

NEW ISSUE

**STANDARDS FOR STATISTICAL UNITS  
IN AUSTRALIAN INTEGRATED  
ECONOMIC STATISTICS**

**(SSU)**

**1985 EDITION**

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## PREFACE

This document presents the first edition of the Standards for Statistical Units (SSU). It has been prepared by the Australian Bureau of Statistics (ABS) for use in the collection, compilation and publication of its integrated economic statistics and provides interested users and analysts of the statistics with a detailed statement of the conceptual framework underlying official economic statistics.

Statistical units in general are the units of observation in a statistical series, ie the basic entities about which data are recorded and which are then classified and aggregated to provide the statistics as they are finally presented. Examples of statistical units include persons, households, businesses, motor vehicles, families and so on. Knowledge of the way in which statistical units are defined is therefore an important element in the accurate interpretation of a statistical series.

This document relates to the statistical units employed in the ABS's integrated economic statistics. The statistics are described as 'integrated' since they are based on a conceptual framework which requires the rigorous application of the standards for defining statistical units, classifications and data items. This enables the valid comparison and aggregation of all the statistics which are collected and compiled according to those standards. The statistical units which are the subject of this document are the business, government and institutional units of interest in what can be loosely described as 'economic' statistics, for example statistics of production, capital formation and employment.

The standards for defining statistical units contained in this document are subject to extension and elaboration as changes occur in the ways in which economic activity is organised and as the scope of integrated economic statistics is expanded. Further editions of the document will be issued, as appropriate.

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ABBREVIATIONS AND SYMBOLS USED

ABS	Australian Bureau of Statistics
ANA	Australian National Accounts
ASCC	Australian Standard Commodity Classification
ASGC	Australian Standard Geographical Classification
ASIC	Australian Standard Industrial Classification
CAU	Central Ancillary Unit
EI	Enterprise/Industry (establishment unit)
ESI	Enterprise/State/Industry (establishment unit)
IMF	International Monetary Fund
IRIS	Integrated Register Information System
ISIC	International Standard Industrial Classification of all Economic Activities (United Nations)
LAU	Local Ancillary Unit
LNyIO	Location not yet in operation
SL	Single location (establishment unit)
SLA	Statistical Local Area
SNA	A System of National Accounts (United Nations)
UN	United Nations
UNSO	United Nations Statistical Office
..	Not applicable

CHAPTER 1 INTRODUCTION

1.1 Aim

1.1.1 The aim of this document is to set out the standards for defining transactor-type statistical units which are used in the Australian system of integrated economic statistics and to explain the rationale underlying these standards.

1.1.2 The document is one of several which provide a complete set of statistical standards relating to the conceptual framework upon which the Australian system of integrated economic statistics is founded. The main types of statistical standards in any such system include:

- i standards for transactor units;
- ii standard classifications of transactor units; and
- iii standard definitions for data items, eg types of transactions undertaken by the transactor units and recorded by the system.

This document deals with the first of these components (ie standards for transactor units). ABS documents containing the other types of statistical standards include the following, among others:

. Standard classifications of transactor units: The Australian Standard Industrial Classification, 1983 (1201.0 and 1202.0), the Australian Standard Geographical Classification (1216.0) and the Standard Institutional Sector Classification of Australia (which is available within the ABS for internal use but which has not yet been released for general use); and

. Standard definitions for data items: The Australian Standard Commodity Classification (1207.0 and 1208.0) and a document setting out standard definitions for 'structural' data items (for an explanation of such data items see paragraph 3.4.6.8 below) which is currently being developed.

1.1.3 The conceptual framework upon which the Australian system of integrated economic statistics is based is described in some detail in Chapter 2 of this document and a brief description of the system itself is given in Part 1.2 below. The standards for defining statistical units which are the subject of this document can be seen as part of the interpretation and application of the conceptual framework in statistical collections. The general principles for defining statistical units and the application of these principles in interpreting and applying the broad concepts in Australia are outlined in Chapter 3 of this document. In addition, Chapter 3 concludes with a summary of the integrated economic statistical units used in Australia, which have been determined following these considerations. The standard units definitions resulting from this process require the support of 'working rules', which are developed where experience in using the definitions gives rise to a need for a more precise interpretation in particular instances. The standard definitions and working rules are described in detail in Chapters 4 and 5 of this document. In addition, these chapters record decisions relating to cases of a general nature requiring interpretation of the definitions, which have arisen since the system was introduced.

## 1.2 The Australian System of Integrated Economic Statistics

1.2.1 The Australian system of integrated economic statistics is the systematic application of a common conceptual framework to the collection and compilation of statistics aimed at measuring economic activity. Economic activity can be broadly defined as the production and consumption of goods and services and accumulation of wealth. The system is 'integrated' insofar as the statistics which it produces, can be compared and aggregated, one with the other, without gaps or overlaps and other inconsistencies between them. Thus, a statistical unit, once defined according to the standards, retains this definition in each of the integrated economic statistical collections in which it is included. It is classified to only one category in each of the standard classifications applied in the system and the data compiled for all units are defined in the same way in each statistical collection in the system.

1.2.2 Economic statistical collections up to the early 1960's were introduced, as demand required, in a somewhat ad hoc fashion. Each collection had its own definitions, data item definitions and classifications designed to meet only the specific requirements in each field concerned. As a consequence, the needs of some users of the statistics to compare or aggregate statistics from one collection to another were not satisfied. In particular, the various economic statistical collections could not be used to provide data required for the national accounts. While the 'integrated' collections have overcome most of these problems, for practical reasons limitations still exist on the extent to which these collections can be used directly in compilation of the national accounts.

1.2.3 The Australian system of integrated economic statistics became operational in 1968-69 with the conduct of the first integrated economic censuses, which covered mining, manufacturing, electricity and gas production and distribution, wholesale trade, retail trade and selected service industries. A wide range of standard data items was collected and compiled for units defined according to the standards established and classified to industries using the newly developed ASIC. In order to facilitate despatch of census forms to each of the statistical units within the scope of the censuses and to control the maintenance of standards, the Integrated Register was established. It contained the names, addresses, industry classification and other information relating to those units. The scope of the Integrated Register has since been extended to include all industries of the ASIC.

1.2.4 Since the conduct of the first integrated economic censuses in 1968-69, the system has been modified and extended and now supports annual censuses of mining, manufacturing and electricity and gas production and distribution and less frequent censuses or surveys of retail trade and selected service industries, wholesale trade, the construction industry and the transport industry. The annual agricultural commodity census is also part of the integrated framework but is different from the other censuses in that it provides mainly physical quantitative data in respect of agricultural production and very little in the way of financial data. Financial data relating to agriculture are obtained from periodic sample surveys collected on an integrated basis. In addition, the integrated system now includes quarterly sample surveys which obtain data on capital expenditure and stocks as well as surveys of employment, earnings, job vacancies and overtime, for a wide range of industries and ad hoc or less frequent statistical collections. Data from these surveys are used extensively in compilation of the national accounts. The system also supports monthly and quarterly surveys of retail sales and periodic surveys of research and development expenditures.

1.2.5 The Integrated Register provides a framework of statistical units to support requirements for additional ad hoc surveys covering various aspects of economic activity. The register is also a data base of information in its own right and is used to supply counts of numbers of statistical units classified to the various standard classifications (eg industry and geographical area). Some quantitative data, eg employment, can also be compiled from the Integrated Register.

1.2.6 The integrated system incorporates links to other statistical systems thereby ensuring the application of elements of the integrated concepts in these systems. For example, 'places of work' reported by respondents in the Population Census (and, as a follow-on, in labour force and other household surveys) are matched to the statistical units recorded on the Integrated Register, so that the standard classifications recorded for these units on the register can be carried across and applied to the data compiled for 'places of work' in these other collections. Links are also being made to the system of Public Authority Finance statistics so that public sector units are defined and classified consistently between the two statistical systems.

1.2.7 The system of integrated economic statistics is subject to extension and modification. There are existing statistical collections which are not yet part of the system which can be included. Further links to other non-integrated statistical systems can also be made. In addition, there are industry sectors which have not yet been included in statistical programmes which will be considered for inclusion in the system. Finally, modification of the system will arise from time to time in the form of changes to the timing, frequency and methodology of the component statistical collections to better meet the changing needs of the users of economic statistics.

## CHAPTER 2 THE CONCEPTUAL FRAMEWORK

### 2.1 Introduction

2.1.1 This chapter outlines the conceptual framework for the definition of statistical units in the Australian system of integrated economic statistics. The conceptual framework of the system is based upon international standards recommended by the United Nations Statistical Office in the document A System of National Accounts UN, New York, 1968 (SNA) and in other UN documents which deal with some of the concepts in the SNA in greater detail, eg the International Standard Industrial Classification of all Economic Activities, Revision 2, UN, New York, 1968 (ISIC).

The SNA and related documents also provide the conceptual base for the Australian National Accounts (ANA). Use of this common framework establishes the necessary foundations for a system which conceptually integrates the numerous and diverse economic statistics collections with the national accounts.

### 2.2 United Nations 'A System of National Accounts'

#### 2.2.1 Background

2.2.1.1 The SNA is the established international framework within which countries (there is a separate standard for centrally planned economies) are developing and producing their national accounts and related economic statistics. This theoretical frame incorporates concepts of statistical units appropriate to economic data collections.

2.2.1.2 The original SNA (1953) was a first attempt at setting out 'clearly and concisely a framework within which the statistical information needed to analyse the economic process in all its many aspects could be organised and related.' (SNA (1968), paragraph 1.2). The 1968 edition of the SNA extended, clarified and revised the original report 'so as to provide a full and detailed treatment of stocks and flows in an economy.' (SNA (1968), paragraph 1.3). The SNA establishes a set of entities, ie transactors and transactions, which form the basis of an organised and complete model of a national economy. Accordingly, since they are based on SNA principles, the ANA provide a picture of the Australian economy which is internally consistent and comprehensive. These principles extend to the Australian system of integrated economic statistics, which produces conceptually consistent data for general use and as input to the national accounts and related tables and statements. Those aspects of the SNA theoretical frame relevant to the concepts of statistical units employed in the integrated system are the subject of this chapter.

2.2.1.3 In order to achieve a full and detailed treatment of stocks and flows in an economy the SNA identifies two basic types of classification:

a classifications of TRANSACTORS into sectors of the economy - sectors made up of producing units and sectors made up of owning and financing units and

b classifications of TRANSACTIONS into accounts which portray the interactions between the transactor units.

