

National Statistics Code of Practice

Protocol on Statistical
Integration and
Classification



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Protocol on Statistical Integration and Classification

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Email: **hmsolicensing@cabinet-office.x.gsi.gov.uk**

Contact points

For enquiries about this publication, contact the National Statistics Policy Helpline:

Tel: **020 7533 6210**

(for advice on interpreting the Code of Practice)

Email: **james.denman@ons.gov.uk**

For general enquiries, contact the National Statistics Customer Contact Centre:

Tel: **0845 601 3034**

(minicom: 01633 812399)

Email: **info@statistics.gsi.gov.uk**

Fax: 01633 652747

Post: Room 1015, Government Buildings,
Cardiff Road, Newport NP10 8XG

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Summary of Principles – Statistical Integration and Classification

International

United Nations – Fundamental Principles of Official Statistics (1994)

The use by statistical agencies in each country of international concepts, classifications, and methods promotes the consistency and efficiency of statistical systems at all official levels.

European Statistics Code of Practice (2005)

Principle 7 – Sound Methodology – Sound methodology must underpin quality statistics. This requires adequate tools, procedures and expertise.

Indicator – Procedures are in place to ensure that standard concepts, definitions, and classifications are consistently applied throughout the statistical authority.

United Kingdom

Framework for National Statistics (2000)

The National Statistician will facilitate and promote the development of statistical methodologies, classifications and standards...

National Statistics Code of Practice – Statement of Principles (2002)

Statistical systems will be designed in ways that maximise the potential to add value through data integration.

Common statistical frames, definitions, and classifications will be promoted and used in all statistical surveys and sources.

The value of administrative data in producing National Statistics will be recognised, and statistical purposes should be promoted in the design of administrative systems.

Additional principles embodied in this Protocol

All producers of National Statistics will, wherever practicable, adopt common geographic referencing and coding standards.

All those involved in the production of National Statistics will promote the adoption of international standards and guidance.

Responsibility for the adoption, development, management and application of corporate statistical frames, definitions, and classifications will be clearly defined, and the details made widely accessible.

Information about the application of statistical classifications will be widely disseminated

Classification decisions will be based on professional considerations; comply with standard guidance on use and interpretation; and be reached and disseminated using established and transparent procedures.

Foreword by the National Statistician

This document expands on the original version of the *Protocol on Statistical Integration* which was published in January 2004. It incorporates additional guidance on the application of statistical classifications, and addresses a number of concerns which stakeholders have raised in recent years.

The science of statistical classification is an integral part of the statistician's stock-in-trade but the actual process of classifying statistical entities rarely generates interest outside the world of practitioners and their peers. Events in recent years, however, have proved that seemingly straightforward decisions involving statistical classifications can, on occasions, generate widespread controversy, and sometimes undermine statisticians' normally high reputation for probity and professional independence. Two examples serve to demonstrate this point. The first relates to the design of the 2001 Census of Population and the subsequent campaign for a 'Welsh tick-box'. The second relates to the accusations of political interference which were voiced by the media following ONS's classification of Network Rail within the UK's system of National Accounts.

- The 2001 Census form included a question about ethnicity which asked respondents to tick a box to indicate their ethnic group, or to insert an answer of their own if no suitable classification category was available. There was no 'Welsh' tick-box on the form, but 418,000 people across Wales (representing 14 per cent of the population) were prompted to describe themselves as 'Welsh' on their form. This illustrates the importance of our taking into account a wide spectrum of views before selecting classification categories.
- The use of the National Accounts framework to classify the Government's and European Union's fiscal policy measures means that the National Accounts classification process has a very high profile. This is exemplified by ONS's decision in 2002 to classify Network Rail to the private sector for National Accounts purposes. This classification was in accordance with international guidance and was validated and endorsed by both the Statistics Commission and Eurostat. Nevertheless, ONS's decision generated widespread and unfounded accusations in the media that ONS was bowing to government pressure. This illustrates the importance of accompanying high profile classification decisions with proper documentation which explains the rationale behind such decisions.

In view of these and related concerns I have decided to expand this Protocol by setting out the rigorous procedures which I expect government statisticians to follow and uphold when developing and applying statistical classifications. By doing so, I hope to reassure stakeholders that all of the classification decisions made by either the Office for National Statistics or by other Departments affiliated to the Government Statistical Service will comply with the principles of relevance, integrity, and quality espoused throughout the Code of Practice and its supporting protocols. Indeed, these principles should form the bedrock of all statistical activities not just those relating to statistical classification.

Karen Dunnell

National Statistician

Introduction

This protocol provides guidance to all those who work in the Government Statistical Service and particularly to those involved in the production of National Statistics. It sets out the procedures they should follow in order to achieve statistical integration – in line with the requirements outlined in the *Framework for National Statistics* and the *National Statistics Code of Practice*. For background information on this document please see *An Introduction to the National Statistics Code of Practice and its supporting Protocols*.

