Grŵp Cartrefi Cymunedol Cymru
Community Housing Cymru Group

In-depth Briefing

Office for National Statistics classification review of housing associations in England

October 2015

Background

The Office for National Statistics (ONS) assesses bodies and transactions against international rules to decide how they should be treated in the National Accounts. The categorisation of economic entities and their respective expenditures need to conform with the ONS classification system and in turn the European system of accounts (ESA) and the wider system of national accounts (eg, with the IMF, OECD, United Nations and World Bank).

From time to time, the ONS undertakes “classification reviews” of various bodies and transactions within the economy. The ONS carried out a review of Private Registered Providers of social housing in England in 2003. The ONS has noted that since then a number of new government controls have come into force, primarily through the Housing Regeneration Act 2008 and the Localism Act 2011, as well as the introduction of the European System of Accounts Rules on providers of social housing that came into place in 2010.

In July 2015, in light of media attention and subsequent discussions with HM Treasury, the **ONS decided to commence a statistical review of “Private Registered providers” of social housing (including registered housing associations) in England.** The purpose of the review was to confirm they were recording associations correctly at present to establish a firm foundation in advance of forthcoming legislation. So to be clear, **this is a foundation review of the sector as it stands today on the back of legislative changes made since the last review in 2003 and in advance of forthcoming legislation**. The ONS has stated that the impact of the changes on “fiscal aggregates” (such as public sector borrowing and net debt) would be “large” and impact on the National Accounts would be “small”.

The ONS could choose to carry out another review of the sector following the introduction of forthcoming legislation (for example, the current welfare reform and work bill and housing bill), though have made no public commitment to do so. Further background on the classification system and process can be found here: http://www.ons.gov.uk/ons/guide-method/classifications/na-classifications/the-ons-classification-process/index.html

Housing associations in England were classified for the purposes of the national accounts as “Private Non-Financial Corporations”. The review may confirm this status or it could change this status, for example, by reclassifying the sector as "public" or "market". It is also possible that they may announce a more wide ranging review of associations.

The key test applied to determine whether a body is public or private is:

> *"… does the government exercise significant control over the general corporate policy of the unit? The international guidance defines control as the ability to determine general corporate policy, and this can be exercised through the appointment of directors, control of over half of the shareholder' voting power, though special legislation, decree or regulation*".

The Decision

The ONS announced, at 9.30am this morning (30th October), that Private Registered Providers had been reclassified from 'Private Non-Financial Corporations' to 'Public Non-Financial Corporations'. This decision applies from the enforcement date of the Housing Regeneration Act (HRA) 2008. Public Sector Finances aim to implement the reclassification early in 2016.

The ONS concluded from their investigations that Private Registered Providers are subject to public sector control in accordance with the control indicators set out in international accounting rules. Reasoning for this includes:

1. Government consent powers over, and power to set conditions on, disposals of social housing assets (exercised through the HCA under section 172-178 of the HRA 2008)
2. Government powers to direct the use of disposal proceeds (exercised through the HCA under sections 177-178 of the HRA 2008)
3. Government consent powers over disposals of housing stock following a registered provider's de-registration with the HCA (exercised through the HCA under section 186 of the HRA 2008)
4. Government consent powers over the voluntary winding-up, dissolution, and restructuring of a registered provider (exercised through the HCA under section 160-166 of the HRA 2008)
5. Government powers over the management of a registered provider, in particular the power of the HCA to appoint managers and officers to the provider (exercised through the HCA under sections 151-157, 246-252, 261(3) and 269 of the HRA 2008)

Further information is available here (http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-391244%20-%20tab-all-tables), but the ONS' decision has primarily considered changes made by the Housing Regeneration Act 2008 and Localism Act 2011; there is no reference to recent government policy changes such as the Right to Buy, 'Pay to Stay', or the rent reduction.

The ONS has been clear that this decision applies to English housing associations only.

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The implications of the decision

This decision means that English Private Registered Providers' transactions, expenditure and debt have been reclassified as within the Public Sector Finances. Public Sector Finances aim to enact the reclassification early in 2016, ahead of the Budget announcement. Public Sector Employment figures will also be adjusted in early 2016, with recognition of the impact on National Accounts made in ONS' Blue Book in 2017.

The UK Government can choose to enact legislation and/or other changes to address any of the specific legislative or regulatory measures that the ONS identified as resulting in the reclassification. A further ONS review on the back of such changes would then reclassify associations back from public to private.

Initial estimates by the ONS suggest that the reclassification will add £60bn to the National Debt; the National Housing Federation estimates £63bn – roughly a 4% increase on the current national debt. Any additional borrowing by English associations would result in an increase in public sector borrowing. Public accounting rules can also place restrictions on the use of surpluses, as seen in the reclassification of Scottish Colleges.

The ONS will make the necessary changes to the national accounts 'as soon as possible'. In practice this may take some time to be implemented, as with previous reclassifications.

UK Government Response

The UK Government's Department for Communities and Local Government have issued the following statement:

"This statistical matter relates to an historical legislative change, made by a previous Government, which came into effect over eight years ago and makes no difference at all to the way housing associations run themselves and imposes no new controls or rules.

"We will bring forward measures that seek to allow housing associations to become private sector bodies again as soon as possible."

Next Steps

We are working with the representative bodies in the other devolved nations to issue a joint response to today's announcement.

More urgently, we are also writing to Lesley Griffiths AM – Minister for Communities and Tackling Poverty; and Jane Hutt AM – Minister for Finance and Government Business, to seek assurances that they will act to ensure that we are not caught up in any potential future review by the ONS.

For further information, please contact Aaron Hill, Public Affairs Manager on aaron-hill@chcymru.org.uk or 029 2067 4820.