These classifications are described separately in the following paragraphs.

## 2.2.2 Transactors

2.2.2.1 The SNA uses the term 'transactor' to refer to the resident economic agents of the system and describes the various categories to which transactors used in the accounts of the system can be classified. (The concept of residence as it is applied to economic agents in the SNA is outlined in Section 2.2.5 below). The SNA also provides the conceptual basis for defining statistical units, ie units of observation and classification, used for each category of transactor.

2.2.2.2 Transactors are first considered in two broad categories, as outlined below. Although these categories are discussed in this document in reverse order to that in the SNA, it is considered appropriate to do so given the schema of higher level units owning and operating lower level units.

### a Owning and Financing Units

Owning and financing units are concerned with financial flows. They are the basic legal entities which own the producing units of the functional sectors and make the financial decisions regarding their operation. Owning and financing units are grouped into sectors according to their institutional roles in the economy, the emphasis being on the differences in their financial role, behaviour and experience. The five broad institutional sectors, which are described in more detail later in this chapter, are as follows:

- i financial institutions
- ii non-financial enterprises, corporate and quasi corporate
- iii general government
- iv private non-profit institutions serving households
- v households, including private non-financial unincorporated enterprises not classed as quasi-corporate enterprises.

(In Australia the institutional sectoring based on this classification is presented in the Standard Institutional Sector Classification of Australia, (SISCA)).

### b Producing Units

Producing units are concerned with the production of goods and services. They are classified in the SNA into functional sectors according to the manner in which they participate in the production and use of goods and services. (Functional sectoring is recommended in the SNA because the various categories have different production roles, different motives for producing and different cost structures.) The four broad SNA functional sectors, which are described in more detail later in this chapter, are as follows:

- i Producers of goods and services of a type normally marketed (described as 'commodities'); this sector is described in the SNA as the 'industries' sector (1);
- ii Producers of other goods and services, ie goods and services not normally marketed, subdivided into
  - a producers of government services
  - b producers of private non-profit services to households
  - c domestic services of households provided one to the other.

1 The SNA use of the term 'industries' should not be confused with the meaning of the term 'industry' used in industry classifications (eg ISIC and the Australian Standard Industrial Classification, 1983 (ASIC)). In such classifications, producing units in all four functional sectors can be classified to an 'industry'. This SNA functional sector is termed 'producers of marketed-type goods and services' in this document to avoid confusion, except where the term 'industries' is used in quotes from the SNA.

(Australia has not developed a standard functional sector classification and the basic classification applied to producing units is ASIC.)

2.2.2.3 The relationships between the transactor units and the institutional and functional sectors is represented in Diagram 1 on the next page. In this diagram the arrows linking the institutional sectors with the functional sectors illustrate ownership links between owning and financing units and producing units. For example, the sector which is made up of all the government agencies described as 'general government' owns and finances the producing units belonging to these agencies; these producing units may include some units which are producers of marketed-type goods and services as well as those which are producers of government services of a type not normally marketed. It can also be seen that some of the producers of marketed-type goods and services belong to public financial institutions, while others belong to public corporations and large public enterprises which are classified to the SNA sector 'non-financial corporate and quasi-corporate enterprises'.

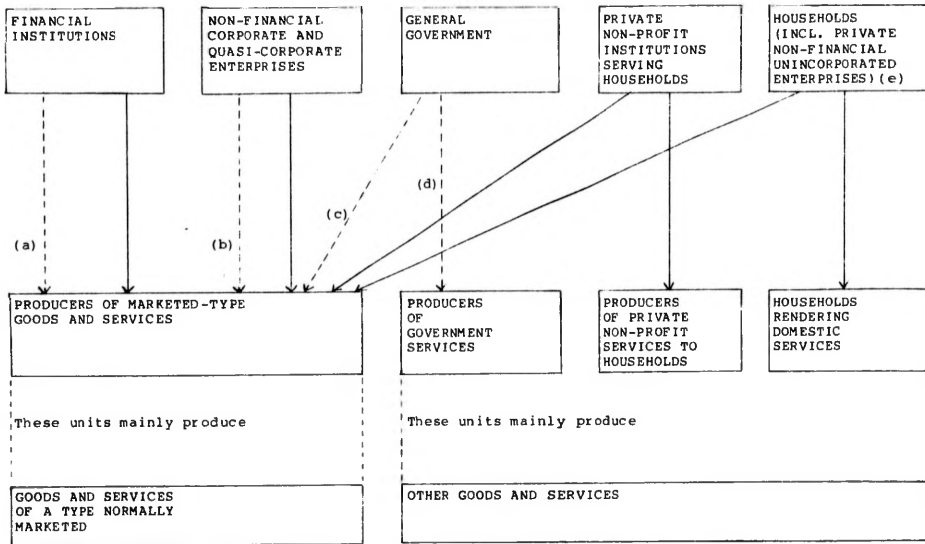
2.2.2.4 The SNA's sector classifications do not provide directly for a simple distinction between private sector and public sector statistical units. As the broken arrows in Diagram 1 indicate, there are elements of the public sector in the first three of the SNA's institutional sectors (ie 'financial institutions', 'non-financial corporate and quasi-corporate enterprises' and 'general government') and in the first two of the SNA's functional sectors (ie 'producers of marketed-type goods and services' and 'producers of government services' - the latter consists entirely of public sector units).

### 2.2.3 Transactions

2.2.3.1 The general structure of the SNA is based on the classification of transactions into four basic accounts of the nation. These basic accounts are as follows:

DIAGRAM 1 - STATISTICAL UNIT SECTORING FOLLOWING THE SNA

CLASSIFICATION OF OWNING AND FINANCING UNITS BY INSTITUTIONAL SECTOR FOR THE INCOME AND OUTLAY, AND CAPITAL FINANCE ACCOUNTS (These units own those shown below)



CLASSIFICATION OF PRODUCING UNITS BY FUNCTIONAL SECTOR FOR THE PRODUCTION, CONSUMPTION EXPENDITURE, AND CAPITAL FORMATION ACCOUNTS (CAN BE CROSS-CLASSIFIED BY KIND-OF-ACTIVITY)

CLASSIFICATION OF GOODS AND SERVICES, AS TYPICALLY MARKETED/ NOT MARKETED

—————> producing units belonging to private sector  
 - - - - -> producing units belonging to public sector

- (a) units of public financial institutions
- (b) units of other public corporations and large public enterprises
- (c) government producing units which mainly provide for government itself or which are financially integrated with government
- (d) producers of government services
- (e) excludes unincorporated enterprises classed as quasi-corporate enterprises

a Production Account

The SNA separates the production account into a set of accounts for commodities and a set of accounts for activities. The commodities accounts relate to the production accounts of the 'producers of marketed-type goods and services' functional sector and show the supply of commodities from domestic production and imports and their disposition to intermediate and final uses. The activity accounts relate to the production accounts of all four functional sectors and record the gross output of goods and services of these transactors, their intermediate consumption, primary inputs and indirect taxes less subsidies.

b Consumption Account

This is broken down into accounts for expenditure and accounts for income and outlay. The expenditure accounts are concerned with the final consumption of goods and services by resident households, government services and private non-profit services to households. The income and outlay accounts show the receipt and disbursement of incomes by resident owning and financing units, ie they are the current accounts of the units classified to institutional sectors.

c Accumulation Account

The accounts for accumulation are divided into capital formation accounts and capital finance accounts. The capital formation accounts relate to the outlays of producers of marketed-type goods and services, producers of government services and producers of private non-profit services to households, on stock-building (increase in stocks) and fixed capital formation. The capital finance accounts relate to the capital transactions (ie accumulation and its financing) of resident owning and financing units. Consequently the two sets of accounts play quite distinct roles in the structure of the system. The capital formation accounts record transactions for activities whereas the capital finance accounts relate to institutional sectors.

d Rest of the World Account

There are two accounts for the rest of the world, current account and capital account, which record the transactions made by resident units with units located outside the given country.

2.2.3.2 These basic accounts of the nation are reflected in the standard accounts developed in the SNA. Appendix A summarises these standard accounts. The consolidated accounts of the nation outlined in Appendix A are obtained, in general, by regrouping the elements of the basic accounts outlined in paragraph 2.2.3.1 above. In the Australian system the consolidated accounts correspond to the following major accounts of the nation in the ANA: the Domestic Production Account, the National Income and Outlay Account, the National Capital Account and the Overseas Transactions Account.

2.2.3.3 It should be noted that the basic SNA accounts outlined in paragraph 2.2.3.1 above only account for transactions or flows in a national economy. The SNA also makes provision for reconciliation (including revaluation) and balance sheet accounts. Balance sheet accounts basically show assets and liabilities as of a given date. The connections between these accounts are that 'revaluations of existing assets and liabilities, together with the entries in the capital finance accounts of the institutional sector, provide the link between the entries in the opening and closing balance sheets.' (SNA (1968), para 2.89). Reconciliation and balance sheet accounts have not yet been incorporated into the ANA. For a detailed outline of such SNA accounts see the United Nations Statistical Office paper Provisional International Guidelines on the National and Sector Balance Sheets, Series M, No. 60, 1977.

2.2.4 Statistical Units Appropriate to the Different Types of SNA Accounts

a Income and Outlay and Capital Finance Accounts

2.2.4.1 These accounts are concerned with the sources and disposition of income and the accumulation and finance of capital. The SNA recommends that owning and financing units be regarded as the transactors for these accounts. These units independently receive and disburse incomes and own and manage property and are classified into sectors and sub-sectors, primarily in the light of differences in their financial role, behaviour and experience. The SNA and other recommendations covering the concepts to be applied in defining owning and financing units in each of the institutional sectors are described in the paragraphs which follow.

i Financial Institutions and Corporate and Quasi-corporate Non-financial Enterprises

2.2.4.2 The recommended units are business enterprises which act as enterprises independent of their owners ie all the incomes and outlays, tangible and financial assets and liabilities of the enterprise should be controlled and managed independently and complete records should be available for each of these data. In the SNA it is recognised that it may be difficult to define private quasi-corporate enterprises engaged in non-financial activities ie unincorporated units which behave as if they were incorporated enterprises. They should be important and large as well as maintain complete accounts although 'in some countries, practically all these units are in fact incorporated; it may not be worthwhile to search out the few private non-financial unincorporated enterprises which might be added.' (SNA (1968), para 5.52). The SNA suggests that scale of operations may also be a useful criterion for deciding if some public sector entities should be defined as separate non-financial quasi-corporate enterprises. Such enterprises should also hold working balances and maintain business accounts receivable and payable.