Purpose of this Protocol

Application of the principles and practices espoused in this Protocol will enable statisticians and their customers to reap benefits from consistency over time, and comparability over different dimensions when they combine data collected at different times and from different sources in order to create new and potentially richer sources of data.

Integration can occur at any stage of the statistical process. It can produce significant benefits by reducing the cost of statistical collections and the load on respondents, while also increasing the value of outputs. Integration also allows data produced from different sources, and at different times, to be brought together to provide richer information. Over time, and across different collections, integration allows richer databases to be developed and used for more detailed and extensive analysis. Common methodology enhances coherence, while the use of statistical standards permits the repeated collection of comparable data.

However, integration can also carry some risks and costs. Use of common frameworks can sometimes reduce the flexibility required to meet specific user needs. It is important, therefore, to pursue integration in a way which recognises these risks and costs and ensures that benefits are obtained for the statistical system as a whole.

This guidance concedes, therefore, that there may be occasions when

statisticians will have a valid operational reason for not applying a standard, or where it may be more appropriate to apply a standard in a non-standard way. In these circumstances, the Protocol places an obligation on statisticians to be open and transparent about their decision, and to provide users with a full explanation of their chosen course of action.

Scope

The protocol describes how integration will be achieved through the use of common concepts, frames, definitions, questions, classifications and output categories - all of which will be available through the National Statistics website.

Integration across the UK

The National Statistician, Heads of Profession, and Chief Statisticians in the devolved administrations will apply the principles set out in this protocol in accordance with the Concordat on Statistics (which forms part of the *Memorandum of Understanding between the UK Government and the Devolved Administrations*), and in ways set out in supplementary agreements between the two parties. Statisticians in the UK government and devolved administrations will work together to promote the provision of agreed coherent, reliable, consistent and timely statistics about and across the UK.

Exclusions and Synergies

The procedures for data matching and data linking which also promote integration are covered in the *Protocol on Data Matching*. Issues relevant to integration are also covered in a number of other Protocols - namely those relating to *Data Management*, *Quality Management* and *Data Presentation*.

A guide to putting the principles into practice

1. **Statistical systems will be designed in ways that maximise the potential to add value through data integration.**

The Government Statistical Service's integration strategy for National Statistics will be implemented at each stage of the statistical production process and will aim to deliver a mutually supportive portfolio of sources and products that complement one another in timing, form and coverage.

- (a) Before any new statistical collection is commissioned to meet an identified user need, existing data sources will be examined to see whether, singly or through integration, they can provide the required data.
- (b) Data collection will be co-ordinated, as far as practicable, with a view to maximising the potential uses of each dataset and minimising the potential respondent burden.
- (c) Data processing will be integrated as far as possible to exploit the benefits of common technology, methods, tools and processes.
- (d) Statistical analysis will examine all the relevant data sources and aim for a coherent understanding of the subject matter.
- (e) Data, metadata and commentary will be made readily available on the National Statistics website in a way which allows users to make the most effective use of the available material.

2. **Common statistical frames, definitions and classifications will be promoted and used in all statistical surveys and sources**

- (a) The National Statistician, Heads of Profession, and Chief Statisticians in the devolved administrations will develop and promote the use of common statistical frameworks, questions, definitions and classifications across the Government Statistical Service in order to promote harmonisation across National Statistics products.

- (b) Standards for the harmonisation of National Statistics will aim to cover:
- (i) classifications – for example, geographical, social, and economic
 - (ii) statistical units – for example business (enterprise, company, establishment), and social (family, census family, economic family, household, dwelling)
 - (iii) definitions – standard concepts and variables
 - (iv) harmonised questions and question modules
 - (v) frameworks – common frameworks, such as the National Accounts, which provide a basis for consolidating statistical information
 - (vi) variable names
- (c) The harmonisation of data over time, and across different sources, will aim to:
- (i) minimise
 - the time invested in, and costs of, developing data collections
 - respondent load
 - unnecessary duplication across sources
 - (ii) maximise
 - the quality and value of information gained from any single source
 - opportunities for the cross-analysis, exchange and re-use of data
 - users' understanding of statistical information
- (d) All of the standards and classifications adopted for National Statistics will be available via the National Statistics website. Guidelines on the adoption and use of standards and classifications and a series of practical guides on the application of standards will be developed and will be available via links within the website.

