that the estimates for the accounts receivable and payable will always be somewhat partial in coverage and a small non-zero statistical discrepancy is therefore always likely.

Eurostat inquired why the statistical discrepancies for local government over the years 2011-2014 were always positive – that could hint that deficit is too low or debt level too high if it always shows a positive sign. The ONS explained they hoped that when changes in Transport of London were implemented in the accounts in autumn 2015, they could provide an answer.

Findings and conclusions
[PREVIOUS ACTION POINT 12]

6. *The ONS will examine the issue of the statistical discrepancy at local government, which was during the last four years always positive in the EDP table 3D.*
Deadline: End September 2015.[5]

[5] The UK authorities have provided the information and Eurostat considers this action point completed.

4. FOLLOW-UP OF THE APRIL 2015 EDP REPORTING – ANALYSIS OF EDP TABLES

Introduction

Eurostat and the ONS discussed a few open items following the April 2015 notification.

Discussion

Table1

In the April 2015 EDP notification round it was noticed, that the financial year GDP, provided by the ONS, differed slightly from the sum of the quarters provided to Eurostat in the quarterly data transmission.

Eurostat inquired about the reasons and the ONS replied: *"This appears to be a reporting difference where the GDP numbers from the EDP notification tables are seasonally adjusted. Elsewhere in our system we use non-seasonally adjusted values and when these are summed up for the financial year GDP there is a slight difference. The UK's National Accounts methodology of seasonal adjustment explains why you do not see the same difference over calendar years (as annual seasonally adjusted figures are tied to the non-seasonally adjusted value)."*

During the discussion, the ONS said it could provide to Eurostat both non-seasonally adjusted and seasonally adjusted GDP figures for the UK financial year in the future.

Table 2/ Central government net cash requirement

Because the UK uses accrual accounting, their EDP tables 2 are practically empty, but the ONS provides an additional table called "Central government net cash requirement (CGNCR)" to facilitate Eurostat's EDP data validation. During the April 2015 EDP round, Eurostat observed some revisions in the table, inquiring why "Other financial transactions" have been revised. The ONS explained that this line is calculated as a residual after loans and equity. Eurostat asked what caused these revisions and the ONS explained that it could have something to do with derivatives, but they would need to further study the issue.

Eurostat had inquired in the past about the possibility to receive a similar kind of table for local government, but so far it had not been possible. Eurostat renewed its request and emphasised that it would be important because it could significantly assist the validation of EDP data. The ONS provided this table as of the October 2015 EDP notification and onwards for both the calendar year and financial year.

Table 4

On EDP Table 4, Eurostat asked during the April 2015 EDP notification what was included in the item "Amounts outstanding in the government debt from the financing of public undertakings". The ONS replied: *"The data include AF.2 deposits and AF.4 loans for both local and central government. A large proportion of the 2014 assets actually relate to government (particularly local government) AF.2 deposits with the Royal Bank of Scotland and the large drop between 2013 and 2014 is largely as a result of the reclassification of Lloyds Banking Group from the public to private sector. Given that there is no evidence that the Government has incurred debt as a result of these deposits it seems to us that we need to* *review how we compile "amounts outstanding in the government debt from the financing of public undertakings" and we would welcome your guidance on this."*

On Eurostat's website (http://ec.europa.eu/eurostat/documents/1015035/2022681/More-detailed-description-of-EDP-notification-tables.pdf/b48552d0-0e4d-4336-9f5d-5b65de7e74f8) the description of this item states: *"Information on the amounts outstanding in the government debt from the financing of public undertakings (the extent that government debt derives from the financing of public sector entities that are not classified in the general government sector) is simply the amount that government lends to its public corporations. Some public corporations do not borrow directly from the market: government borrows on their behalf instead, for example by issuing bonds, and then lends the proceeds to the corporations. Since the government (EDP) debt is a 'gross' measure, the government asset of the loan to the corporation is not subtracted from the government debt. This item allows a more harmonised measure of debt to be compiled for comparison purposes."*

The issue was discussed and Eurostat explained that it should include amounts which government has borrowed on behalf of public undertakings and it really did not seem correct to include deposits in this reporting item. Eurostat wanted to review this item more generally to guarantee the comparability between the Member States and for that reason it was convened that Eurostat and ONS would agree before the October 2015 notification what it should contain.

Findings and conclusions
[PREVIOUS ACTION POINT 5]

7. *The ONS will provide to Eurostat a series of both seasonally and non-seasonally adjusted GDP according to financial year for EDP purposes. Deadline: Together with the October 2015 EDP notification*[6]

[PREVIOUS ACTION POINT 7]

8. *The ONS will consider the issue of the recording of other financial assets which are treated, at present, as a residual item in the table of the central government net cash requirement. Deadline: August 2015*[7]

[PREVIOUS ACTION POINT 8]

9. *The ONS will provide a table for local government net cash requirement, similar to the one of central government net cash requirement, before the next EDP notification. Deadline: End September 2015.*[8]

[PREVIOUS ACTION POINT 9]

10. *Eurostat and ONS will examine whether the data provided by the ONS for EDP table 4, "Amount outstanding in the government debt from the financing of public undertakings", are correct. Deadline: August 2015*[9]

---

[6] This was provided together with October 2015 notification and Eurostat considers this action point completed.

[7] The UK authorities have provided the information and Eurostat considers this action point completed (cf annex4).

[8] This was provided together with October 2015 notification and Eurostat considers this action point completed.

[9] This was provided together with October 2015 notification and Eurostat considers this action point completed.

5. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

5.1. Delimitation of the general government sector

5.1.1. Review of changes under ESA 2010

Introduction

Eurostat and the ONS discussed changes to national accounts due to the introduction of ESA2010.

Discussion

The UK introduced considerable changes in the October 2014 notification due to the introduction of ESA 2010. Among those were changes to the sector classification of Network Rail, Royal Mail Pension Plan transfer, 3G/4G mobile phone spectra auctions, local government pension scheme, capitalisation of research & development and Single Use Military Expenditure (SUME), contributions to the EU, tax write-offs, swaps, payable tax credits, introduction of standardised guarantees. The UK authorities explained that they did not expect any other major changes related to the introduction of ESA2010.

Findings and conclusions

Eurostat took note of the changes made.

5.1.2. Financial Services Compensation Scheme (FSCS)

Introduction

Eurostat and the ONS discussed the Financial Services Compensation Scheme and its classification.

Discussion

The Financial Services Compensation Scheme (FSCS) was established in 2001 as the UK's main financial protection fund and is financed through levies paid by financial institutions. The FSCS is currently classified as a Central Government unit on the basis that its protection primarily benefits households. The ONS explained that they acknowledge that protection may also benefit financial corporations and help them to attract business, but the primary benefit is to households that are protected from financial losses in the event of bank failure.

Eurostat introduced new guidance on classifying protection schemes in the August 2014 edition of the MGDD (Chapter I.5 paras 7 to 14). Of particular importance are paragraphs 12 and 13 which state:

> *12. In national accounts, the sector classification of protection funds [...] depends on the autonomy of decision of such bodies. If for most [...] crucial decisions, which should be distinguished from mere administrative tasks, a protection fund appears to have a lack of autonomy or decision-making power, it should not be considered an*

institutional unit in national accounts and should be included in the unit which mainly controls it. In this respect, the main criteria should refer to decision-making related to the resources of such protection funds, and, in particular, those related to exceptional resources which may be needed.