2.2.4.3 The SNA recommends two possible alternatives for defining units for this sector but also recommends that the unit selected should be used exclusively throughout the relevant main accounts and supporting tables, otherwise comparability may suffer as a result of certain transactions being netted for different types of unit. The two possible alternatives are:

- . single legal entities,
- . 'families' of legal entities which, as a result of ties of ownership, are controlled and managed by the same interests.

2.2.4.4 In general, 'the transactors wanted are those who independently direct and manage the receipt and disposition of income, the accumulation of property, and borrowing and lending. This leads to statistical units consisting of families of incorporated or quasi-corporate enterprises which, as a result of ties of ownership, are controlled and managed by the same interests. Using the family of entities will also avoid showing formal transactions and links between the entities, which are not meaningful economically. The families may be defined as consisting of the entities, the majority, that is 50 per cent or more, of the equity (shares or other forms of capital participation) of which is owned by the same interests.' (SNA (1968), para 5.61). The SNA considers that such identification may not be practicable and as a consequence, the families of entities may only consist of those for which consolidated balance sheets and profit-and-loss statements are available.

2.2.4.5 The ISIC defines the family of legal entities as a group of entities which are owned or controlled by the same interests. In addition to the ownership characteristic outlined above, the ISIC considers that 'a group of legal entities may be controlled by the same interests though less than 50 per cent of the equity of some of these entities may be owned by the parties involved. This control may be indicated by the preparation of consolidated profit-and-loss and balance-sheet statements for the group of legal entities as a whole.' (ISIC Revision 2-1968, page 17). In considering the distinction between private and public enterprises, the SNA elaborates on the concept of control, viz. 'Various means may be used in order effectively to determine all the main aspects of the management (policies, administration and operations) of the unit. This may be accomplished, for example, by choosing the majority of the board of directors or the managing directors, providing the staff of the organisation, or specifying the policies and operating practices of the enterprise in detail.' (SNA (1968), para 5.55).

2.2.4.6 There are problems however, with the use of the family of entities as the statistical unit, which the SNA recognises, namely:

- . The diverse range of economic activity in which these kinds of unit may engage, substantially reduces the otherwise desirable classification of data about these transactors units according to kind of economic activity
- . Problems arise in recognition of what constitutes the family of enterprises
- . Problems may occur in obtaining consolidated data from the units.

2.2.4.7 Thus, the SNA and ISIC suggest that it may be necessary to use a narrower unit, ie the legal entity in the case of incorporated enterprises or its equivalent for quasi-corporate enterprises. Although this unit may be quite heterogeneous in respect of kind of activity, it is the narrowest feasible unit and generally the most homogeneous unit in terms of economic activity for collecting data on income and outlay and capital transactions.

2.2.4.8 The ISIC concludes that, on balance, both units, the legal entity and the family of legal entities should be used in economic statistics generally (ie not just national accounts), as each is appropriate to different types of data. 'Whether it will be feasible to use both types of enterprise units will largely depend on the ways in which businesses keep and summarize their accounts and are required to register with, and report to, government bodies.' (ISIC Revision 2 - 1968, page 18).

ii General Government

2.2.4.9 This sector includes all departments, offices and public bodies which are producers of government services and enterprises which are not corporate or quasi-corporate units. Such general government enterprises cover ancillary departments and establishments which supply goods and services to government itself and units mainly providing goods and services to the public but only in a small way. Also included are non-profit bodies mainly financed on a regular basis by government, bodies that administer social security funds and public bodies which provide financial services but are not permitted to engage in transactions in the capital market.

2.2.4.10 The SNA recommends that the statistical units should be 'the central government as a whole, the various state, provincial and local governments and the individual social security schemes..... This is so because the finance and current and capital outlays of the constituent units of a given organ of general government are usually decided, controlled and managed in common.' (SNA (1968), para 5.68). For national accounts purposes a more homogeneous unit is not required, ie no classification in respect of kind of activity is required for the income and outlay and capital finance accounts.

2.2.4.11 The ISIC makes tentative recommendations with respect to statistical units for government bodies which are not publicly owned business enterprises. In the sphere of financial statistics the unit should be the organ of government, examples of which are the central, state and municipal governments. The rationale of this approach is that the organs of government plan and organise the finances of government entities at that broad level. However, due to the heterogeneity of a number of these tiers of government the ISIC suggests that 'where series of data relating to legal business entities and government bodies which are classified according to kind of economic activity are to be combined, it is desirable to use a statistical unit for the government bodies which approximates the legal business entity in scope..... The ministry, department or similar government unit may be a suitable statistical unit for these purposes.' (ISIC Revision 2-1968, page 20).

iii Private Non-profit Institutions Serving Households

2.2.4.12 According to the SNA 'these institutions furnish educational, health, cultural, recreational and other social and community services to households free of charge, or at sales prices which do not fully cover their costs of production.' (SNA (1968), Table 5.1).

2.2.4.13 The SNA recommends (para 5.71) that each private non-profit institution, ie the legal entity, is the appropriate statistical unit for this institutional sector.

iv Households, including Non-financial Private Unincorporated Enterprises not Classed as Quasi-corporate Enterprises

2.2.4.14 Included here are households along with the unincorporated businesses of residents which are not quasi-corporate enterprises.

2.2.4.15 For some national accounting purposes and for demographic statistics the housekeeping concept of the household (ie the persons occupying a housing unit who make common provision for food or other essentials of living) is suitable as the statistical unit.

2.2.4.16 However, for the classification in respect of kind of economic activity of those enterprises in this sector, the SNA mentions that the individual or individuals, owning an unincorporated enterprise, are the desirable statistical unit. It notes 'Employing the proprietor, or proprietors, of the businesses as the statistical unit should result in groups of enterprises which are somewhat less heterogeneous in respect of kind of economic activity than if the group of enterprises which are owned by the members of each household were to be used.' (SNA (1968), para 5.81). Thus, the individual proprietor or proprietors of unincorporated businesses are regarded as the appropriate statistical unit for most of the data collections in a programme of economic statistics.

b Production, Consumption Expenditure and Capital Formation Accounts

2.2.4.17 These accounts are concerned with recording transactions in respect of the supply and disposition of goods and services. The categories of producing units are designed to classify transactors according to the fashion in which they participate in the production and use of goods and services.

2.2.4.18 The SNA states that 'for purposes of distinguishing industries from the other types of producers and separating the activities of households as producers from their activities as consumers, institutions must be divided into narrower, more homogeneous establishment-type units.' (SNA (1968), para 5.3). The establishment is regarded as the workplace in which most operating decisions are taken.

i Producers of Marketed-type Goods and Services

2.2.4.19 This functional sector is defined in the SNA as being made up of establishments whose activities are financed by producing goods and services for sale in the market place at a price which is normally designed to cover the costs of production, ie they are described as producing 'commodities'. The establishment may be part of an incorporated or unincorporated business and may be owned or controlled by private individuals, private non-profit institutions or organs of government.

2.2.4.20 The SNA extends the scope of this sector beyond the business establishments described above to include financial intermediaries and types of government-owned units other than those indicated above. Financial intermediaries engage in incurring liabilities and acquiring financial assets in the market place and although they may not make explicit charges for a significant part of the services they render, they are included in this sector. Similarly, government-owned units may produce goods and services for the market place which are characteristically the output of business establishments utilising similar inputs and technologies though their output is disposed of, as a matter of policy, at a price not intended to approximate the costs of production (eg water supply services). Such units should be included in the producers of marketed-type goods and services functional sector. Again, government-owned units which produce goods and services for government consumption, which are often provided by business establishments, are considered to be within the scope of producers of marketed-type goods and services (eg munitions factories, dockyards, construction activities).

2.2.4.21 On the other hand, 'government departments engaged in the usual social or community activities of government .. should not be considered public industries unless the fees set for these services are clearly designed to approximate the full costs of production.' (SNA (1968), para 5.11). Further, government units which provide services of a regulatory character eg issuing licences, passports, are not considered part of this sector even though payments for these services may cover the full costs. These payments are not considered to be purchases of services because they are compulsory and unavoidable. Certain own-account activities of households and private non-profit bodies are also treated as producers of marketed-type goods and services, eg dwellings which they own and use on their own-account, own-account construction of buildings and other projects.

2.2.4.22 The unit of observation and classification for this sector is the establishment. The SNA argues that this unit should be designed to serve three important purposes:

- a It should segregate the activities of government bodies, of private non-profit institutions and of households which are classified as producers of marketed-type goods and services from their other economic activities.
- b It should yield transactor units which are relatively homogeneous in respect of their character, cost structure and technology of production.
- c If data are to be classified according to region the unit should draw distinctions in respect of the location of activities.

With regard to the data required for the establishment, 'it must be feasible to compile data on all of the gross output, employment, intermediate and direct inputs into the production, and capital formation of each establishment.' (SNA (1968), para 5.17).

2.2.4.23 The ISIC defines the ideal concept of the establishment as an 'economic unit which engages, under a single ownership or control, ie, under a single legal entity, in one, or predominantly one, kind of economic activity at a single physical location, eg, an individual farm, mine, factory, workshop, store or office.' (ISIC Revision 2-1968, page 12).

2.2.4.24 The ISIC also recognises that a legal entity may be engaged in one kind of activity at two or more nearby locations and may not have separate accounts for each location. The ISIC considers that in such cases, the establishment should not be defined more broadly (in terms of 'location') than all locations within the narrowest geographic area for which data are produced, as the ideal concept will not, in general, be altered significantly as a result. The ISIC defines a 'local unit' as all the economic activities carried on by a single legal entity at a single location, or a geographic area no wider than that which is the most detailed for which data are produced.

2.2.4.25 As the availability of data (which relates to the organisation and record-keeping practices of business) should be considered in the definition of the establishment in practice, the ISIC's operational definition of the establishment is as follows:

'the combination of activities and resources directed by a single owning or controlling entity towards the production of the most homogeneous group of goods and services, often at one location but sometimes spread over a number of nearby sites, for which separate records are available that can provide the data concerning the production of these goods or services and the materials, labour and physical resources (both direct and indirect) used in this production.' (ISIC Revision 2-1968, page 13).