- (e) Information about the use of statistical classifications within each statistical resource will be incorporated in the metadata accompanying that resource.
 - (f) National Statistics quality assurance procedures will include an assessment of how well each statistical product and its associated data source(s) complies with the standards outlined in this protocol and harmonises with data obtained from other sources. This assessment will include an evaluation of how well such compliance addresses user need.
- 3. The value of administrative data in producing National Statistics will be recognised, and statistical purposes should be promoted in the design of administrative systems.**
- (a) As far as possible, and for the purposes of National Statistics, the principles outlined in this protocol will be applied equally to all data sources, including administrative sources, in order to extend the advantages of statistical integration. In promoting statistical purposes in the design of administrative systems, care will be taken to maximise the potential for the integration of administrative data with data from either surveys or other administrative sources.
 - (b) Where possible, standards will be set for the use of administrative data in producing National Statistics to ensure that data quality and metadata standards are met, that confidentiality and disclosure control processes will be adhered to, and that agreed standards for consistency in geographic referencing and coding will be used. A key aim will be to consider these standards and approaches in the design of new administrative data systems to ensure their potential for meaningful statistics is addressed.
 - (c) The value of consistency of survey estimates with administrative data sources is recognised, and the intention will be to promote consistency where this does not have an adverse effect on other quality attributes.
- 4. All producers of National Statistics will, wherever practicable, adopt common geographic referencing and coding standards.**
- (a) The National Statistician, Heads of Profession and Chief Statisticians in the devolved administrations will:

- (i) ensure that all producers of National Statistics apply the following geographic standards unless there are strong operational reasons for doing otherwise:
 - Standard names, codes and presentation orders for administrative, electoral, health and other statistical areas;
 - measurements of the extent of statistical areas;
 - urban and rural area definitions and other area classifications;
 - standards for presentation of geographically referenced data; and
 - hierarchies for the aggregation of data by area.
 - (ii) encourage the development and promotion of further geographic standards, a harmonised approach to geographic referencing and data visualisation, and the use and sharing of standard digital boundary data sets, referencing data and gazetteers.
- (b) All those responsible for the production of National Statistics will:
- make use of existing geographies or standard geographic building blocks wherever possible and where this meets user needs
 - work to minimise the impact of the introduction of new statistical geographies;
 - ensure that clear metadata describing the geographies for which they produce statistics are made available via the National Statistics website;
 - conform to the agreed National Statistics policy on minimising the impact of boundary change on statistics. This policy harmonises the approach on producing statistics by implementing all electoral and administrative boundary changes for statistical purposes on 1 April in the year following the calendar year in which the boundary change is published in a statute.

- (c) Responsibility for central co-ordination of geographic standards and approaches on behalf of National Statistics will be clearly defined. It is recognised that in some cases responsibility for defining specific standards may rest with individual departments or administrations but wherever possible these will align with wider standards. All agreed geographic standards will be clearly published on the National Statistics website.

5. All those involved in the production of National Statistics will promote the adoption of international standards and guidance

National Statistics producers, including those in devolved administrations, will work together to ensure that the UK makes an effective contribution to the harmonisation of international statistics by:

- (a) Supporting cooperation between international organisations such as the European Commission, the Organisation for Economic Co-operation and Development, and the United Nations and, in particular, promote the use of common standards across the international statistical community
- (b) Adhering, wherever possible and appropriate, to any frameworks, standards and definitions promoted by international organisations in order to allow for international as well as national comparability.
 - (i) The approach to be followed should be to secure coherence with international standards at the top level, allowing some scope for national differences where these are justified
- (c) Engaging with international statistical organisations to ensure the UK makes an effective contribution to international statistical developments and, in particular, the development of, or revisions to, common frameworks and classifications.
- (d) Working with colleagues, particularly across the administrations, to seek to ensure that international standards reflect the diversity of the UK statistical structure and its governance arrangements.
- (e) Use their influence to ensure that EU legislation in the statistical area is only that which is necessary and relevant, follows the principle of subsidiarity and does not harm UK interests.

6. Responsibility for the adoption, development, management and application of corporate statistical frames, definitions and classifications will be clearly defined, and the details made widely accessible.

The *Protocol on Data Management, Documentation and Preservation* places an obligation on statisticians to manage their statistical resources in a clear and accountable manner. This imperative applies equally to the management of statistical frames, definitions and classifications.

- (a) Overall responsibility for the co-ordination of GSS activity with respect to common frames, definitions and classifications will be vested in a single 'Champion' who will act in consultation with departmental Heads of Profession and the Chief Statisticians in the Devolved Administrations.
- (b) For each individual standard adopted by the GSS, information will be made freely available about:
 - the person, or body of persons who have responsibility for its management, implementation, promotion and further development;
 - their authority and *modus operandi*;
 - the established procedures they follow for handling and addressing implementation issues.
- (c) All those responsible for frames, definitions and classifications will:
 - (i) Provide support, guidance and advice to users on the standards and classifications for which they are responsible.
 - (ii) Undertake regular reviews of these standards in accordance with the *Protocol on Customer Service and User Consultation* and integrate these reviews with other GSS reviews such as Quality Reviews. The aim of these reviews will be to ensure that standards are still relevant and to achieve a balance between reflecting contemporary circumstances and maintaining consistency over time.
 - (iii) Publicise and disseminate any updates or revisions on the website as soon as practicable.

