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Richard Leonard MSP
Convenor
Public Audit Committee
Room T3.60
The Scottish Parliament
EDINBURGH
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Dear Richard,

Classification of Scottish Canals

Following the reply from the Office for National Statistics (ONS) to your letter of 13 April regarding the classification of Scottish Canals (SC), I thought it would be helpful to provide further background on the history of the body's classification and reporting arrangements.

The decision over the accounting and reporting arrangements Scottish Canals follows is made by HM Treasury. This decision is separate from the classification decision made by the Office for National Statistics (ONS), although HM Treasury will refer to ONS classifications in its own decisions.

Scottish Canals was established in July 2012 following the separation of the British Waterways Board. The British Waterways Board had operated as a public corporation, and it was intended that Scottish Canals would operate on a similar basis.

Following the creation of Scottish Canals, the ONS reviewed its status and found that it failed to meet the market test required to obtain public corporation status, as more than 50% of its funding came from government. As a result, it was classified as a central government body. In December 2012 a consent was obtained from HM Treasury to defer the implementation of budgetary and accounting requirements resulting from the classification change, on the basis that Scottish Canals was projected to reduce its reliance on government funding below 50%. This delay enabled Scottish Canals to continue to apply the budgetary and accounting arrangements which were in place prior to July 2012 as a public corporation.

Since ONS consider three years of activity in assessing a body's commercial status, ONS reviewed Scottish Canals again in 2016 and found that it marginally failed to meet the market test. They agreed to revisit its status after another three years in 2019, and HM Treasury consented to continue to defer the implementation of budgetary and accounting requirements until this review had taken place.



However, by 2019 Scottish Canals had not been able to move to a position where the majority of its funding was from commercial sources. On 27 September 2019, the ONS Economic Statistics Classification Committee reaffirmed Scottish Canals' classification as a central government body. The ONS also indicated that they considered its classification settled and would not review the body again in the near future. A further reporting dispensation was investigated by officials with HM Treasury but this was not granted given the latest ONS decision. Therefore it was necessary to reconsider the governance model of the organisation, and officials have been working with Scottish Canals since September 2019 to help them understand the implications of transition to NDPB.

I trust that this assists in understanding the role the ONS has had in changes to Scottish Canal's classification and reporting status. I will be happy to provide any further information you require.

Yours sincerely,

Iain Pearce