2.2.4.26 The SNA also acknowledges the potential problems arising from record-keeping practices of businesses that may be encountered in having the establishment as the statistical unit. The degree of homogeneity of the activities undertaken by the establishment is primarily influenced by these factors as is the feasibility of raising separate establishments at those locations which carry on diverse types of production. Considerable difficulty is likely to be encountered in delineating an establishment in respect of each kind of activity when, at one location, a single owner engages in different types of activities which produce different classes of commodities. The possibilities of splitting locations will depend on the difficulties encountered in allocating the production data and overhead services among the split establishments. The SNA outlines the following criteria for such separation: 'each kind of activity is usually carried on by differing proprietorships or at differing locations... and the order of magnitude of the various kinds of production is substantial. It will usually be more desirable and practicable to raise separate establishments in respect of each kind of production in the case of horizontal integration than in the case of vertical integration.' (SNA (1968), para 5.23).

2.2.4.27 In relation to certain kinds of activity, the SNA recognises the problems of dealing with outlays on overhead expenses for business units engaging in the same kind of major activity at differing locations. The difficulties of apportioning these outlays among locations are frequently too great to make it practicable to raise an establishment in respect of each location. Examples are businesses primarily engaged in activities such as communication services and electricity and gas production and distribution; they operate over wide areas and centralise all their overhead activities.

2.2.4.28 This problem is addressed in the ISIC by defining a different type of unit - the kind-of-activity unit. This unit covers a single kind of activity carried on by a single legal entity, ie the constraint relating to geographic area is relaxed. It is recommended in ISIC that this unit should be used for economic activities which are carried on by a single legal entity over a wide geographic area. Data are generally unavailable below that level in respect of, for example, construction, transportation and communication activities. In some cases however, data may be available on a broad area basis (eg on a regional basis) and if such data are required, these lower level kind-of-activity units should be employed.

2.2.4.29 The SNA also recognises that there are activities ancillary to the production of individual establishments which might be carried out at locations physically separate from these establishments. These ancillary services may also be provided to more than one establishment. Locations at which ancillary activities take place should not be treated as establishments. Outlays on ancillary activities should be distributed among commodity producing establishments which the ancillary activities serve. 'Where these ancillary activities are not clearly linked with the specific activities of certain establishments the outlays might be allocated among the establishments which are served in proportion to the excess of the value of gross output by each of the establishments over its direct outlays on intermediate consumption.' (SNA (1968), para 5.19). Examples of ancillary services given include: central administrative offices, purchasing or sales offices and warehouses.

2.2.4.30 The ISIC also recognises the existence of ancillary units performing a supporting function for other producing units. The output of non-durable goods or services by ancillary units is not a physical part of the output of the parent producing units. Examples of ancillary units outlined in the ISIC are administrative offices and garages which primarily serve parent producing units. However, it is recommended that certain units performing a supporting role should not be treated as ancillary units. Units constructing capital assets for the parent enterprise, ie own-account construction, should be regarded as producing units if separate data are available. In addition, in cases where units serve a producing unit and also sell a significant amount of their output in the market place, the latter activity should be treated as a separate producing unit, providing separate data are available for that activity. Finally, units which produce goods which comprise part of the output of a parent unit such as packaging for its own products, should be treated as producing units if separate data are available.

2.2.4.31 The ISIC also recommends that where an ancillary unit serves only one producing unit its activities should be absorbed into the single producing unit. However, if the two units are located in different geographic areas, data which are classified by area should be obtained in respect of the ancillary unit. Furthermore, if the activity of the ancillary unit is significant it may be regarded as a separate statistical unit although it supports only one producing unit.

2.2.4.32 The ISIC recognises a central ancillary unit as a unit which provides support to more than one producing unit within an enterprise. It may be treated as a separate statistical unit providing data are available and the central ancillary unit should be classified to the predominant activity of the producing units which it serves.

2.2.4.33 Another producing unit recognised in the ISIC is the technical unit. This unit consists of a section or department of an establishment unit, and carries out the production of a particular good or service, or a stage of such production, ie the departments in an establishment may be horizontally or vertically integrated, respectively. Consequently, the ISIC considers that the activities of the ancillary units of the establishment are distinct from those of technical units. The technical unit could be used in respect of studies concerning the output of particular goods and services and the direct inputs into that output, or in the construction of a commodity classification.

## ii Producers of Government Services

2.2.4.34 These producing units are defined in the SNA as units which furnish, but do not normally sell, to the community those common services which cannot otherwise be conveniently and economically provided; they administer the State and the economic and social policy of the community. They should include all bodies, departments and establishments of government which engage in numerous activities related to government services eg administration, defence, social services and activities concerned with the legislature and executive.

2.2.4.35 The activities of this category of transactor differ substantially in behaviour, cost structure and source of finance from the activities of producers of marketed-type goods and services. The activities of producers of government services are largely financed by the government itself, and consequently the government is considered to be the final consumer of most of the services which it provides. Additionally, their cost structure contains no element of operating surplus. This sector should also include 'social security schemes and non-profit bodies which, by virtue of the relations with a government, are clearly instruments of the social or economic policies of the government.' (SNA (1968), para 5.26). This sector also covers public bodies which provide financial services and which are not permitted to engage in transactions in the capital market and public bodies which produce goods and non-financial services which are often provided by business enterprises, but whose production accounts cannot be isolated from those of their parent body due to their highly integrated activities.

2.2.4.36 The SNA recommends that the appropriate statistical unit for the producers of government services is an establishment-type unit. The establishment-type units for this category of transactors should be, as far as possible, homogeneous in respect of both the kind of services performed and the purpose they are designed to meet. If data are required classified by geographic area it may be necessary that the units be defined in terms of the locations of these producers.

2.2.4.37 The establishment-type unit should be defined so that data on the costs of production, consumption expenditure, capital formation and employment are obtainable. The lower the position in the administrative hierarchy the less likely it will be that the appropriate data are available and consequently, the less likely it will be that delineation of practicable establishment-type units might be made. However, the lower the position in the hierarchy the more homogeneous the statistical unit is likely to be. Consequently the statistical unit will depend on the structure, organisation and the record - keeping practices of each producer of government services. 'The main obstacles to using detailed administrative units will probably be inadequate data, if any, on the employment, capital formation and other outlays in respect of overhead activities which should be allocated to these units, and on their use of supplies. The lack of detailed data will probably lead to the use of departments or bureaux, or at best, large sections of bureaux, as statistical units.' (SNA (1968), para 5.34). Further problems in delineating establishment-type units may arise where a government department is involved in more than one major kind of activity eg a department of health may be concerned with providing public health services as well as being engaged in policy making, regulation and research.

#### iii Producers of Private Non-profit Services to Households

2.2.4.38 Producers of private non-profit services to households are defined in the SNA as units which furnish social and community services to households on a non-profit basis. This category of transactor includes such associations as trade unions, political parties, religious groups, social clubs etc. Some of these associations of individuals undertake activities which government would not usually perform. Their activities are usually financed through members' dues, grants and endorsements from individuals. Most of the goods and services they produce are not commodities.

2.2.4.39 As for the producers of government services these producers are to be classified according to kind of activity and the purpose of these activities. Consequently, the statistical unit should also be 'establishment-type units which are homogeneous in respect of the character and purpose of the activities carried on.' (SNA (1968), para 5.41). Again, if area data are required, location should also be considered in defining the producing unit. Each unit should provide all production costs, sales, capital formation and employment data relevant to its activities.

2.2.4.40 For multi-activity private non-profit institutions, statistical units relating to each major kind of service should be created if possible. Organisational, managerial and record-keeping practices will again determine the extent of this delineation. In particular the allocation of outlays on overheads will be a problem. This situation also applies to the hiving-off of establishments in the producers of marketed-type goods and services functional sector. 'It is considered that ... data might be gathered without undue difficulty when the commercial activity is conducted on a substantial scale.' (SNA (1968), para 5.45).

#### iv Households

2.2.4.41 The SNA considers domestic services of households, one to another, as a distinct category of production, although, in some countries, (eg Australia) these services are probably not significant enough to warrant separate consideration. Households are also recognised as appropriate units for recording consumption, but as such, are not relevant in a system for gathering production statistics. The 'productive' activities of households as owners of unincorporated businesses are included in the producers of marketed-type goods and services sector.

#### 2.2.5 The Concept of Residence

2.2.5.1 Basically, the SNA considers that resident units of a country consist of those economic entities which have a closer association with that country's territory than with any other territory.

2.2.5.2 The domestic territory of a country excludes overseas territories and possessions and includes territory lying within its political frontiers (which also covers a country's territorial seas, where relevant). Also included are ships and aircraft operated by resident enterprises primarily run between countries, the fishing fleets, vessels and floating platforms which residents mainly use in international waters and fishing vessels, oil and natural gas rigs, and platforms operating in areas under exclusive rights of exploitation which the country has or claims to have. Another SNA recommendation is that 'ships and aircraft operated entirely, or primarily, within the political frontiers of a country for at least one year are considered to be resident units of the given country.' (SNA (1968), para 5.100). In relation to the treatment of mobile equipment it is widely accepted internationally that the SNA's recommendations are not entirely clear. In fact 'it is not the residence of the mobile equipment that is to be decided but rather the residence of the enterprise that employs the equipment in its productive activities' (Balance of Payments Manual, IMF, Washington, 1977, para 68). A brief outline of the concept of residence for the various institutional sectors follows.

a Financial Institutions and Corporate and Quasi-corporate  
Non-financial Enterprises

2.2.5.3 Resident corporate and quasi-corporate enterprises are engaged in the production of goods and services, on a commercial or equivalent basis, within the domestic territory of a country. They include subsidiaries and branches of overseas-owned enterprises operating in a country.

b General Government Enterprises

2.2.5.4 The resident general government enterprises cover those central, state and local government bodies located in a country's domestic territory as well as the embassies, consulates and military establishments of its government located overseas (however locally recruited staff of these overseas units are residents of the country where these units are located).

c Private Non-profit Institutions Serving Households

2.2.5.5 Resident private non-profit bodies are those which are located, or operate, in the domestic territory of a country.

d Individuals and Households

2.2.5.6 Resident individuals and households are those who generally may be expected to consume goods and services and be involved in production and other economic activities in the domestic territory of a country on a lasting basis. These are persons whose general centre of interest is considered to rest in the given country. Generally all persons living in a given country for more than one year are considered to be residents, with the exception of foreign official diplomatic and consular representatives and members of the armed forces of a foreign country who are stationed in the country.

2.2.5.7 International bodies which are constituted of governments are not regarded as resident economic agents of the country in which they are located or operate. Staff of these bodies are regarded as residents of the country in which they normally live.