- (iv) Develop and promote further standards in order to facilitate a harmonised approach to business and social surveys, and, where possible, to administrative sources.

7. Information about the application of statistical classifications will be widely disseminated

The separate Protocols on *Data Management*, *Data Presentation* and *Data Quality* all stress the need for statisticians to document their statistical procedures in a standard format and to disseminate that metadata as widely as possible – in order to facilitate the integration and cross-analysis of disparate datasets and, more generally, to foster greater awareness and understanding of their data. These principles apply equally to statisticians' use of statistical classifications.

- (a) Wherever possible, statisticians in the Government Statistical Service will adopt either an International or a Supra-national (such as European) standard classification in order to achieve international comparability. Where, however, there is no suitable candidate at either the International or Supra-national level, then the GSS will either adapt an existing international classification, or develop and maintain its own national classification system. In each case, the national version will be designed to correspond to the nearest equivalent international version, and become the appropriate standard for use across the GSS. Local or business-specific classifications will be developed as the need arises.
- (b) All classification systems applied by the GSS, whether off-the-shelf or formulated in-house, will be:
 - stored in, or linked to, a central repository which can be viewed on a central statistical website;
 - identified by type, using the taxonomy shown in Annex D.
- (c) All classification systems applied by the GSS will conform with standard GSS naming and identification conventions in order, for example, to distinguish different variants of the same classification, or classifications which are no longer in use;
- (d) Statistical classifications which have been developed in-house will be subject to regular review. Reviews of classification systems will be

co-ordinated, as appropriate, with other GSS reviews such as Quality Reviews;

- (e) Planned revisions, or updates to standard classifications will be posted on the central statistical website as soon as possible, and before any changes come into operation;
- (f) Updates or revisions to standard classifications will be adopted across the GSS in accordance with an harmonised timetable;
- (g) Where appropriate and practicable, producers will apply classifications down to the lowest possible level of disaggregation in order to allow for maximum flexibility when aggregating data; to encourage the widest possible degree of integration between different statistical resources; and to allow for retrospective changes in classification;
- (h) The GSS will promote the use of standard statistical classifications across all public sector statistics.

8. Classification decisions will be based on professional considerations; comply with standard guidance on use and interpretation; and be reached and disseminated using established and transparent procedures.

- (a) Most decisions involving statistical classifications are straightforward, and can be processed on a business-as-usual basis. However, there are occasions when the use and interpretation of classification systems can involve complex arguments, and where classification decisions have the potential to become contentious or even controversial. In these circumstances it is important to ensure that users, and the public more generally, have confidence in the integrity of the procedures leading up to such decisions, and can readily understand the basis for any difficult or contentious decisions.
- (b) More particularly, judgements and decisions about classifications, and their rationale, should be:
 - reached via an impartial and transparent procedure which is independent of the political process;
 - taken on the basis of expert and objective advice

- explained clearly to stakeholders;
 - technically sound;
 - consistent over time and across different domains;
 - compliant with standard guidance.
- (c) The basis for classification decisions should be fully documented and the resulting documentation made freely and easily accessible to all interested parties.
- (i) Where a classification decision involves difficult professional judgements and is potentially contentious, or is likely to have a wider impact because, for example, it impinges on matters of government policy, or is likely to generate strong media or public interest, then a prominent statement will be placed in the public domain explaining the basis for that decision.
 - (ii) Any such statement will incorporate:
 - comprehensive information about the nature of that decision and its possible implications;
 - the rationale behind the decision, and all the arguments for and against;
 - an explanation of any areas of uncertainty about the decision; and
 - details about who has authorised the decision.
 - (iii) Ready access to that statement will form part of the metadata which accompanies the statistics to which that statement refers.
 - (iv) If it proves difficult to reach a classification decision - perhaps because of ambiguities in the underlying guidance, or because a decision will have important ramifications beyond the immediate statistical arena - then the relevant statisticians will seek guidance or support from experts in other statistical authorities such as Eurostat - the statistical office of the European Commission - or, in exceptional circumstances, the United Nations Statistical Commission.

- (v) After a potentially problematic or contentious classification decision or ruling has been publicly notified, and subsequently implemented, it will supplement existing 'Case Law' and, as such, become a precedent for any further, related decisions.
- (d) Specific rules and procedures apply to classification decisions taken in the context of the UK's system of National Accounts and these are addressed in the following Annex.

ANNEX A

UK National Accounts sector and transaction classification:

A summary of the classification process

The National Accounts

1. The National Accounts provide a framework for describing what is happening in national economies. All institutional units operating within an economy are classified to an institutional sector (for example as non-financial corporations, general government or households etc.). All transactions between the sectors of the economy are also categorised as part of the National Accounts framework. Work on classification of sectors and transactions are a key input in the production of National Accounts.