13. The lack of autonomy of decision on the latter point would trigger the reclassification in the sector of the unit which has the final say on that. If it is the government, the unit should be classified in the central government sub-sector. Contributions accumulated by a protection fund are recorded as a liability in equity (AF.5). Consequently, the fact that the protection fund may be entitled to take decisions related to the investment of the accumulated funds (generally under some restrictive guidelines) is not, as such, a criterion for deciding on the autonomy of decision. Notwithstanding the above, if the protection unit is recognised as a separate institutional unit in national accounts (due to its full autonomy of decision), it is classified under financial auxiliaries (S.126), because its activity may be assimilated to a financial auxiliary activity.

The UK authorities provided a note before the visit explaining their view on this classification issue. According to that, there was no question that the FSCS is subject to public control; the directors are appointed by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), both public bodies, with the approval from HM Treasury in the case of the chairperson. The FSCS is responsible for compensation arrangements for FCA regulated activities under rules set by the FCA. It also administers the scheme protecting deposit and insurance provisions in accordance with rules set by the PRA. According to the memorandum of understanding with FCA and PRA, FSCS is ‘independent from, but accountable to, both the FCA and PRA for the effective operation of the scheme’.

Therefore, the key distinction according to the ONS was whether or not the FSCS is an institutional unit; if it is, it would be classified in the Financial Auxiliaries subsector (S.126) whereas if it is not an institutional unit it would be classified with the unit which has a controlling say over its corporate policy.

The FCA and PRA appear to exercise control over FSCS; both are classified in S.126 due to specific ESA10 rules on the classification of central supervisory authorities of financial intermediaries and financial markets. Therefore, classification of the FSCS with its parent(s) also results in classification to the Financial Auxiliaries sector (S.126). In both cases this is would lead to a reclassification from the Central Government subsector (S.1311).

Eurostat inquired who will take decisions when something goes wrong in the financial markets. The UK authorities explained that the FSCS would implement decisions made by the FCA and PRA and the FSCS itself will make practical decisions. There are arrangements that if its own funds are not enough, it can borrow either from the market or from the government, depending on conditions. Eurostat emphasised that, in these cases, it is important to identify who is the rescuer of last resort. It was also discussed who takes decisions concerning the boards of the FCA and PRA and that is the Bank of England. It was agreed that this issue is not straightforward and Eurostat requested the statutes of the FSCS and related legislation and also the statutes of the controlling units FCA and PRA to further study the issue.

Findings and conclusions
[PREVIOUS ACTION POINT 10]
11. *The ONS will send to Eurostat the statutes and other relevant legal documents on FSCS, FCA and PRA with the view to determine the correct statistical classification of FSCS.*

Deadline: June 2015[10]

5.1.3. Questionnaire on government controlled units classified outside general government

Introduction

The Eurostat and the ONS discussed the coverage of the questionnaire on government controlled units classified outside general government.

Discussion

The questionnaire on government controlled units classified outside general government was discussed during the 2013 EDP visit, and at that time Eurostat noted that the UK questionnaire, provided in December 2012, did not include non-profit institutions serving households (NPISH). The ONS explained that it followed a stricter approach based on ESA95 paragraph 2.87 whereby all government-controlled NPISHs are classified inside general government.

At the time Eurostat also noted that the UK questionnaire had around 170 entries, as compared to around 350 entries in the latest update of the UK Public Sector Classification Guide relating to public corporations alone. The ONS explained that this was due to the fact that the questionnaire included entities at a group level. The ONS gave two reasons for this: (1) it might be very difficult to request data from these entities, as groups could have dozens of subsidiaries, some of them very small, and (2) the sum of stocks of debt at a subsidiary level would not be a good indicator, as a significant part of this debt (notably, intra-group debt) should be consolidated.

Eurostat agreed to reconsider this issue after investigating the practices in other EU Member States, but Eurostat has since confirmed to the UK authorities that data on subsidiaries should be included in the questionnaire on an unconsolidated basis.

In the update of the questionnaire from January 2015, 164 entries were included, and in the latest update of the UK Public Sector Classification Guide before the visit there were 292 entries relating to public corporations only. Eurostat inquired if the UK was still reporting units in this questionnaire at a group level. The ONS confirmed that the questionnaire is still reported partly on a consolidated basis. Eurostat emphasized that it should be reported on unconsolidated basis, because some of the subsidiaries might not be complying with the 50% test. Eurostat also asked if some of the units reported could be in liquidation and the ONS explained it could take some time before those units are classified or removed from the units reported. There was also a discussion why some units do not seem to have any ID-number and the UK authorities explained that it might be the case when the unit is not registered to pay VAT not to have an ID-number either.

Eurostat asked the ONS to check if some of the units are holding companies (NACE code 6420) or head offices, because there are specific rules for their classification at the MGDD. Eurostat asked the ONS specially to examine the classifications of British Screen Finance Limited and BBC Commercial Holdings Ltd. Eurostat asked as well if the ONS had identified any captive financial institutions and the ONS explained that they have not really identified those because the potential units are already classified in the government sector.

[10] The UK authorities have provided initial information. The issue continues to be discussed.

Findings and conclusions
[PREVIOUS ACTION POINT 11]
12. *The ONS will re-examine the classification of British Screen Finance Limited and BBC Commercial Holdings Ltd. Deadline: End September 2015*[11]

5.1.4. Statistical classification of Welsh, Scottish and Northern Irish government bodies

Introduction

Eurostat and the ONS discussed the definition of state government in the ESA2010 and its application to the UK case.

Discussion

Following the referendum on Scottish independence in autumn 2014, there has been considerable debate about further devolution in the UK. As the existence of a ‘State Government’ subsector in the UK has not been considered under ESA 2010, the ONS had undertaken an assessment of whether this concept applies in the UK. ESA2010 provides the following guidance on the state government sector:

ESA2010 defines the State Government subsector as follows:

> *State government (excluding social security funds) (S.1312)*
> *2.115 Definition: this subsector consists of those types of public administration which are separate institutional units exercising some of the functions of government, except for the administration of social security funds, at a level below that of central government and above that of the governmental institutional units existing at local level.*

Chapter 20 of ESA2010 further defines:

> *20.63 The state government (excluding social security funds) subsector (S.1312) consists of all government units in a federal system of government having a state or regional sphere of competence, with the possible exception of social security units. A state is the largest geographical area into which the country as a whole is divided for political or administrative purposes. Such areas are known by terms such as provinces, Länder, cantons, republics, or administrative regions. They all enjoy the sufficient level of power required in a federal system of government. The legislative, judicial, and executive authority of a state government extends over the entire area of an individual state, which usually includes numerous localities, but does not extend over other states. In many countries, state governments do not exist. In federal countries, considerable powers and responsibilities may be assigned to state governments, and compiling a state government subsector is appropriate in such cases.*
>
> *20.64 A state government usually has the fiscal authority to levy taxes on institutional units that are resident in, or engage in economic activities in, its area of competence. To be recognised as a government unit, the entity must be able to own assets, raise funds, and incur liabilities on its own account, and it must also be entitled to spend or allocate at least some of the taxes or other income that it receives according to its own*

[11] The UK authorities have provided the information and Eurostat considers this action point completed (cf. annex5).

policies. The entity may, however, receive transfers from the central government that are tied to certain specified purposes. A state government is able to appoint officers independently of external administrative control. If a government entity operating in a state is entirely dependent on funds from central government, and if central government also dictates the ways in which those funds are to be spent, then the entity is an agency of central government.