2.2.5.8 A full and detailed presentation of the residency concept is given in paragraphs 5.95 to 5.117 of the SNA.

CHAPTER 3: GENERAL CONSIDERATIONS IN DEFINING STATISTICAL UNITS  
AND THE BROAD APPROACH ADOPTED IN AUSTRALIA

3.1 Introduction

3.1.1 This chapter examines the conceptual and practical issues involved in defining statistical units in an integrated statistical system and describes the broad approach adopted for the Australian system of integrated economic statistics. The chapter explains the rationale for the definitions applied in the Australian system, which are detailed in Chapters 4 and 5.

3.1.2 As described in Part 2.2, the United Nations Statistical Office has established an appropriate conceptual framework in the document A System of National Accounts, 1968 (SNA) and related documents such as the International Standard Industrial Classification of All Economic Activities, Revision 2-1968 (ISIC). Possible alternative approaches to interpreting and applying these concepts are discussed in this chapter in two parts: the SNA's broad grouping of transactor units into owning and financing units and producing units. Preceding this discussion however, is a discussion of some of the general objectives a statistical organisation has in mind when setting about the task of defining statistical units for an integrated system of economic statistics.

3.2 General Objectives in Defining Statistical Units for a  
System of Integrated Economic Statistics

3.2.1 Introduction

3.2.1.1 Before proceeding to examine the conceptual and practical issues involved in the selection of appropriate statistical units, it is useful to consider some general objectives which apply in defining statistical units for a system of integrated economic statistics. In general, the aim is to define statistical units which:

- a are consistent with the overall conceptual framework outlined in the SNA;
- b meet the general requirements for providing data on an integrated basis;
- c are units which are recognisable in the 'real world' and which can be readily identified by users of statistics and suppliers of data;
- d are units for which the required data can be supplied.

Each of these objectives is discussed separately in the following paragraphs.

### 3.2.2 Consistency with the Overall SNA Framework

3.2.2.1 As will be evident from the previous chapter, development of units concepts and definitions which are consistent with the SNA ensures that the system produces economic statistics which will be comparable with those of most other countries and which will be consistent (at least conceptually) with the national accounts produced within the country concerned. This approach also has the advantage that the SNA provides a generally acceptable model for a fully integrated system, which means that countries adopting it as their framework do not have to invest in the development of a framework of their own.

3.2.2.2 Nevertheless, the framework is described in fairly general terms in the SNA and requires interpretation and possibly some modification to suit the circumstances pertaining to particular countries. So long as these interpretations and modifications are recognised and kept to an essential minimum, they need not detract from achievement of the general objectives described in the previous paragraph. This approach has been adopted in Australia.

### 3.2.3 Integration Requirements

3.2.3.1 A system of integrated economic statistics is designed to achieve much more than the international comparability of statistics described in the previous paragraphs. Two other broad types of integration are aimed for, which impose requirements upon the way in which transactor units are defined:

i horizontal integration or integration of statistics across subject-matter fields, so that statistics produced from one part of the system can be compared validly with statistics produced from another part of the system (eg retail statistics with manufacturing statistics). Thus, transactor units should be defined as uniformly as possible and so their boundaries do not overlap, or do not leave gaps when aggregated with other units.

ii vertical integration, or integration of statistics across various levels of transactor units, so that statistics for one type of unit can be related to statistics for another type of unit. Thus, transactor units should be defined within a hierarchy of units, which defines relationships (eg of ownership and control) between units. This type of integration also facilitates collection of data by enabling responsibility for enumerating units at one level to be vested with a unit at a higher level (eg an owning and financing unit is made responsible for provision of data relating to the producing units it owns) thereby ensuring full enumeration of all units at that lower level without gaps or overlaps.

3.2.3.2 As becomes evident later in this chapter, the approach adopted in Australia ensures horizontal and vertical integration, through providing a hierarchically structured system of transactor units, designed so all units are mutually exclusive and jointly exhaustive of economic activity in Australia.

### 3.2.4 Real World Units

3.2.4.1 The statistical units defined in any statistical system must have a basis in reality, so that the users of statistics produced from the system have a better understanding of what it is that the statistics are measuring. Similarly, the units must be capable of being recognised by the respondents to statistical collections who are asked to supply data in respect of the units. In general terms, the concepts of transactor units enunciated in the SNA take these objectives into account and most interpretations result in units which are clearly recognisable in the 'real world'. Nevertheless, it is sometimes necessary to create somewhat artificial statistical units. Provided these artificial units are defined in such a way that their relationship to recognisable 'real world' units is clear, no serious difficulties will be created by a limited use of artificial statistical units.

3.2.4.2 In the Australian system, transactor units are defined which are 'real world' units and 'statistical' units. The relationship between these two types of units is one to one in the vast majority of cases. However, in a limited number of cases the statistical units are artificial in the sense that they are either combinations of 'real world' units, or are formed by splitting 'real world' units. The relationship between 'real world' and 'statistical' units is discussed in detail later in this chapter.

### 3.2.5 Data Requirements and Availability

3.2.5.1 For owning and financing units the basic relevant data are the data which in general terms permit the measurement of the data items included in the SNA income and outlay accounts, capital finance accounts and balance sheets (basically profit-and-loss account and balance sheet data). More specifically, the requirements for general economic statistics as well as national accounts will include aggregations of data relating to the producing units owned and operated by the unit concerned as well as items only obtainable for the owning and financing unit as a whole. The latter include transfer payments (eg land rent, interest, dividends and income taxes) and transactions in financial claims.

3.2.5.2 In the case of producing units the basic relevant data are data which, in general terms, permit the measurement of the SNA concepts of production, intermediate consumption and capital formation. More specifically, the requirements for general economic statistics as well as national accounts will include measures of turnover, stocks, purchases and other expenses of production, capital expenditure, wages and salaries, employment and inputs and outputs of commodities, measured, where possible, in quantitative as well as monetary terms.

3.2.5.3 It should be noted that ideally, collected data should reflect market values. However, transactions between a related group of businesses may not be valued at market values eg the sales of goods by a subsidiary to its parent company may be valued at some nominal charge or at cost. This is a further aspect which needs to be considered in determining appropriate owning and financing unit(s).

3.2.5.4 In considering requirements for data it may be that not all requirements for production and financial data can be met by one producing unit and one owning and financing unit respectively. Thus, it may be necessary to define two units of either type to meet certain data requirements. The same situation might apply even where all data required could be obtained from the one unit in each case, ie it may be that from a data presentation point of view it is undesirable to be restricted to one unit. It might be desirable to consider having a narrower unit for which only a limited number of data items would be collected and compiled in detailed dissections, and a wider unit for which a larger number of items of data would be collected and compiled in less detail. For example, for producing units it might be desirable and practicable to compile data on employment and payrolls for individual locations and data for value of output, purchases, stocks, value added, etc for wider based 'establishment' units.

3.2.5.5 Most statistical data relating to economic units have to be derived from 'accounting records' of some kind. While the nature of the statistical data required for national accounts and other economic statistics is such that it concerns the same types of activities (eg production, finance of operations, ownership) which are the subject of business accounting records, quite often there are variations in scope and in emphasis which make it necessary to address the issue of data availability in defining statistical units.

3.2.5.6 The question of availability of data is, of course, implicitly recognised at a very broad level in the conceptual framework. For example, there is expected to be a general class of units for which income, outlay and capital financing data are available and another class of units for which production data are available.

3.2.5.7 However, for each type of unit the precise boundaries of the unit can be defined in various ways, depending on the availability of the required data. For this reason the way in which data availability is taken into account needs to be considered more closely, ie to determine how the question of 'availability of accounting records' relating to the kinds of data required in economic collections should play some part in determining definitions of units.

3.2.5.8 The initial approach to this question may be to ask whether it would be possible to formulate some consistent overall approach to the question of availability of accounting records, ie whether some general principle could be established regarding the importance to be attached to this factor in determining definitions of units. The different approaches which could be taken are discussed in the following paragraphs.

3.2.5.9 One approach would be to actually define a unit in terms of availability of accounting records, which might amount to accepting statistical data for whatever kind of unit happened to suit the records of the individual respondents to statistical collections. This extreme approach, of course, cuts right across the idea of statistical units having some degree of uniformity of definition (eg in terms of activity and location) and for this reason is not considered further. Nevertheless, some limited application of this approach might be considered where data availability constraints are severe and where classification of units by size, industry, etc are less important.

3.2.5.10 Another approach would be to adopt a particular basic definition of the ideal or desirable unit but to qualify this by providing that in individual cases, this is to be the unit only if accounting records are available which will permit the required data to be supplied for the 'desirable unit'. If accounting records are not available to meet these requirements, the boundaries of the unit would be widened until they did represent a unit for which the required data were available. Such an approach might be satisfactory if it happened that generally accounting records were available for the kind of unit required, in which case the number of instances in which the boundaries of the unit would have to be varied would be relatively small. On the other hand if there were little consistency in record-keeping practices as between different businesses, this approach would not be very different from the approach discussed in the previous paragraph.

3.2.5.11 Another approach would be to adhere rigidly to the defined unit, and to estimate data wherever necessary to obtain data relating to the required unit, ie to disregard the question of availability of accounting records altogether. Such an approach would obviously not be acceptable if a very large proportion of data had to be estimated.

3.2.5.12 If the approaches outlined are discarded as extremes, an approach must be devised which neither ties the definition of the unit wholly to the record-keeping practices of individual businesses as such, nor wholly disregards the general record-keeping practices of businesses as a whole or as classes. The only practicable way of doing this would be to formulate a definition of a unit which conforms with an assessment of accounting practices IN GENERAL. In other words, units would be defined which go as far as possible in meeting conceptual requirements while minimising the number of cases where data have to be imputed or estimated.

3.2.5.13 The foregoing approach has been adopted in Australia. Although considerable weight has been given to the general practice of businesses and other organisations in maintaining accounting records relating to their whole operation and to separate parts of their operations, a minority of respondents to statistical collections may not be able to readily supply the required data directly from their records. Naturally, the accounting practices of individual respondents will have a bearing on arrangements made for collection of data relating to the units once these have been identified. Such arrangements include accepting 'careful estimates' which conform with the unit definition or taking as a proxy an organisational or accounting unit which very nearly meets the unit definition.