Context

2. Robust classifications are needed to produce good quality National Accounts, which are internally consistent and comparable across the world. In addition, because of the wide use of National Accounts statistics (and those based on them) as performance indicators, targets, and the basis for distributing large sums of money, classification issues can and do take on political significance.
3. This is particularly relevant in the area of public expenditure, revenues, borrowing and debt. This applies both domestically, and within the European Union. For example, in the European Union statistics based on the *European System of Accounts 1995* (ESA95) are used in:
 - the Maastricht Treaty measures, particularly of government debt and deficit, where they determine the convergence criteria for monetary union for non-members, and performance against the Growth and Stability Pact for eurozone members; and
 - the measurement of Gross National Income (GNI), one of the main determinants of member states' contributions to the European Union's budget.

4. It is a legal requirement for European Union countries to compile statistical returns on the basis of ESA95. The United Kingdom National Accounts are produced by the Office for National Statistics (ONS) on this basis. Further guidance is contained in Eurostat's *Manual on Government Deficit and Debt*.
5. In the UK, the Government has also decided to base its fiscal policy framework on the National Accounts. Fiscal policy objectives are in terms of statistics based on National Accounts aggregates. This means that key public sector targets such as the current budget (the "golden rule") and the debt to GDP ratio (the "sustainable investment rule") are dependent on National Accounts definitions and classifications.

The classification process

6. The international statistical manuals (mainly ESA95 and the *System of National Accounts 1993* (SNA93)) provide the broad framework and principles for deciding classifications. Statistical offices throughout the world have to interpret these manuals.
7. It is important to have a clear agreement on the boundary between the public and the private sectors and ONS, in conjunction with European partners, have developed a comprehensive set of guidelines. These guidelines focus largely on the boundaries of the general government sector (comprising central government, state government and local government) and the public corporations sectors which together define the public sector.
8. Most of the financial information needed to produce the central government sector accounts is provided by government departments and agencies and routed through HM Treasury. ONS and HM Treasury have produced guidelines to help government departments classify their activities for National Accounts purposes. These have been circulated to departments with the expectation that most cases in departments will be settled by reference to the guidelines without the need for any consultation.
9. For cases not clearly covered by this guidance, policy departments – including HM Treasury - will refer issues to HM Treasury's classification branch who act as technical experts and answer the straightforward queries on behalf of ONS. For those queries that are not straightforward,

HM Treasury classification branch will ask ONS to interpret the guidance and to make a classification decision.

10. ONS is, however, final arbiter of National Accounts classification decisions in the UK and can examine cases on its own initiative at any time.
11. In some cases ONS will consult Eurostat, the statistical office of the European Union (see paragraph 18). Examples include where a case has an international dimension or consistency with the *Manual on Government Deficit and Debt* requires clarification.

National Accounts Classification Committee

12. The National Accounts Classification Committee (NACC) is the committee of expert staff within ONS that makes National Accounts classification decisions. The committee makes decisions on the sector classification of bodies/institutions and their transactions in line with the international statistical guidance.
13. NACC has a membership of around 15. Currently five of these are members of NACC by virtue of the posts they hold within ONS. These 'ex-officio' members include the chair of NACC who is appointed by the National Statistician.
14. More information on the NACC decisions and the decision-making process is provided below.

NACC classification decision process

15. Classification cases can be initiated either by ONS or, following a departmental classification request, through HM Treasury's classification branch. Typically the cases initiated by ONS would relate to the classification of existing organisations, or transactions or new developments in the economy. In many classification cases the answers will be straightforward and the NACC secretariat will deal with them. Others are referred to NACC.
16. HM Treasury may also submit policy proposals for classification by NACC, either on its own behalf if it has the policy lead, or on behalf of another department. Paragraphs 31 to 37 provide further information on the handling of these proposals.

17. The usual sequence of events for NACC classification cases would be:
 - (a) A classification request comes to the NACC secretariat.
 - (b) The secretariat prepares a document that summarises the facts of the classification case and puts forward the different interpretations that could be made. This will often involve additional research and requests for further detailed information.
 - (c) The case is circulated to NACC members (a NACC consultation) with a deadline for responses. If the case is complex or high-profile, the chair may call a meeting of the committee to discuss the issue.
 - (d) If the conclusion of the committee is unanimous, a reply will be prepared by the secretariat. If there are differences of view these are discussed.
 - (e) Following NACC discussion decisions will be taken based on majority voting.
 - (f) In the event that there is a tied vote, the Chair will have a casting vote.
 - (g) The decision will be authorised at the appropriate level and the reply sent to HM Treasury with full reasons for the decision. For any cases that require authorisation by the National Statistician (see paragraph 27), there must be a quorum of at least half the ex-officio members voting.
 - (h) The decision will be published as soon as cases are no longer commercial or policy in confidence and the appropriate explanatory material has been prepared.
18. In some cases ONS may consult Eurostat. Eurostat will only consider cases related to the Excessive Deficit Procedure (EDP) of the Maastricht Treaty. If it decides to give an opinion on a case, Eurostat will either take a straightforward decision, or go through a consultation process involving the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB). CMFB brings together statistical experts from all member states' national statistical institutes and central banks, Eurostat and the European Central Bank. A description of CMFB's procedures for consultation and provision of an opinion can be found on the Excessive Deficit Procedure page of their website at <http://www>.

cmfb.org. The CMFB acts in an advisory capacity and Eurostat is responsible for the final decisions. In exceptional circumstances (such as the classification of 3G mobile phone spectrum receipts) ONS may refer a case to the United Nations Statistical Commission.