In their analysis the ONS raised the following points:

- that if 'a state is the largest geographical area into which the country as a whole is divided for political or administrative purposes', although England, Scotland, Wales, and Northern Ireland are the largest areas into which the UK is (in general) divided for administrative and political purposes, not all of these 'states' have devolved administrations (i.e. England does not)
- that if a country needs to be 'federal' in order to have State Government, the UK probably does not meet this requirement
- in all cases where Government units exist within these 'states', they appear to be government (institutional) units (unless limits on borrowing imposed by Central Government are taken to be of significance)
- where these units exist in the UK, they exert authority over a geographical division of the country which is immediately below central government and above local government (though not all areas are covered by such units i.e. England)
- the units are able to spend their income according to their own policies (in the areas of devolved power)
- the units are able to appoint officers independently of external (Central Government) control
- If the first 2 points are not binding requirements, all of the devolved administrations appear to have at least some of the characteristics of State Government units. This is particularly the case for Scotland and Northern Ireland which have legislative, judicial, and executive powers as well as the fiscal authority to raise some taxes
- Although Wales has some tax-raising authority and also legislative and executive authority, the powers appear weaker (e.g. legislation is through the Westminster Parliament) and it lacks judicial authority (with justice being administered jointly across England and Wales)
- the UK still remains a fairly centralised country and the current extent of devolution of expenditure and tax-raising powers to the devolved administrations is relatively small in comparison to the expenditure and revenue of the Westminster Government

Eurostat explained that it considers these issues to be decided at the national level. More important than to have a state level in the country, is that all the units are included within the boundary of general government. Eurostat also said that in the other countries with a state level, it covers the whole geographical area of those countries.

Findings and conclusions

Eurostat said that it is neutral concerning this kind of classifications as long as all the government units are covered in government finance statistics, and that the UK authorities should take a decision based on their own analysis of the situation.

5.1.5 Veto powers (how to define a veto in terms of defining government control over a body using the example of Shared Services Connect Ltd.)

Introduction

Eurostat and the ONS discussed how the veto powers should be analysed.

Discussion

The 2014 version of the MGDD (at I.2.3 paragraph 13) revised the guidance on the delimitation of the general government sector. The UK has encountered some challenges when trying to interpret parts relating to veto powers for their classification decisions. In particular, the following ones:

> *1) Rights to appoint, remove, approve or veto a majority of officers, board of directors, etc. The appointments may be decided by different government units (either in the same sub-sectors or in different sub-sectors).*
> *2) Rights to appoint, veto or remove a majority of appointments for key committees (or sub-committees) of the entity having a decisive role on key factors of its general policy*
> *The issue of veto powers, under criteria mentioned above, needs specific attention. A veto gives the right to oppose some decisions, or to impose a decision, covered by the veto power. From a general perspective, the existence of such a veto power by government or another public unit would be enough by itself to conclude that the unit is controlled by government or another public unit, if only government holds such a right. However, there may be cases where other units with interest in the corporation also hold such veto powers for similar decisions, or cases where unanimity is required. The number of veto powers held by units other than government is not relevant and they may be considered collectively.*
> *Control of a unit normally means that the controlling unit has, by itself, "a last say" as regards the main important decisions. In this case, government control occurs if the veto power by government (and other public sector entities) covers a greater number and/or more important decisions than veto powers held by other owners. For instance, government could have the main powers for decisions such as dissolving the unit, merging, modifying its status or significantly changing its activity. Control would be also assessed by other additional criteria, notably the nature of the unit where government holds vetoes. For example, if the unit in question obtains its resources predominantly from public units, such as under sale contracts and other arrangements (such as PPPs), government or another public unit would be deemed to have a greater influence on the unit, and thus the unit would be considered to be controlled by government.[14]*
> *Footnote 14: If at the end of the analysis, in some rather exceptional cases, it would be concluded that control would be strictly equal between a government/public unit (s) and private partner (s) as a whole, the unit should be classified in the government sector if it is non-market and in the public non-financial or financial sectors if it is market or engaged in financial intermediation (see chapter I.8 Joint ventures).*

The UK provided a note before the visit describing veto powers encountered in UK. Explicit vetoes held by government are relatively common in certain fields – vetoes related to national security in defence of nuclear power companies for example. It is usually straightforward to assess whether such explicit vetoes offer government control over key aspects of general corporate policy. However, the ONS had also come across a number of situations where unanimous or other forms of special decision-making has been required, and deciding whether or not these indicate government control (through government effective veto powers) can be more nuanced.

The ONS inquired about how to interpret the guidance in relation to footnote 14. The ONS has generally considered the wording in isolation so that a unit which meets no other indicator of public control would be classified to the government sector if ‘equal vetoes’ are in place. However, a possible alternative view was that footnote 14 should be read in the context of the paragraph it is attached to, so that a unit would be classified to the government sector if ‘equal vetoes’ are in place and public units are the main customer (or there are other pertinent features of the nature of the unit). As such, government having the same rights as the private sector in a shareholding agreement is not seen as giving government control over the unit unless the government is also the predominant customer.

Eurostat explained that veto powers are meaningful if they are over key issues, if they provide for example protection over minority rights. It is important to analyse what happens at the end of the decision making process and who has the final say. Eurostat confirmed that footnote 14 of the MGDD is general in nature and its wording should be considered in isolation as claimed by the ONS and it would lead to classification in the cases of joint ventures. When assessing the veto rights it will be a matter of judgment if the vetoes in place would give powers to control a unit. Veto powers in relation to national security concerns might, not as such, lead to government control but also they have to be assessed together with other elements of control governing a unit.

Findings and conclusions

It was concluded that a case by case assessment is needed to study if veto powers provide elements of control over a unit.

5.2. Implementation of the accrual principle

5.2.1. Taxes and social contributions

Introduction

The discussion concentrated on the action point from the previous visit and to devolved taxes.

Discussion

During the EDP dialogue visit in 2013 the issue of reconciling transactions and stocks of other accounts receivable/payable (F.79) relating to taxes and social contributions in EDP questionnaire table 5 was discussed. The problem seems to have disappeared and, currently, transactions and stocks are in line.

As a follow-up for action point 21 *"The UK authorities will confirm to Eurostat by end-February 2013 the accruals adjustment methods used for National Non-Domestic Rates and Council tax revenues."*

The UK authorities had provided information in December 2014 about how the Department for Communities and Local Government (DCLG) compiles a coefficient based on the past experience (assessment method). They have informed that accrued NNDR and council tax figures in D.29 and D.59 are figures based on assessment of ‘the amount Local Authorities should have collected if everyone pays what they were supposed to', which are then adjusted for write offs and reliefs. Write offs are now included within their respective taxes as negative tax receipts rather than in D995. DCLG collects information on write-offs from Local Authorities and the ONS uses this information for NNDR. For Council Tax write-offs, the ONS is currently investigating similar source data to replace the estimates based on historic information. Eurostat asked the ONS also to update their Questionnaire on taxes and social contributions in order to reflect that NNDR and Council tax are recorded on assessment basis and that these data come from the DCLG. That has been done in the latest update of the questionnaire (at 2 December 2014).