### 3.3 Application of Concepts: Owning and Financing Units

#### 3.3.1 Introduction

3.3.1.1 Bearing in mind the general objectives in defining statistical units, attention is now turned to the objectives to be met in converting the SNA concepts of owning and financing units and producing units into working definitions of statistical units in a system of integrated economic statistics. With regard to owning and financing units, besides meeting the general objectives described in Part 3.2, three requirements, in particular, should be met:

- i the units defined should be units of ownership and control ie units which own and finance producing units and are able to provide information relating to the income, outlay and capital financing of the entity as a whole;
- ii the units should be defined so as to meet the SNA concept of 'resident economic agents'; and
- iii the units should be defined so as to be as homogeneous as possible with respect to the SNA based institutional sectors of the Standard Institutional Sector Classification of Australia (SISCA).

These requirements are discussed in the three sections which follow.

#### 3.3.2 Ownership and Control

3.3.2.1 For each of the institutional sectors the SNA recommendations regarding the appropriate statistical units of ownership and control can be summarised from the previous chapter as follows:

- i Corporate and Quasi-Corporate Trading Enterprises and Financial Institutions: single legal entities, or families of legal entities under common ownership and control (or as ISIC recommends, under common ownership or control);
- ii General Government: the central government as a whole, the various state, provincial and local governments and individual social security schemes;
- iii Private Non-Profit Institutions Serving Households: single legal entities;
- iv Households: for economic statistics, only the activities of households in operating unincorporated businesses are relevant - for this purpose the individual or individuals owning the unincorporated businesses are the recommended unit.

3.3.2.2 In all cases except General Government the recommended unit is based on the concept of a 'legal entity' ie not in the strict legal sense, but in a broader statistical (owning and financing entity) sense - where the term is used below it is in terms of the broader statistical sense unless otherwise indicated. (In the case of the Households sector, the reference is to individual persons who singly or in partnership are, by definition, legal entities - refer paragraphs 3.3.2.9-12). As described in the previous chapter, the SNA recommendations with regard to General Government result in too broad a unit for economic statistics purposes generally and the alternative approach, recommended in the ISIC, is to seek a statistical unit which approximates the legal business entity in scope. This approach has been adopted in Australia.

3.3.2.3 Thus, in defining owning and financing units, attention is given first to what is meant by the concept of a legal entity and the appropriateness of a statistical unit based on such a concept. This matter is discussed in the following paragraphs. Attention is then given to the question as to how legal entities are found in 'families' of related entities in Australia, in the way described in the SNA and whether such groups of units might be usefully defined as statistical units.

#### The Concept of a (Statistical) Legal Entity

3.3.2.4 According to the ISIC the single legal entity 'in the case of a market economy may be a corporation, joint stock company, co-operative association, incorporated non-profit association, partnership, individual proprietorship, or some other form of association. It owns and manages the property of the organisation, enters into contracts, receives and disposes of all of its income, and maintains independent profit-and-loss and balance-sheet accounts and other records'. (ISIC Revision 2 - 1968, page 17). In the case of government bodies, the ISIC states that the ministry, department or similar government unit approximates the legal business entity in scope. Although the ISIC definition provides a reasonable starting point, a more comprehensive definition is necessary to encompass all the types of entities in the Australian economy which are potential owning and financing units. A closer examination of the meaning of the legal entity concept for both the private and public sectors follows.

#### The Legal Entity - Private Sector

3.3.2.5 The legal entity concept is derived from the common law under which persons have certain rights, including the right to ownership of property, the right to enter into contracts, etc and corresponding obligations. (Only in exceptional cases is capacity to contract limited). Persons who have these common law rights and obligations (ie strict legal entities) include both natural persons and artificial persons, ie corporations, and as a general rule there is nothing to prevent persons from setting themselves up in business. Natural persons may set up in business as individuals, or they may enter into some form of organisation with other persons. While in such cases, each person in the organisation is liable in terms of legal action, in respect of their economic activities such organisations behave in much the same manner as incorporated entities. The forms of incorporated and unincorporated organisation that are usually established to own and finance producing units in the private sector are described in the following paragraphs.

##### a Incorporated entities

3.3.2.6 Companies (proprietary or public), and co-operative societies (including rural societies, trading societies, building societies, credit unions, etc), are incorporated most often for the purpose of setting up in business. However, non-profit organisations eg some co-operative societies, may also be incorporated entities and thereby assume a legal status. For the private sector, incorporation can be obtained in a number of different ways:

- i registration as a company under the uniform Companies Acts;
- ii creation through other 'generalised' Parliamentary Acts eg the Mining Companies Acts, the Associations Incorporation Acts, Co-operative Societies Acts (NB Some Acts provide for registration and/or recognition and not incorporation of entities eg Friendly Societies Acts provide for registration of entities only);
- iii creation by special Act of Parliament eg those relating to Royal Agricultural Societies and racing clubs; and
- iv creation by Royal Charter - this was the only method of obtaining incorporation before 1844; today it is of little practical significance.

3.3.2.7 As indicated, corporations are regarded by the common law as persons, in no way different from natural persons, and once created, can set themselves up in business in precisely the same way as individual proprietors can. However, a corporation can only act through human agents, and those who control its policy and are responsible for its business activities are its directors or their equivalent. But even the directors, whatever the powers given to them by the corporation, are only the servants or employees of the corporation. Thus, the fundamental concept of a corporation is that it is a legal person or corporate body separate and distinct from the other persons who are its shareholders or, in the case of an incorporated association, its members.

3.3.2.8 A corporate body is capable of acting in its own name. It has perpetual succession, a common seal, may sue and can be sued and may, in its corporate name, deal in property and do and suffer all such other acts and things as corporate bodies may by law do and suffer. Liability for debts is usually limited to the assets of the organisation plus the amount (if any) unpaid on the shares held or the amount the member may have promised to contribute. In these cases the membership is protected (by law) from any further personal financial responsibility. In some cases however, there is no limit placed on the liability of members and in others there is no liability at all.

b Unincorporated entities

i Sole proprietorship

3.3.2.9 Private individuals, provided they do not use a business name, ie, a name which differs from their own name, or intend to engage in an activity in respect of which registration or a licence is required under State or Commonwealth laws, eg, money lending, etc, can set up and carry on business without the need to notify registration authorities. Even where registration is required, the strict legal entity under the common law is still the individual - his business having no separate legal recognition. For this reason an individual proprietorship covers all the business interests of the owner or proprietor, irrespective of how many different businesses are carried on by that single individual.

ii Partnership

3.3.2.10 A partnership is the relationship which exists between individual persons carrying on business in common with a view to profit. The persons who have entered into partnership with one another are sometimes called collectively a firm, but the firm name, as such, is only a short way of expressing the names of all the partners, and although the partners may sue and be sued in the firm name, this sort of firm, in contrast to a corporation, has no legal existence separate from its individual members. (The firm name of a partnership must be registered subject to the requirements of the various Business Names Acts, eg, a partnership may call itself a company but it must not use the word 'limited' as the last word of its name).

3.3.2.11 Even though a partnership has no separate legal existence apart from its members it does represent an entity, definable by virtue of legal relationships existing between individual persons, and in determining whether such a relationship does or does not exist, regard is taken of rules such as the following:

a usually a partnership cannot consist of more than twenty persons (this rule is based on the uniform companies legislation);

b unincorporated organisations such as clubs or societies which do not aim to make a profit, are not partnerships;

c a partnership must be formed by agreement, either express or implied (this agreement may be in writing, or formed verbally, or by conduct); and

d partnerships involve working for profit (the sharing of profits is prima facie evidence of a partnership though the mere receipt of a part of gross returns is not).

Other features of a partnership are that a partner cannot transfer his share in the partnership to another person without the consent of the other partners and that a partner is the agent of the partnership, ie he has implied authority to bind the firm. It should also be noted that partnerships can exist between unincorporated and/or incorporated entities.

3.3.2.12 Apart from general partnerships, referred to above, limited partnerships may be formed in Queensland, Western Australia and Tasmania; these have been described as a cross between a general partnership and a limited company. These also must consist of no more than twenty persons, at least one of whom, however, must be a general partner and one a limited partner. (A limited partner is one who contributes a stated amount of capital or property and who is not liable for the firms' debts beyond that amount). In addition, partnerships of this kind must be registered according to the provisions of the acts under which they have been established, eg, under the Limited Partnership Act 1908, of Tasmania.

#### iii Joint Venture

3.3.2.13 Joint ventures, like partnerships, are unincorporated joint arrangements. They occur where a consortium of companies and/or persons come to an agreement to carry out a particular project and a separate legal entity is not specifically created to undertake all the operations of the project (although a separate legal entity may be created to carry out part of the operations, or manage the project). The participation of a number of companies is generally due to the size of the project and/or the specialist functions of particular companies in the consortium. As such projects could be reasonably regarded as separately organised operations, a separate entity like a partnership, could be recognised covering such ventures. However, separate recognition may not be appropriate for some joint ventures such as those engaged in mineral exploration, as they are usually agreements which are short-lived and/or frequently changed in composition.

#### iv Trust

3.3.2.14 A 'trust' is simply a general term used to describe a whole range of trust obligations, as normally set out in a trust deed, binding one or more trustees to deal with trust property for the beneficiaries of the trust. Several types of trust exist, including discretionary and unit trusts. In integrated economic statistics, it is 'trading' trusts, ie trusts which are of a commercial nature, which are of interest. Since a trust is regarded as a unit of statistical interest it is reasonably regarded as a 'statistical' legal entity.

#### v Other unincorporated entities

3.3.2.15 These are basically unincorporated associations involved in social, sporting, charitable and other community activities. Professional and trade associations may also be unincorporated. The advantages enjoyed by such unincorporated entities include their exclusion from the regulation and the costs associated with registration and incorporation under various statutes.

3.3.2.16 Such entities have no existence in law. They are neither a natural person nor an artificial person. Although an unincorporated body is not a strict legal entity, the courts recognise that membership of defined groupings of people (each grouping is a contractual relationship between the members) is a normal part of community life and that the resultant unincorporated, non-profit associations have legal consequences.

3.3.2.17 The unusual characteristics and indeterminate legal nature of unincorporated voluntary associations, means that there is no precise law which regulates their way of life. However, there is a limited body of case law which is available to provide guidelines, although the courts do not regard an unincorporated association as a body with any rights or obligations which are distinct in a separate way from the rights or obligations of its members. At the same time it may be noted that the Supreme Court Rules in South Australia and Tasmania make provision for a 'society' to sue or be sued; and for example, the South Australian Rule interprets this as 'any society, fellowship, club (Other than a proprietary club), association or combination of persons which is not a partnership or a body corporate'.