Classification criteria: the basic approach to classification

19. Each classification decision is taken on its own merits and in line with international statistical guidance. Cases of public interest tend to be one of two types:
 - i. whether an entity, an organisation or financing vehicle for example, is in the private or public sector;
 - ii. whether government receipts are a charge for a service or a tax
- i. Classification of an entity to the public or private sector*
20. The guidance is extensive but two main stages can be identified when classifying an entity to an institutional sector. The first involves a decision on whether the entity is within the public or private sectors, and the second a decision on whether it is a market or non-market producer.
21. In summary the difference between the public and private sectors is determined by where control lies, rather than by ownership or whether or not the entity is publicly financed. International guidance defines control as the ability to determine general corporate policy. For example, this control can be exercised through the appointment of directors, control of over half of the shareholders voting power, through special legislation or decree, or through regulation.
22. As a result NACC will examine an entity to see whether there are any factors that enable any part of the public sector, either individually or collectively, to determine the general corporate policy of the entity. This includes recognition that government, or other sectors, may also control a unit through contractual arrangements. If this control is established the entity is classified to the public sector.

23. Having decided whether an entity is part of the public or private sectors, the second important aspect for sector classification is to determine whether it is a market or non-market entity. Public sector market entities are classified as public corporations (for example Royal Mail and Manchester Airport Group); public sector non-market entities are classified in the general government sector (for example government departments and the BBC). General government is then sub-divided into sub-sectors, including central government, state government and local government. Private sector market entities are classified as private corporations, and private sector non-market entities are generally classified to a sector known as Non Profit Institutions Serving Households.
24. The borderline between market and non-market classification is defined in the international guidance by whether more than fifty per cent of the production costs are covered by sales of goods and services.
 - ii. *Classification of receipts as either a tax or service charge*
25. For entities within the public sector, classification as a market or non-market entity is dependent on how the entity is funded. Majority funding through grant-in-aid or taxation will result in classification as a non-market entity and allocation to the general government sector. Where an entity is majority funded by receipts it is necessary to classify those receipts.
26. On the whole government receipts are mainly divided into taxes or service charges. Taxes are compulsory unrequited payments, where unrequited means that the payer does not receive anything directly in return. Service payments are required in that they include the delivery of a service in exchange for a payment. In some instances the classification of these receipts can be difficult to interpret and the international statistical manuals recognise that “the borderline between taxes and payments for services rendered is not always clear cut in practice”. As a result NACC will consider the nature of the receipts carefully before reaching a decision.

Authorising the issuing of NACC decisions

27. Depending on the degree of public interest or sensitivity of the classification case, the NACC decision will be authorised at an appropriate level:

- where the guidance is clear the NACC secretariat can notify an 'ex-officio' member of these decisions for authorisation;
- where the guidance requires interpretation a NACC consultation will take place. Most decisions will be authorised by the Chair, in whose absence the responsibility can be delegated to the vice-chair or to the head of Public Sector Accounts;
- politically sensitive cases or those likely to be of public interest will be authorised by the National Statistician.

Status of decisions

28. The status of classification decisions will be made clear in the replies sent to HM Treasury. In the majority of cases this will be that, based on the information provided, the decision represents the view of the ONS National Accounts Classification Committee. The reply will also note who has authorised the decision.

29. A decision will be referred to as 'provisional' if the arrangements on which the decision is based have yet to be implemented. Further NACC consultation may be required before a final decision is made.

Review of classification decisions

30. There is no systematic review of classification decisions. However, ONS will review earlier decisions if new information has come to light, circumstances have changed or interpretation of international guidelines has evolved. Such reviews are conducted following the same process as for other classification decisions. If a review results in a different decision, i.e. a reclassification, time series for the National Accounts and public sector finances will be revised accordingly, consistent with the National Statistics Protocol on Revisions.