Eurostat had learnt that, recently, some small taxes (Stamp Duty and Landfill tax) were devolved to Scotland with effect from April 2015, and Eurostat inquired how the UK authorities will have access to the source data for devolved taxes. The ONS explained that they are working closely with Revenue Scotland to collect these tax data directly, as HMRC have stopped collecting this data for Scotland from April 2015. Revenue Scotland will report these taxes to HM Treasury and the ONS will record them as separate lines in the future provision of National Tax List. Eurostat wanted to know that if the devolution would have other implications to government finance statistics than these taxes mentioned. The ONS explained that they are discussing and monitoring the situation.

Findings and conclusions

Eurostat could confirm that previous action point 21 could be considered as completed and took note of the situation in relation to devolved taxes.

5.2.2. Interest

Introduction

Eurostat and the ONS discussed under this agenda point two follow up issues from the previous EDP visit.

Discussion

During the previous visit in 2013 action point 11 was agreed that: "*Eurostat will immediately provide the UK authorities with a questionnaire on the recording of interest flows in EDP notification tables 2 and 3, and the UK authorities will complete the questionnaire by end-March 2013, as part of the compilation process of the April 2013 EDP notification tables*".

In April 2013, ONS provided to Eurostat a completed interest questionnaire. The questionnaire completed by the ONS did not distinguish between bonds issued at premia and bonds issued at discount, as the ONS databases do not store government bond data by issuance date, and whether the issuance was at premia and discount. Therefore, Eurostat requested the ONS to provide the split by premia and discount in part III of the interest questionnaire. The ONS explained that this would take time, as it would be necessary to refer back to the detailed government bond source data as supplied by the UK Debt Management Office. The updated questionnaire was provided before this visit with the requested premia/discounts split and Eurostat considers this action point as closed.

During the 2013 EDP dialogue visit, when discussing interest receivable, the UK authorities told that data on deposit and loan flows are mostly provided by the Bank of England. Eurostat suggested comparing these direct data with information available in OSCAR (chart of accounts) and asked to be informed about the results of this exercise. The following action point 24 was agreed: *"The UK authorities will examine information available in OSCAR (chart of accounts) on interest accrued (receivable) and compare it with existing sources by end-May 2013. The UK authorities will also explain the reasons for seasonality in quarterly series of interest accrued (payable) by end-March 2013."* The UK authorities did provide their original analysis in October 2013.

The initial analysis, conducted in September 2013, was done under ESA1995 and prior to a number of improvements made to the ONS counterpart interest sources. The analysis originally was conducted for the 2012/13 financial year; the ONS data used in EDP at the time was £455 million, which compared to £545 million recorded in OSCAR (a difference of £90 million). Updating this 2012/13 analysis using the latest EDP data, it was found that the ONS data used in EDP was £475 million, compared to £545 million recorded in OSCAR (a difference of £70 million). Some of the differences, between the September 2013 analysis of the 2012/13 data and the latest analysis for the same year, relates to data updates but others are methodological. The key methodological differences are:

- rent (D.45R) has increased as a result of recording payments for 3G mobile phone licenses as rent and not sales of non-produced assets;
- reclassification of Network Rail to central government has led to the consolidation of the imputed interest receivable from Network Rail and the inclusion of interest receivable by Network Rail;
- FISIM was not previously identified as a difference between the ONS and OSCAR data and is now separately identified;
- interest receivable from official reserves has been reviewed and additional transactions identified which were not included in the analysis done in September 2013.

The ONS conducted the same analysis for data for 2013/14 and found that the ONS data used in EDP was £206 million, compared to £294 million recorded in OSCAR (a difference of £88 million). In addition, there is an offsetting difference of £23 million between the ONS and OSCAR data for student loans.

Based on this, the ONS concluded: *"That based on the analysis of the two years there is some limited evidence for the under recording of central government interest receivable in EDP by around £80 million. Identifying the reason for differences between financial corporation counterparty data sources with direct government administrative data sources is by its nature difficult. This is as the counterparty data is only collected in aggregate and so it is not possible to compare the recording of transactions by individual body or scheme. Further investigation is therefore likely to require a focus on the administrative departmental data to identify whether what is being recorded on OSCAR is consistent with ESA 2010 guidelines. If the data quality were sufficiently assured then they could ultimately replace the current data sources but this would be a major methodological change not just for EDP, but for the UK National Accounts more widely, and the resource implications would have to be assessed against other National Accounts' improvement priorities."*

During the discussion the ONS further emphasised that currently OSCAR data has not the same quality assurance for receivables than it has for expenditure side and for that reason they are not ready to start using OSCAR data for interest receivables.

Findings and conclusions

Eurostat confirmed that the previous action point 24 could be considered as completed.

5.3. Revisions

Introduction

Eurostat and the ONS discussed the revision policy of GFS and national accounts data applied by the ONS.

Discussion

The EDP data of the UK seems to be revised considerably every time data is reported, and for that reason the UK authorities were asked to explain their revision policy. The ONS explained that the UK's Public Sector Finance (PSF) statistical bulletin is published monthly and to ensure that the latest and best data are used for fiscal policy at all times, all time periods are open for revision every month.

The UK's Excessive Deficit Procedure (EDP) submission is fully consistent (back to 1997) with PSF published data, with all time periods open to revisions and the same revisions' policy applied in both. This means that EDP data published in April are fully consistent with the PSF publication released in March, and EDP data published in October are fully consistent with the PSF publication of September.

The ONS National Accounts Revisions Policy covers all published data series appearing in the quarterly and annual National Accounts' outputs. The National Accounts include a full set of accounts for General Government, and its sub-sectors, and these are compiled from the same data as the PSF bulletin and the EDP transmission but following the more restrictive National Accounts revisions policy.

Each quarter the quarterly National Accounts are aligned as far as possible with the PSF published data. However, as the National Accounts revisions policy limits the data period open for revisions, and there is additional work required to implement public sector methodological changes in National Accounts (due to the counterpart sector and volume measure requirements), there are usually still some data and methodological differences between the Government Finance Statistics reported in National Accounts and those reported in the PSF and EDP. As the data used in the compilation of the PSF and EDP incorporates the most up-to-date information, the GFS ESA tables (i.e. ESA Tables 0200, 0900, 2700, 2800 and 2899) transmitted to Eurostat are fully consistent with the EDP transmission and not the wider UK National Accounts.

While the data sources that underpin both the estimates of PSF/EDP and National Accounts are consistent, different revision policies mean that the timing of implementation of classification decisions, and other methodological changes, do vary and result in different estimates of Government deficit and debt. The UK authorities also explained that there is no point at which the published data change from being provisional to final, as revisions may always be identified and, when identified, they are taken on in the PSF and EDP published data. However, government source data for a particular financial year is usually near the final 9 months after the end of the financial year (i.e. by December) and it is unlikely to change significantly 15 months after the end of the financial year (i.e. by June in the preceding calendar year). This means that, in the March/April EDP in calendar year t, data for the calendar year t-2 is near final and by the September/October EDP it is unlikely to change significantly due to data revisions. Of course, although the source data may be unlikely to change, there still may be revisions in the data due to methodological and data source improvements.