3.3.2.18 For the private sector, the above entities represent the basic forms of organisation in Australia. However, only the incorporated entity and the individual have a recognised legal existence as persons. For statistical purposes, however, this restricted view of what constitutes a legal entity does not provide a useful breakdown of economic agents. A broader view than that provided by the strict legal concept needs to be taken. One possible avenue would be recourse to a generally applicable statute under which all, or potentially all of the above entities have certain legal obligations (eg the Income Tax Assessment Act 1936, payroll tax legislation). However, in Australia this approach has not been adopted, mainly because not all of the entities of interest are covered by such legislation.

3.3.2.19 To date, no other single legal vehicle has come to light which provides a legal entity definition suitable for economic statistics. The option adopted has been to resort to defining as legal entities, various forms of organisation which include those units which are legal entities in the strictest sense (ie bodies corporate) and others which have some form of legal obligation or identity under existing legislation ie quasi legal entities. Sole proprietorships, partnerships and trusts are three forms of organisation for which treatment as legal entities has justification. Once set up, they act like strict legal entities and as such basically operate as independent units having control of producing units. However, there is also a need to accommodate the remaining unincorporated bodies and associations which do not have such clear justification. In the case of such entities a supplementary criterion which could be used is indicated above ie define the 'narrowest' kind of owning and financing unit in terms of a reasonably autonomous body which has direct control over finances and operations. Another approach in relation to such unincorporated entities is to treat those which behave as if they are strict legal entities, at least in statistical terms, as quasi-legal entities. A full account of the forms of organisation designated as legal entities within the Australian system is given in Chapter 4.

#### The Legal Entity - Public Sector

3.3.2.20 In the public sector, particularly in the General Government institutional sector, many entities exist which are not comparable with private sector legal entities. It is therefore necessary to seek out alternative concepts which approximate the legal entity concepts applicable to the private sector. As stated previously, the approach adopted has been that advocated in the ISIC, ie to seek a unit which approximates business units in scope.

3.3.2.21 In looking for an appropriate working concept of a legal entity for the public sector, it is useful to consider all types of entities, other than the registered companies owned by governments, in two categories: statutory entities and departmental entities.

#### a Statutory Entities

3.3.2.22 This category includes those entities established by the Constitution, by an Act of the Australian parliament or a State parliament, or by an ordinance of one of the Territories. The category also includes the following:

- i entities, such as local government authorities, where legislation establishes the means whereby each particular entity in a general class of entities can be established, rather than establishing each entity as such;
- ii statutory offices (eg Registrar-General) established by legislation which relate to an individual position only;
- iii the Governor-General and the Governor of each State;
- iv each of the upper and lower houses of the Commonwealth and State parliaments; and
- v each court of law.

3.3.2.23 The legislation which establishes a statutory entity generally defines the name and the range of powers of the entity in the same way as the name and range of powers of companies are defined in legal documents which are required by legislation. However, the range of powers of public sector entities, so defined, varies considerably, from entities which are established as 'bodies corporate' by the legislation (including entities defined as companies in the same way as private sector companies), with the high degree of autonomy that incorporation implies, to entities which differ very little from government departments except that they are established by legislation.

#### b Departmental Entities

3.3.2.24 This category basically applies to entities set up via the 'Administrative Arrangements' of the Commonwealth Government and in the corresponding administrative instruments of State governments (refer Appendix B for details). Entities relevant to this category include the so-called 'parliamentary departments' of the Commonwealth and those States where they occur, as well as entities known as sub-departments or administrative offices in certain States.

3.3.2.25 The concept of departmental entities has no real equivalent in the private sector but it could be seen as the logical extension of the concept of an entity established by some form of government action, in this case an administrative arrangement of the government in power which requires the authorisation of the Executive (ie the Governor-General or Governor of a State). Departmental entities are 'legal' in this sense.

#### Groupings of Single Legal Entity-Type Units

3.3.2.26 As recommended in the SNA, groupings or 'families' of related legal entities should also be considered when determining appropriate statistical units at the institutional level. The recommended criterion for identifying appropriate groupings of legal entities is 'common ownership and/or control'. Application of this criterion in the private sector and the public sector is discussed below.

#### Groupings of Single Legal Entity-Type Units - Private Sector

3.3.2.27 For corporate and quasi-corporate enterprises the SNA recommends that the statistical units may consist of families of incorporated or quasi-corporate enterprises which, as a result of ties of ownership, are controlled and managed by the same interests. The ISIC expands on these considerations, eg a group of legal entities may be controlled by the same interests though less than 50 per cent of the equity of some of these entities may be owned by the parties involved. Thus, there are a number of possible bases for recognising relationships between entities which constitute ties of ownership or control. These bases are discussed in the following paragraphs.

##### a 'Group' Unit Based on Shareholdings

3.3.2.28 In this case control links would be formed on the basis of shareholdings - the shareholders, whether natural persons or corporations, being the owners of the corporations concerned.

3.3.2.29 In the case of registered companies, few restrictions seem to exist as to who may own shares in a company. A company may be owned by another company (ie the latter company holds more than 50 per cent of the shares in the former company) which, in turn, may be owned by another company and so on. However, for other incorporated entities, relationships between them are in general difficult to quantify although in the case of incorporated (co-operative) societies (eg, building societies, credit unions, rural co-operative societies) the appropriate laws may limit the extent of ownership of the society itself and the ownership of other entities by the society.

3.3.2.30 The task of identifying groups of related entities requires an examination of the individual shareholdings in relevant corporations so that the entity with ultimate control can, in each case, be established. The question of what constitutes ultimate control, however, needs further elaboration. One reasonable definition is the power to select the directors of a corporation. Those who exercise that power are, in the main, shareholders and it is clear that a shareholder has ultimate control of a corporation where that shareholder holds the majority of the voting equity of that corporation. Voting equity in a company may be concentrated in a few large shareholdings which may, but need not, represent a majority of voting rights in the company. In some cases the necessary percentage of voting rights for effective control could be quite low, say 20 per cent. Below that limit, where individual shareholdings are very small, companies could be regarded as being controlled by their management. Another point to be made here is that a large shareholder may have the ability to exercise significant influence, but that shareholder may not execute that ability.

3.3.2.31 If groups of related entities were to be defined in terms of effective control based on holdings of voting shares, ie to go to the extent of embracing even those entities which are controlled on the basis of minority shareholdings or its equivalent, a great deal of information would have to be obtained and kept up-to-date regarding shareholdings in corporations. In addition, it is questionable whether the groups of legal entities so-defined would be able to provide all of the data required for a broad range of statistical purposes. 'Admittance' of control by one entity over another could be used as the criterion, but this is a subjective and potentially inconsistent approach unsuitable for statistical purposes.

3.3.2.32 A narrower concept of control based on majority shareholdings (common ownership) could be used as the basis for defining effective control. In relation to corporations this approach would have the advantage of effective control being established on the basis of law ie in the relevant section of each of the uniform Companies Acts. Section 7 of the Commonwealth (ACT) Companies Act 1981, which concerns subsidiaries, holding companies and related corporations is shown in Appendix C. This section not only defines subsidiaries in terms of majority shareholdings but also in terms of control of the composition of the board of directors and in terms of the majority of votes cast at a general meeting.

b 'Group' Unit Based on Consolidated Accounts

3.3.2.33 As indicated by the SNA and ISIC, common or effective control could also be defined in terms of a group of enterprises of the single legal entity-type for which, as a group, one set of consolidated final accounts are prepared and published. However, in Australia there is no legal stipulation which requires all holding (parent) companies to publish consolidated reports which cover their own operations together with those of their subsidiaries, although companies listed on a Stock Exchange (according to the Australian Associated Stock Exchanges Official List Requirements) are required, where relevant, to publish consolidated accounts.

c 'Group' Unit Based on Management Control

3.3.2.34 Another kind of owning and financing unit which could be considered in terms of common control is one which could be described as the management unit ie an owning and financing unit, the units of which are linked together by a single operating management.

3.3.2.35 To consider the use of management units for collection and tabulation purposes is to attempt to isolate real entrepreneurial, or decision-making units in contrast to units defined more rigidly in legal terms, as in the case of the single legal entity-type unit or the group of entities under common ownership as defined in the Companies Acts. However, the success of any such attempt (to isolate management units) would depend on whether it would be possible to determine at just what point the directors or the management of a parent company or a head office cease to exercise operational control over the whole entity, and at what point that control would come to be exercised by the separate managements of the constituent parts of the whole entity. Any such determination would require exhaustive investigations, presumably by personal interview at a high level, into the organisation of each possible owning and financing unit.

d Other Possible 'Group' Units

3.3.2.36 One possible unit relates to considering common control in terms of interlocking directorates ie relating companies in this way. As indicated in paragraph 3.3.2.28 the concept of common control could also be applied to unincorporated entities. One potential case is that of overlapping partnerships where certain partners in different partnerships have effective control of those partnerships. Similarly, incorporated and unincorporated entities could be considered 'related', in that say, a sole proprietor has a majority shareholding in a company.

3.3.2.37 Concerning partnerships (formed between incorporated and/or unincorporated entities) there could be a number of possibilities, ranging from a partnership agreement which may not influence the separate businesses of the constituent members of the partnership, to one which may completely govern all aspects of the previously separate businesses of the constituent members. At these two ends of the scale the former situation could reasonably be treated such that an unincorporated entity, the partnership, (the operations of which are separate from those of the individual partners) would be recognised, whereas for the latter situation joint control over the total operations could reasonably be assumed and just one single entity, the partnership, recognised. However, in terms of control, for cases in between, difficulties of proper identification and quantification arise.

3.3.2.38 A further consideration is that effective control could be taken to involve influences such as conditions written into a loan contract by a lender, provisions contained in a licensing agreement with a supplier of technology, control of a franchising agreement or a sole, or dominant market or source of supply or control by legislation.

Groupings of Single Legal Entity-Type Units - Public Sector

3.3.2.39 The concept of 'common ownership or control' in relation to the public sector is probably best analysed by starting with the broadest type of unit which could be considered. This is the combination of the three tiers of Government in Australia (ie Commonwealth, State, Local). The only reason to consider this unit would be that the respective tiers have some common financial sources and that Local Government is controlled to a certain extent by State legislation. However, they otherwise act as independent entities and therefore this all-encompassing unit does not seem to be an appropriate statistical unit.