Policy proposals

31. Policy proposals differ from other cases in that they are forward-looking rather than concerned with existing organisations or transactions which have already taken place. Such proposals might involve the creation of a new organisation, the re-structuring of an existing organisation, or the creation of a new type of transaction or financing vehicle.
32. As noted above, ONS is occasionally asked to provide classification decisions on policy proposals so that Government can understand how these proposals would be treated in the National Accounts and so take account of the potential consequences for public spending, public revenues or debt measures.
33. It is essential that ONS is not drawn into policy discussion and does not participate directly in the policy formulation process. It is not the role of ONS to provide policy advice on how bodies and transactions should be structured. ONS does not perform this kind of service as this would have the potential to compromise the classification process as detailed here. ONS's only involvement with these policy proposals is to determine the National Accounts classification of the proposed body or transaction. As a result, it is necessary to ensure that the integrity of the classification process and the resulting national statistics are protected.
34. ONS will, therefore, remain at arms length from the policy officials and work through HM Treasury's classification branch following the same classification process as outlined in paragraphs 6 through 18. Consistent with this, if it proves necessary for ONS to request a briefing from the department, such briefings will be confined to the provision of the factual information required to inform the classification decision.
35. Most policy proposals will be in a near final form when presented to ONS and will include all the relevant details to enable ONS to make a judgement. Any classification decisions based on a near final policy proposal will be deemed as 'provisional' and dependent on the proposal being implemented as described. If the circumstances change it is the responsibility of the department to inform HM Treasury. HM Treasury will then inform ONS.

36. However, on rare occasions, departments might seek a view on a major proposal at an early stage of its development. In such cases, ONS will provide a provisional classification decision in the expectation that it may be asked to examine a more final proposal at a later stage. Exceptionally, in the interim ONS will only consider alternative versions of the same proposal if substantial and significant changes have been made. The explanatory article published on the final policy proposal will note how many versions of the proposal ONS considered.
37. Final classification decisions will be published when the policy is announced by the Government. At this point ONS would expect to include in the explanatory article any relevant declassified material relating to the final proposal which had previously been supplied on a restricted basis.

Publication and reporting of decisions

38. The ONS Sector Classification Guide provides a comprehensive list of public sector bodies and an indicative list of other sector classifications within the UK economy. Routine sector classification decisions will be published in the monthly update of the Sector Classification Guide at www.statistics.gov.uk/nacc. For decisions likely to be of public interest, ONS will issue a news release and article explaining the decision. ONS may show relevant sections of the draft article to HM Treasury and the responsible policy department for fact checking.
39. ONS's annual report to Parliament will record major decisions announced in the year in question. Where a provisional decision about a policy proposal has been made, but the final policy decision has not been announced, the fact that such a decision has been made will simply be noted. Further information will be provided if and when a final policy decision is announced.

Different accounting systems

40. ESA95 is designed as an integrated system of economic accounts for the whole economy. It is not used to produce financial reporting statements for individual entities. As a result the treatment of organisations and transactions may differ between financial reporting

systems and the national accounts system.

41. In its response to the Treasury Committee report on the classification of Network Rail, the Government agreed that where the National Accounts and financial statements of central government departments “produce apparently contradictory results as regards sector classification, it is appropriate that the parties concerned should explain to the public the rationale for their views”. To this end, when preparing articles on a National Accounts classification, ONS will invite the appropriate accountants and auditors to provide material on the treatment in financial statement accounts and Whole of Government Accounts.

Classification documentation

42. The Sector Classification Guide and full documentation detailing major NACC decisions is available on the ONS website, at www.statistics.gov.uk/nacc.

References

- “System of National Accounts 1993”, UN, OECD, IMF, EU, 1993.
- “European System of Accounts 1995”, EU, 1996.
- “Manual on Government Deficit and Debt”, EU, 2006.
- “Government Response to the Committee’s First Report: National Statistics: The Classification of Network Rail, Session 2002-03”, Treasury Committee

ANNEX B

A Note on Non-Adherence to Common Statistical Frameworks or Classifications

A central tenet of this Protocol is the requirement to conform to common frameworks or classifications in order to ensure the consistency and comparability of statistical series. This tenet recognises that non-compliance with agreed standards; departures from agreed application rules; or inconsistencies in their application can compromise the interoperability of statistical series.

There may be occasions, however, when official statisticians have a valid operational reason for either: not adopting a standard statistical frame, definition or classification; applying a standard in a non-standard or flexible way; or elaborating on an existing standard. Statisticians may, for instance, opt for non-conformance when they want their statistics to reflect local circumstances and diversity.

In these circumstances, statisticians must:

- be open and transparent about any instances of non-conformance;
- explain the reasons for their departure from the standard;
- endeavour to achieve conformance at the aggregate level whilst giving scope for local differences at the lower levels;
- be consistent in any decisions to depart from the norm;
- and, where practicable, provide in the accompanying metadata:
 - an outline of the alternative they have chosen;
 - a broad description of how it differs from the accepted standard and where practicable;
 - a mapping or other means of reconciliation between their own approach and the standard approach;
 - a quantification of the impact of non-conformance on comparability.