Eurostat inquired if there is a moment when PSF/EDP data is fully aligned with the rest of national accounts, and the UK authorities replied that was most likely the case when annual national accounts are published normally in July or October, but even then there could be some methodological and timing differences. The issue of nonalignment is well understood by domestic users of the data, who in general accept that national accounts cannot incorporate the latest classifications and methodology changes as swiftly as can the PSF/EDP statistics.

Findings and conclusions

Eurostat took note of the revision practices concerning government finance statistics and other parts of national accounts in the UK.

5.4. Re-routing

Introduction

Eurostat and the ONS discussed rerouted transactions and their treatment.

Discussion

Rerouting is one on the "arranged transactions" described in the ESA 2010. ESA 2010 distinguishes two cases of rerouting.

The first type of rerouting is defined in ESA 2010 1.73:

> "*A transaction that appears to the units involved as taking place directly between units A and C may be recorded in the accounts as taking place indirectly through a third unit B. Thus, the single transaction between A and C is recorded as two transactions: one between A and B, and one between B and C. In this case the transaction is rerouted.*"

For this first case of rerouting, ESA 2010 1.74 gives the example of the social contributions which take the form of a transaction between the employer and the Social Security Funds (or any other social protection unit) but are in national accounts broken down between two series of transactions involving employees, as receiving more revenue from their employer and then retroceding it to the social protection unit.

The second type of rerouting is explained in ESA 1.75:

> "*Another type of rerouting is that of transactions recorded as taking place between two or more institutional units, even though, according to the parties involved, no transaction takes place at all. An example is the treatment of property income earned on certain insurance funds, which is retained by insurance enterprises. The system records this property income as being paid by insurance enterprises to policyholders, who then pay the same amount back to the insurance enterprises as premium supplements*".

The UK has recorded rerouted transactions more than other Member States in general and for that reason they wanted to raise this issue for this visit. The topic is currently discussed in the ongoing methodological task force. The ONS follows specific areas of guidance in ESA 2010 and MGDD, but also does rerouting of transactions in other instances – with the aim of reflecting the economic reality of the arrangement, to present 'substance over form'. Two cases presented were related to the production of energy or legal obligations for energy efficiency measures, the third case related to the imputation of subsidies and interest when government guarantees borrowing of certain public corporations, and a fourth case concerned a railway company receiving revenues from track access charges from train operators.

At the ongoing Eurostat methodological TF, a working paper was presented with criteria for rerouting. *"Therefore, it is proposed that rerouting should be implemented only if two conditions are met:*

- the transaction(s) is specific and only a single unit carrying out the transaction(s) is "instructed" by government to do so. In other terms, it should not be a regulation affecting the activity of several units, whatever their number;
- the transaction(s) is not carried out under "normal commercial conditions"; in other terms, the fact that government has imposed the transaction, results in a less profitability, compared to other transactions that the unit would normally engage in."

Based on that proposal, the ONS asked if they should remove their current rerouting in some cases or introduce rerouting in more recent cases. Eurostat emphasised the issue was discussed for first time in the February 2015 TF meeting and the proposal presented might not be the final outcome.

Eurostat explained that, for rerouting, it was important to achieve comparability between the Member States, and that the methodological task force has also emphasized the issue that transactions should be rerouted when they would not be carried out under normal commercial conditions. Eurostat also requested the UK to wait until the Task Force has finalised its work before drawing conclusions, if the ONS should change treatment of some rerouted economic transactions.

Findings and conclusions

It was agreed to wait for the results of the work of the Methodological Task Force before any decisions on the practical application of rerouting is made.

5.5. Financial crisis interventions

Introduction

Eurostat and the ONS discussed the classification of some SPVs related to Northern Rock Asset Management and Bradford & Bingley, and follow up events related to the financial crisis.

Discussion

In line with the MGDD chapter on financial defeasance, the ONS reclassified Northern Rock Asset Management (NRAM) and Bradford & Bingley (B&B) to central government, with effect from January 2010 and July 2010 (the time when B&B lost its banking licence). The reclassification reduced the UK government deficit for 2010 and 2011 (by 0.06% and 0.05% of GDP). The UK government debt increased, respectively, by 3.89% and 2.80% of GDP.

During the 2013 EDP dialogue visit, outstanding issues relating to the reclassification, notably the consolidation within central government of all NRAM and B&B transactions and stocks as well as the classification of special purpose vehicles (SPVs) were discussed. As a follow-up to action point 11 from the previous EDP visit in January 2011, the ONS confirmed that central government assets held at NRAM and B&B consolidated out from 2010 onwards.

In addition, the ONS confirmed that the liabilities of the SPVs were included within the total liabilities of B&B and NRAM (i.e. within UK central government debt), and that the classification of these SPVs would be reviewed in the light of Eurostat's view. Eurostat believed that these SPVs were not institutional units, as they do not have autonomy of decision, and should be consolidated with B&B and NRAM. The issue that some of these SPVs are foreign-based is covered in the MGDD, notably, foreign-based SPVs remain classified in the Rest of the World sector (S.2), mainly for the purposes of Balance of Payments statistics, but their operations are re-routed through the 'originating government'.

The following action point was agreed:
<u>Action 32.</u> *The ONS will conclude its investigations of the outstanding issues relating to special purposes entities and the consolidation within central government of transactions and stocks of Northern Rock Asset Management (NRAM) and Bradford & Bingley (B&B) by the October 2013 EDP notification and will inform Eurostat.*

From the October 2012 Excessive Deficit Procedure (EDP) transmission, the UK has been incorporating Northern Rock Asset Management (NRAM) and Bradford and Bingley (B&B) figures within central government. The classification decisions for NRAM and B&B apply from January 2010 and July 2010, respectively.

The reclassifications of NRAM and B&B were both based on ESA95 (and related MGDD) rules and guidance. At the time of the original decision to classify NRAM and B&B as central government bodies, no formal decision was made with regard to the SPVs of the two organisations and so they were left unchanged on the Public Sector Classification Guide, i.e. classified as Other Financial Intermediaries. The classification of the SPVs was not formally reviewed largely as a result of the process of prioritising classification cases (in which it was recognised that neither government debt nor deficit would be impacted by the SPV decision) and partly as the ESA95 guidance on SPVs was limited. Despite the lack of a formal classification decision, the ONS has implemented the reclassification of NRAM and B&B under the assumption that the SPVs are not institutional units and are, therefore, consolidated with the parent companies within the central government sector.

ESA 2010 provides more description of SPVs and in particular, paragraphs 20.47 and 20.48 provide rules on the classification of SPVs and how related transactions should be recorded in national accounts.

> *20.47 Special purpose entities (SPEs), also called special purpose vehicles (SPVs), may be set up for financial convenience by governments or by private entities. The SPE may be involved in fiscal operations, including securitisation of assets, borrowing on behalf of government, etc. Such SPEs are not separate institutional units when resident. These entities are classified according to the principal activity of the owner, and SPEs performing fiscal operations are classified to the general government sector.*
>
> *20.48 Non-resident SPEs are recognised as separate institutional units. All flows and stock positions between the general government and the non-resident SPE are recorded in the general government and SPE accounts. ......*

In addition ESA 2010 Chapter 2 (paragraph 2.17 -2.18) states that there is common definition of SPE, but provides a list of typical characteristics for SPVs.

There are around 50 SPVs of NRAM and B&B, although many of them are no longer operational. The SPVs all have the UK Asset Resolution Limited (UKAR) as the ultimate parent. UKAR is wholly owned by the UK Government and was formed as a holding company to bring together the Government owned businesses of Bradford & Bingley plc (B&B) and Northern Rock (Asset Management) plc (NRAM). Due to their defeasance nature, these units do not have autonomy of decision. That is, they are barred from taking on new business and cannot change the nature of their business activities. Their principal purpose is to hold and administer (loan) assets and carry out securitisation on behalf of government. It is noteworthy that the UKAR consolidates within its accounts all SPVs with which it has securitised loans, as it considers that UKAR Group retains substantially all of the risks and rewards of the securitised loans.

It seems clear that, according to ESA 2010 rules in 20.47, the resident SPVs, due to their lack of autonomy of decision, should not be considered to be separate institutional units. They should therefore be classified to the central government sector with their parent (UKAR).

ONS concluded along these lines after reviewing NRAM and B&B SPVs under ESA 2010 rules and provisionally found that the resident SPVs are not institutional units and therefore should be classified in central government. Only two material non-resident SPVs have been identified and these are institutional units under ESA 2010 para 20.48, but since May 2014 NRAM has held materially all the notes that they have issued and so ONS proposed that these bodies are considered as part of UKAR, a consolidated central government unit. The conclusions of the note are provisional until ONS formally considers the classification of the SPVs under ESA 2010. This formal review will be completed following the normal ONS national accounts classification process and the Public Sector Classifications Guide will be updated accordingly. Eurostat took note how the ONS intend to proceed with this issue.

The effect of the financial crisis could be seen also from the financial crisis table provided by ONS, where general government asset and liabilities relating to the financial crisis have been decreasing since 2012 and contingent liabilities disappeared completely in 2013.

Moreover, the UK authorities informed Eurostat that government has been selling Lloyds Banking Group shares since September 2013 and is still doing so. The ONS keeps publishing key government financial intervention on its website regularly.

Findings and conclusions

Eurostat took note of the current situation relating to the financial crisis in the UK.

5.6. PPPs

Introduction

The Eurostat and the UK authorities discussed how the PPP contracts are organised and administered in the UK and how these contract should be assessed.

Discussion

During the 2013 EDP dialogue visit, the new model type of PPPs (known as PF2) was shortly discussed. Since then, the ONS has informed Eurostat that HM Treasury (HMT) has been developing a new model for the most common type of Public-Private Partnership (PPP) found in the UK, the 'Private Finance Initiative (PFI), which will be named 'Private Finance 2' (PF2). PF2 was announced following a review of the successes and failures of PFI in 2012, and it is an evolution of this scheme with the same aim - to benefit from private sector strengths and expertise in the design, build, finance, and operation of public infrastructure. In PF2, public and private partners take equity stakes in a Special Purpose Vehicle (SPV) established to deliver and maintain the infrastructure over a set period.

The ONS contacted Eurostat during the summer 2014 for some advice relating to details of the new model scheme. At that time, no scheme had yet begun under PF2. However, several schemes were being initiated, including a plan to build or refurbish schools.

HM Treasury had provided ONS with a significant amount of detailed material on PF2, which had been thoroughly examined and analysed in the light of the guidance of the MGDD (version of 2013). Given that bodies formed with share capital are classified in the Private Sector by default unless there is sufficient evidence of Public Sector control as defined in ESA2010 and the MGDD, the National Accounts Classification Committee (NACC) concluded that they had not seen sufficient evidence of government control to bring PF2 into the Public Sector. NACC agreed that this was a provisional conclusion subject to further consideration both as the scheme is implemented and in the event of new guidance being released.

Eurostat presented its view concerning PPPs, stressing the need to apply the rules correctly, as well as the need to examine all contracts properly. In the UK a number of contracts has been assessed in the ONS, while it had been done previously mainly in the Treasury. Eurostat explained that, for PPPs, those rules which are in force at the time of the financial close should be applied. That means that the treatment of the contracts will not change backwards even when new and more precise rules are approved later on. The introduction of ESA 2010 has clarified many issues relating to PPPs which were not in the ESA previously, and further guidance has been provided in the MGDD.

Eurostat asked about the current situation with PF2. The UK authorities explained that there were several school projects and that their classification can not be evaluated in the same way as a model contract. Eurostat emphasised that a signed contract should be analysed and evaluated as a whole and not only as a sum of individual details of the contracts. Eurostat explained that there are several issues which should be monitored when assessing the contracts – whether government has control over the SPV set up for a PPP project (if government would own part of SPV then it would be exposed both to risk and rewards relating to ownership), how risks and rewards are allocated (for example, is there a cap on profits, is there profit sharing or what kind of claw-back clauses are in place), is government providing financing to these projects and how assets are allocated after the contract has expired. Also the termination clauses of the contract – defining the compensation to the contractor - should be assessed.

It was agreed after the discussion that Eurostat would further look at the PF2 model contract, because it has evolved over time. The three school projects which have been already signed should be assessed in detail by the ONS and then Eurostat should provide its view. The UK authorities should ensure that all big contracts would be provided to the ONS. ONS had recruited additional staff to supplement the classification team working on the classification of PPPs. ONS has also established the quarterly statistical forum where ONS meets with senior officials in HM Treasury and devolved administrations in order to get early sight of any proposed PPP projects, or other policy proposals.

Findings and conclusions

13. Eurostat and the ONS will examine the PF2 model of contracts (last version) with the view to determine whether the PPP contracts following this model will be classified on or off government balance sheet. *Deadline: July 2015*[12]

14. The ONS will receive and examine, from now on, all the biggest PPP contracts (in terms of capital cost) in order to examine their classification. A copy will also be sent to Eurostat for examination. [13]

15. The ONS and Eurostat will examine the three existing PPP contracts, recently signed, concerning school renovation under the PF2 model. *Deadline: 15 September 2015*[14]

16. Eurostat asked the UK authorities to put in place mechanisms so that ONS is always involved in the statistical classification of PPP projects, preferably at an early stage of the process. *Deadline: November 2015*[15]

5.7. Other

The UK authorities briefly presented the "Flow of Funds" exercise. The Office for National Statistics first published the ‘Flow of Funds’ in Chapter 14 of the Blue Book 2014. Data published included unconsolidated financial accounts by all sectors and the rest of the world as well as balance sheet assets and liabilities. Currently under work package 2, the ONS is working towards developing Flow of Funds matrices on a from-whom-to-whom basis, sector-by-sector for each financial instrument. The UK authorities explained that this is an annual exercise and it is following the examples of this kind of accounts compiled in USA and Australia.

6. OTHER ISSUES

6.1 Planned future operations

6.1.1. Central stock holding entities

Introduction

Eurostat and the UK authorities discussed the classification of the Central Stockholding Entity which is to be set up.