ANNEX C

Statistical Classification - A short explanation

Perhaps the best known example of the craft and science of classification – known as ‘Taxonomy’ – is Carolus Linnaeus’s *Systema Naturae* first published in 1735. Linnaeus was a Swedish Botanist who originated the now universally applied Linnean system of documenting and classifying all living creatures into a hierarchically ranked framework of ‘species’, ‘genus’, ‘family’, ‘order’, ‘class’, ‘division’, ‘kingdom’ and ‘domain’ based on their shared characteristics.

Systematic classification is also an integral part of the statistical lifecycle, as the Oxford English Dictionary recognises:

Statistics: the science of collecting, classifying, and interpreting information based on the numbers of things (OED)

Statisticians classify data in order to facilitate the compilation, description and analysis of large sets of individual statistical observations. The process involves the systematic grouping of individual observations - relating, for example, to individuals, organisations, entities, objects, transactions, concepts, etc - within a much smaller set of classes or categories in accordance with actual or perceived similarities in the characteristics displayed by each individual observation. Thus, at the very simple level, each of the individuals who constitute the human race can be classified, depending on their gender, into one of two categories - ‘male’ or ‘female’.

In more complex cases, the process requires the existence of a comprehensive classification system i.e. an exhaustive and structured list of mutually exclusive categories which remain stable over time but which also allow for organic or dynamic change. Each category may have a textual description which describes the nature of that category and identifies each of the possible values for any statistical object or observation, and may also have an associated alphabetic or numeric code. Thus, all individuals in employment can be classified, depending on the nature of their work, into one of the several occupational categories listed in the United Nations (International Labour Organisation) International Standard Classification of Occupations

(ISCO). An employee, for instance, may be classified as either a Manager/Senior Official, a Professional, a Skilled Tradesman, or any one of a number of other occupational categories.

A classification system can be described as either 'linear', in which case all of its categories constitute a single level, or 'hierarchical', in which case the categories form a tree-structure in which all the categories at each level (apart from the highest) can be aggregated to the next highest level.

The main rationale for using standard statistical classifications is to allow datasets that may have been collected for different purposes, at different times, and in different ways to be compressed into more manageable 'categories' or 'chunks' and then described, compared and perhaps combined.

A 'Taxonomy' of the different types of statistical classification used across the GSS is appended as Annex D to this Protocol. The Bibliography includes the address of the webpage which provides details about each of these classifications.

ANNEX D

A 'Taxonomy' of Statistical Classifications

The following table provides a classification of the main types of statistical classification, or their variants, which are used across the Government Statistical Service.

Types of Statistical Classification	Examples (Full Title and Acronym)
International Standard	<ul style="list-style-type: none"> • United Nations - International Standard Industrial Classification of All Economic Activities - ISIC • United Nations - Standard International Trade Classification - SITC • International Labour Organisation - International Standard Classification of Occupations - ISCO • World Health Organisation - The International Statistical Classification of Diseases and Related Health Problems - ICD • UN System of National Accounts - SNA
Supra-National Standard	<ul style="list-style-type: none"> • Eurostat - Statistical Classification of Economic Activities in the European Community - NACE • Eurostat - International Standard Classification of Occupations (for European Union purposes) 1988 version - ISCO-88 (COM) • Eurostat - Nomenclature of Territorial Units for Statistics - NUTS
United Kingdom Standard	<ul style="list-style-type: none"> • National Statistics Socio-Economic Classification - NS-SEC • National Statistics Rural and Urban Area Classification – NSRUC • National Statistics Country Classification - NSCC • UK Standard Occupational Classification – UK SOC • UK Standard Industrial classification – UK SIC
Country Standard (UK) (i.e. any Standard confined to only one of the countries that make up the UK)	
Departmental Standard	Office for National Statistics Standard Marital Status Classification - ONSMARSTAT
Topic Area Standard	Census 2001 Age Classification - CEN_AGE2001
Developmental Standard	This is the classification equivalent of an 'Experimental' statistic and should only be used in controlled circumstances

Bibliography

National Statistics Code of Practice - Statement of Principles:

http://www.statistics.gov.uk/about/national_statistics/cop/default.asp

‘Classifications’ section within the ‘About National Statistics’ website

<http://www.statistics.gov.uk/about/data/classifications/default.asp>

List of all the statistical classifications used by the Government Statistical Service:

<http://www.statistics.gov.uk/about/data/classifications/current/default.asp>

‘Geography’ section within the ‘About National Statistics’ website

<http://www.statistics.gov.uk/geography/default.asp>

incorporating ...’Beginner’s Guide to UK Geography’

http://www.statistics.gov.uk/geography/beginners_guide.asp

Standard Statistical Classifications: Basic Principles (United Nations Statistical Commission) - Abstract: by Eivind Hoffman, Bureau of Statistics, ILO, and Mary Chamie, UN Statistics Division

<http://www.unstats.un.org/unsd/class/family/bestprac.pdf>