---

12 The UK authorities have since provided initial information. The issue continues to be discussed as a revised version of the PF 2 framework is under ONS' review.

13 Large PPP contracts are those with a capital value of over 0.03 % of GDP. The UK authorities have since provided initial information. A formal answer on the classification of the AWPR PPP has been send by Eurostat to the UK authorities and Eurostat considers this action point completed.

14 The UK authorities have since provided initial information. The issue continues to be discussed.

15 The UK authorities have since provided information and Eurostat considers this action point completed.

Discussion

The UK currently holds stocks of oil equivalent to 61 days of inland consumption (which is required by EU Directive 2009/119/EC) through obligations placed by government on companies which supply over 50,000 tonnes of oil per year into the UK market. However, as domestic oil production is expected to decrease in the 2020s, imports are expected to increase and so the burden of stockholding will become greater - 90 days of imports will far outstrip the current stocks held. In April 2014 HM Government announced that, in principle, it supported the establishment of an industry owned and operated Central Stockholding Entity (CSE).

The ONS provided for the visit a note on the planned CSE expected to have the following features:

- Established by the obligated companies under compulsion from the Secretary of State of the Department of Energy and Climate Change (enabled by primary legislation);
- Tasked (through secondary legislation) with managing the UK oil stockholding obligation to comply with EU law;
- A Non-Profit Institution (NPI) as required by the EU directive (Article 7, 1), with the economic operators as members (membership mandated through primary legislation)
- Industry owned - all equity held by the member operators

Eurostat published in August 2014 the guidance note on "Sector Classification of Central Stockholding Entities in National Accounts in ESA 2010" (http://ec.europa.eu/eurostat/documents/1015035/2041357/Guidance-Note-Classification-of-CSEs.pdf/b6b6af21-b200-4529-ba22-7db3246b40d4)

During the discussion, Eurostat asked who is the real owner of the stock in this stockholding. If that is government through legislation, it would seem unlikely that this was a private sector activity.

Findings and conclusions

As a follow up, it was agreed that the ONS would send its classification decision to Eurostat after the NACC consultations, taking into account the latest developments in setting up the CSE.

6.1.2. Hinkley Point

Introduction

Eurostat and the UK authorities discussed the future nuclear plant project at Hinkley Point.

Discussion

The ONS presented the future nuclear plant project at Hinkley Point in Somerset. This is a major undertaking expected to provide 7% of UK electricity requirements (2020s, forecast) by implementing new reactor technology..

Findings and conclusions

17. *Eurostat will examine, in cooperation with ONS, the statistical implications of the establishment of the Hinkley Point nuclear power station. Deadline: December 2015*[16]

6.1.3 British Business Bank (BBB)/Asset Finance Vehicle (AFFV)

Introduction

Eurostat and the UK authorities discussed the classification of asset finance schemes.

Discussion

ONS were considering a policy proposal of a scheme by which the BBB could provide asset finance to small and medium size enterprises, a scheme called the AFFV. In relation to this scheme ONS consulted Eurostat on the definition of ‘fiscal operations’ in light of the reference to this in paragraph 20.47 in ESA 2010. Eurostat pointed ONS to paragraph 20.204 in ESA 2010 and paragraph 22.3 in SNA 2008.

The ONS had also made the classification decision concerning BBB itself. The aim of the BBB is to increase the supply of credit to small and medium (SMEs) as well as providing business advice services. It is structured as a public limited company and it is owned by the Department for Business, Innovation and Skills (BIS). The BBB is clearly a Public Sector unit; however, the BBB does not appear to have autonomy of decision and as such it cannot be considered an institutional unit. The BBB does not appear to own goods in its own right, and appears to be simply taking forward the economic policies of HM Government and transacting on behalf of BIS. Additionally, the information available to the Secretariat does not suggest that BBB is able to make its own business decisions, nor that the transactions it engages in are on its own behalf. It seems that it cannot incur liabilities on its own behalf, and when ONS reviewed its financial accounts, they appear to indicate that the body is just a 'pass through' company, as funds appear to just "flow" through the bank without an accumulation of assets.

Findings and conclusions

18. *Eurostat will examine in cooperation with the ONS the statistical implications of any new scheme to ensure the availability of asset finance to Small and Medium size enterprises which foresees the involvement of government. Deadline: July 2015*[17]

6.2. ESA 2010 Transmission Programme

There have not been any major problems recently with the UK tables, and some technical issues had been solved bilaterally between the Eurostat GFS team and the UK authorities. In

[16] The UK authorities have since provided initial information. The issue continues to be discussed.
[17] The ONS has provided its analysis of the case for which Eurostat provided its opinion and Eurostat considers this action point completed.

case there will be some points which need further discussion the GFS team of Eurostat will contact the UK authorities bilaterally.

6.3. Any other business

There was no other business to discuss.

ANNEX. LIST OF PARTICIPANTS

Office for National Statistics

Nick Vaughan

Jacqui Jones

David Bailey

Theodore Joloza

Fraser Munro

David Hobbs

Rob Pennington

Katherine Mills

Rachel Downey

Jane Keogh-Bennett

Pete Jones

HM Treasury

Tom Orford

Jim Ebdon

Andrew Evans

Ross Campbell

Chris Drane

Laurie Shaw

Bank of England

Michael Lyon

Department of Communities and Local Government (DCLG)

Helen Sleight

Eurostat

Eduardo Barredo Capelot

Luca Ascoli

Mira Lehmuskoski

DG ECFIN

Olivia Mollen

ECB

Robert Gadsby

Eurostat EDP standard dialogue visit to the UK

28-29 April 2015

Starting on 28 April 2015 at 9:30

Draft Agenda

1. Statistical capacity issues

1.1. Institutional responsibilities and EDP processes

1.2. Quality management framework

1.3. Audit and internal control arrangements

1.4. EDP Inventory

2. Review of key data sources

2.1. Central government database (OSCAR) and Whole of Government Accounts

2.2. Data for Wales, Scotland and Northern Ireland

2.3. Local Government data

3. Follow up of the January 2013 EDP dialogue visit

4. Follow-up of the April 2015 EDP reporting – analysis of EDP tables

5. Methodological issues and recording of specific government transactions

5.1. Delimitation of the general government sector

5.1.1. Review of changes under ESA 2010

5.1.2. Financial Services Compensation Scheme (FSCS)

5.1.3. Questionnaire on government controlled units classified outside general government

5.1.4. Statistical classification of Welsh, Scottish and Northern Irish government bodies

5.1.5 Veto powers (how to define a veto in terms of defining government control over a body using the example of Shared Services Connect Ltd.)

5.2. Implementation of the accrual principle

5.2.1. Taxes and social contributions

5.2.2. Interest

5.3. Revisions

5.4. Re-routing

5.5. Financial crisis interventions

5.6. PPPs

5.7. Other

6. Other issues

6.1 Planned future operations

6.1.1. Central stock holding entities

6.1.2. Hinckley Point

6.1.3 British Business Bank (BBB)/Asset Finance Vehicle (AFFV)

6.2. ESA 2010 Transmission Programme

6.3. Any other business

ANNEX

Annex 1 – Action Point 4

For this visit the ONS had provided a note explaining the exercise done for the financial years 2011/2012 and 2012/2013 for the category of deposits, both for stock and flows and completed the note in October 2015 after further investigations.. There are many differences between the data sets, like differences in the coverage of units, the concept of deposits etc. All the known differences in the data sets have to be removed before they can be compared. Thereafter, the comparison showed a substantial gap in 2011/2012, 2012/2013 and in 2013/2014 for the central government deposits, while this gap was smaller for the local government.

Comparison of WGA and EDP cash and deposit stocks (AF.22 + AF.29)

Assets		**2011/12**	**2012/13**	**2013/14**
Central Government	WGA	29.0	29.0	49.5
	EDP	30.5	30.2	52.3
	Difference	-1.5	-1.2	-2.9
Local Government	WGA	20.1	23.5	24.6
	EDP	19.0	23.5	24.8
	Difference	1.1	0.0	-0.2

The ONS explains these gaps. The WGA data is based on IFRS, while EDP recording is based on the ESA framework. The aim of WGA is to cover the entire UK public sector and the National Accounts classification applies, with some exceptions for practical reasons:

- Royal Bank of Scotland (RBS) Group, whilst classified as a public financial corporation, is excluded from the WGA;
- Network Rail (NR), whilst classified in central government (under ESA2010), is to be included in the WGA for the first time in the 2014/15 accounts;
- Bradford & Bingley (B&B) and Northern Rock Asset Management (NRAM), whilst classified in central government as defeasance structures, are included in the WGA for the first time in the 2013/14 accounts.

Two main reasons explain the differences between WGA and EDP data. Firstly, the WGA follows the IFRS reporting standards and EDP the ESA reporting framework. Therefore, there is no direct equivalent in WGA to the AF.22 and AF.29 deposit categories. Secondly, several assets have been removed when they are included in only one of the datasets to ensure consistency.

Comparing WGA and EDP data cannot be done straight forward:

- The Bank of England data is only available on a subsector level and cannot be disaggregated into individual public sector entities, and
- The reporting frame work for asset types differs between the bank of England survey data and the WGA and there is no direct mapping available between the two frameworks.

The difference for the central government remains substantial. After having removed central government deposits there remain some differences, which can partly explained by errors in the assumption being made about the translation between ESA based deposit data and WGA asset categories. It may be that some of the assets recorded in the WGA dataset as 'deposits' are under the ESA framework actually derivatives, short term debt securities or short term loans. Similarly, some assets in the EDP dataset recorded as 'deposits' may be recorded differently in the WGA. Further investigations with HM treasury and the Debt Management Office underlines the difficulty to identify differences between the categories used in WGA and EDP, as the data is recorded only on unconsolidated basis.

The ONS uses for this purpose the Bank of England data for two principal reasons:

- The Bank of England survey data are collected monthly (or in the case of some surveys, quarterly) and so provide timely in-year data for compiling public sector finances, EDP returns and National Accounts;
- The Bank of England survey data cover the whole UK Economy and so provide a single consistent data source for compiling sector estimates for the National Accounts that are consistent.

Annex 2 – Action Point 5

The ONS provided Eurostat with the details of the recording of distributed income of housing revenue accounts (distribution by large corporates - Block A) and equity withdrawal (distribution by large corporates - Block B) reported in EDP questionnaire table 10.2.

a) Dividends

HRAs are treated as transferring to their parent local authorities all operational surpluses generated and these are recorded as D.422 (Withdrawals from the Income of Quasi-Corporations) Uses for the public corporation subsector and Resources for the local government subsector.

The amount reported is calculated as Revenue (excluding revenue from sale of housing stock and other assets) for all HRAs minus Expenditure (excluding expenditure from acquisition of housing stock and other assets) for all HRAs. The positive amounts that have been reported by the UK show that operating revenue exceeds operating expenditure for the overall HRA quasi-corporation (although not necessarily an individual HRA).

HRA revenue is the sum of the following:

- Gross rent on dwellings (e.g. houses, flats)
- Rent on other properties (not dwellings)
- Government subsidies
- Other Income (e.g. tenant payments for utilities)

The component described as gross rent on dwellings includes the amount of rent paid by tenants using housing benefit payments.

HRA expenditure is the sum of the following:

- Supervision and management expenditure
- Repairs
- Other expenditure (e.g. administration expenses)

b) Equity withdrawal

This is the amount of money raised through the sale of housing stock (and other assets) from the Housing Revenue Accounts less any expenditure on acquiring housing stock (and other assets). The net cash received from these sales and acquisitions is recorded in the local government accounts as a transaction in deposits (F.2) and is balanced by an equity withdrawal from the HRA quasi corporation, so as to result in no impact on Local Government net borrowing.

In the public corporation accounts, the change in equity matches the transactions in fixed capital formation and so the sales/acquisitions of fixed capital assets do impact on the net borrowing of the public corporation subsector (but not the local government net borrowing as explained above).

Most of the source data comes from annual local government finance publications, for each of England, Scotland, and Wales. These publications include separate tables for Housing Revenue Accounts. The subsidies and housing benefits data come from other government data sources, for example HM Treasury’s Online System for Central Accounting and Reporting (OSCAR).

Annex 3 – Action Point 6

Since the October 2015 EDP notification the ONS provides a reconciliation table between local government net cash requirement and net borrowing in September 2015. This new table follows the same format of the central government net cash requirement to net borrowing reconciliation table. The principle underlying the table is that:

Net borrowing
Plus
Net transactions in financial assets acquired / disposed to further policy objectives
Plus
Timing adjustments to move from accrued to cash figures
Equals
Net cash requirement.

Further improvements were made in the April 2016

Annex 4 – Action Point 8

Further investigations conducted, led the ONS to introduce three separately recorded items in the Central government net cash requirement table:

- Northern rock asset Management and Bradford & Bingley
- Network rail
- Statistical discrepancies between capital and financial accounts.

Having separately recorded in the amended table Network Rail and UKAR transactions as well as the statistical discrepancy, the ONS concludes that what remains in the other financial transactions line (the residual) only relates to the core central government (excluding UKAR and Network Rail) and are the result of one or more of the following:

- non-financing transactions in F.1, F.6 and F.7;
- instances where the ONS have identified F.3, F.4 and F.5 transactions as non-financing but where in the net cash requirement they are considered as financing flows;
- discrepancies in data sources or coverage between those used to calculate the net cash requirement and those used in compiling the financial accounts.

This amended CGNCR table is provided systematically with the EDP Questionnaire since the October 2015 EDP notification.

Annex 5 – Action Point 12

The ONS has conducted an initial investigation on the classification of the BBC Commercial holdings LTD and concluded, on this basis, that this unit should be classified in the central government subsector and it is recorded accordingly. The ONS has reviewed the classification of the company and confirmed the classification in the central government subsector.

The British Screen Finance Limited is an institutional unit engaged in financial activity. It has four subsidiaries which are also financial bodies (British Screen Rights Limited, European Co-production Fund Limited, National Film Finance Consortium Limited and The Greenlight Fund Limited). Its parent is the British Film Institute which is classified as a central government unit. ONS has reviewed the sector classification of the unit and confirmed the classification as a public financial corporation. In terms of the EDP and ESA data, the unit is not material with a balance sheet of less than £1 million.