3.3.2.40 The next-broadest possible grouping would be all public sector entities within each of the government systems in each tier of government (ie the Commonwealth Government, each State Government and each Local Government Authority). Such groupings would, however, include government-owned companies and statutory authorities which operate with a high degree of independence from control by the owning government. As legislation is specifically enacted to provide such independence it seems that they could not be regarded as being under common control.

3.3.2.41 However, within each government system, a case could be made for regarding many other public sector legal entities as under common control. For example, the SNA describes the appropriate transactor units for classification to the institutional sector 'General Government' as 'the organs of general government, for example, the central government as a whole, the various state, provincial and local governments and the individual social security schemes, should be used as transactor units. This is so because the financial and current and capital outlays of the constituent units of a given organ of government are usually DECIDED, CONTROLLED AND MANAGED IN COMMON' (paragraph 5.68). The emphasised words indicate that the SNA regards all units within each tier of General Government as under common financial control and therefore as units of common ownership or control. Such a grouping would imply that there is a clear distinction between the control exercised over General Government entities from that exercised over entities belonging to the other institutional sectors (ie Financial Institutions and Non-Financial Corporate and Quasi-Corporate Enterprises) and that there is no commonality in these controls. Such a distinction, at least in terms of financial controls, is implicit in the definition of the institutional sectors, although not all Non-Financial Corporate and Quasi-Corporate Enterprises are financed entirely from their own resources.

3.3.2.42 Several other groupings of entities could be suggested which imply a commonality of control eg all entities in the 'budget sector', all entities under the same minister.

### 3.3.3 Residence

3.3.3.1 The limits to owning and financing unit(s) definitions should also be considered in terms of the basic characteristics of residence. For such units the concept of 'residence' is outlined in Chapter 5 of the SNA. This basically means that in Australian integrated economic statistics, owning and financing unit(s) should be defined so that only operations relating to the domestic territory of Australia (which excludes overseas territories, eg Norfolk Island) of such unit(s) are covered. A conceptual outline of what constitutes 'residence' (which includes a definition of the domestic territory of a country), as enunciated by the SNA, is provided in Section 2.2.5 above. Operational aspects of 'residence' are outlined in Chapter 4.

### 3.3.4 Institutional Sector

3.3.4.1 Another characteristic which impinges on the definition of appropriate owning and financing unit(s) is institutional sectoring as outlined in the SISCA. As the ANA and related basic economic statistics are being produced and developed on the basis of the SNA, it is considered appropriate that owning and financing unit(s) are defined in such a way as to be reasonably homogeneous in terms of institutional sectoring, eg where entities of the single legal entity-type engage significantly in activities classifiable to more than one institutional type, the statistical unit(s) definition should ensure that a separate unit is identified which, as far as possible, maximises the institutional homogeneity of each unit. As a result it may be necessary that legal entities in the real world be broken down into component owning and financing units. Such an approach would be consistent with the treatment of data classified by institutional sector in the ANA and in the ABS's Public Authority Finance statistics according to SISCA. A more detailed outline of SNA institutional sectoring is provided in Part 2.2.

3.3.5 The Australian Approach (including a brief outline of the units adopted)

3.3.5.1 Given the general objectives and other considerations outlined in this chapter, Australia has decided to use two standard owning and financing units in integrated economic statistics - one single legal entity-type unit (the 'enterprise' unit) and one unit comprising a group of single legal entity-type units (the 'enterprise group' unit). The real world unit from which the two statistical units are formed, the legal entity unit, is also treated as part of the Australian system, as a quasi-statistical unit.

3.3.5.2 The decision to use more than one standard unit was based on considerations of statistical requirements and data availability. For most types of economic statistics the narrowest possible kind of owning and financing unit, in general terms the single legal entity or enterprise, was considered appropriate, whereas for data relating to overseas investment, capital raisings and market concentration, a broader unit embodying the SNA concept of a family of related legal entities, ie the enterprise group, was considered most appropriate.

#### Legal Entity Unit

3.3.5.3 The concept of a legal entity employed in the Australian system is much broader than the strict legal interpretation of this term and encompasses all the forms of organisation described in paragraphs 3.3.2.6-25 above. In general, investigations have found that all but a few such units are able to supply the full range of data required for statistical purposes and are therefore viable statistical units. The definition of a legal entity employed in integrated economic statistics is given in detail in Chapter 4.

#### Enterprise Unit

3.3.5.4 The narrower owning and financing unit, the enterprise, is defined, in general terms, as a unit covering all the operations in Australia of a single operating legal entity. However, to accommodate the few problem cases, provision is made to allow companies to be merged with other companies to which they are related in terms of the Companies Acts, to form an enterprise. Companies which are 'non-operating' in that they do no business, or have no employees, may be merged with a related 'operating' company to form an enterprise. Similarly, related companies for which no separate accounts are maintained, other than the minimum required for taxation or company registration purposes, may be merged to form an enterprise. Similar merging concepts apply also to the types of enterprises which are specific to the public sector.

3.3.5.5 This definition embodies the SNA concept of 'residence' in the phrase 'all the operations in Australia' and, with minor exceptions, provides a unit which is homogeneous in terms of institutional sectors. The exceptions have been catered for by allowing for the splitting of legal entities to form enterprises in a few, well-defined circumstances. These circumstances are described in detail in Chapter 4.

3.3.5.6 Overall, the above definition is based on the balance of conceptual and practical considerations outlined earlier in this chapter. As indicated in paragraph 3.3.2.18, an enterprise unit definition based on entities as defined in legislation such as the Income Tax Assessment Act or payroll tax legislation is not considered adequate.

#### Enterprise Group Unit

3.3.5.7 The broader owning and financing unit used in Australia, the enterprise group, is defined as a unit covering all the operations in Australia of a group of companies which are related in terms of the uniform Companies Acts. All other enterprises are, in general, treated as single enterprise, enterprise groups.

3.3.5.8 The decision to use this definition was based on a balance of the conceptual and practical considerations outlined earlier in this chapter. In fact, it is a narrow interpretation of the concept of 'common ownership and/or control', which has been chosen because it can be determined objectively and because it has wide recognition in the form of the companies legislation. (The definition is restricted to companies; it excludes other corporations covered by the companies legislation, because of the practicalities relating to the definition of those additional corporations). Naturally, common or ultimate control exists, based on legal definitions, in other situations, eg some 'substantial shareholdings' (an entitlement of 10% or more of shares of a company) by companies in other companies. However, only the parent/subsidiary relationship clearly and simply constitutes common ownership and/or control. Other relevant legal definitions require a subjective judgement as to the existence of common control. For example, although unincorporated enterprises with substantial shareholdings in companies can be identified, common control in this context can not be fully assessed due to the complexities of relationships involving unincorporated enterprises generally. Incorporated enterprises other than companies eg cooperatives, may also be involved in the equivalent of a parent/subsidiary relationship but the ramifications of this are usually not clear.

3.3.5.9 The other 'enterprise group' options outlined earlier in this chapter also present difficulty. A unit based on consolidated accounts as a measure of common control has the problem that there is no legal stipulation which requires all holding (parent) companies to publish consolidated accounts covering their own operations together with those of their subsidiaries (only parent companies listed on a Stock Exchange are required to do so). In addition, uniform methods of consolidating 'group' accounts do not exist and those 'groups' which do not consolidate fully would create considerable data collection problems.

3.3.5.10 An 'enterprise group' unit based on management control as a measure of common control is not considered a viable proposition since it would be very difficult to isolate real entrepreneurial or decision-making units in most instances (making business register updating correspondingly complex) and at least some relevant data would probably be unavailable in a proportion of cases.

3.3.5.11 Common control could be considered in terms of interlocking directorates, relationships between unincorporated enterprises (eg overlapping partnerships) and relationships between incorporated and unincorporated enterprises. Although some assessment has been made of the latter two situations the above bases are not yet considered feasible ways of determining common control due to identification and/or quantification complexities.

3.3.5.12 Other influences could be taken to represent common control, eg conditions written into a loan contract by a lender, provisions contained in a licensing agreement with a supplier of technology. However, these and other similar influences cannot be easily compared or quantified and are therefore not considered feasible options.

3.3.5.13 As described earlier in this chapter, within the public sector there are a number of other options for defining 'common ownership and/or control'. In practice however, none of these options provides a unit which is useful for most economic statistics purposes. In the main, the units are too broad to be viable, either as a unit for supplying data, or as a unit for which useful data can be compiled. Thus, in general, public sector enterprise group units are comprised of single enterprise units. A small number of exceptions to this general rule exists, which are described in Chapter 4.

### 3.4 Application of Concepts: Producing Units

#### 3.4.1 Introduction

3.4.1.1 Besides meeting the general objectives in defining statistical units described in Part 3.2 above, the definitions of producing units employed should meet five particular requirements, namely:

- i the units should be homogeneous in respect of ownership and control;
- ii in view of the need for geographical dissections of production, the units should be defined as narrowly as possible in terms of the geographical area covered by their operations;
- iii the units should be defined so as to be as homogeneous as possible in respect of the kinds of economic activity carried out;
- iv recognition should be given to the SNA concept of 'ancillary' activity (ie activity which supports the production activity of other producing units); and
- v the units should be defined so as to be as homogeneous as possible in respect of functional sectoring.

The overriding consideration which will limit the extent to which these objectives can be achieved is that the full range of production data must be generally available for the units defined. The first four objectives are discussed separately in the four sections which follow. Since the functional sector classification has not been adopted in Australia (due to lack of user demand) it has not always been practical to take it into account in defining statistical units. This factor is not considered further here.

#### 3.4.2 Ownership and Control

3.4.2.1 In a hierarchical system of units the boundary of producing units in terms of ownership and control is determined by the definition of the units recognised within this structure as owning or controlling the producing units. While options could be considered which define ownership or control of producing units in terms of some other criteria (eg local management), no general advantage has been seen in pursuing this approach insofar as it would cut-across the vertical integration of producing units with the units which own or control them. Thus, the general approach has been to define producing units as being owned or controlled by only one owning and financing unit. Adoption of this approach renders further discussion of ownership or control of producing units unnecessary, as the discussion in Section 3.3.2 above covers all that needs to be said.

### 3.4.3 Geographical Limitation

3.4.3.1 There are basically three alternative limits which could be placed on the geographical characteristic of producing units for statistical purposes, namely:

a the national boundary of the country in question; this boundary is the widest which could be tolerated as it permits presentation of data at only the national level

b the boundary of statistically useful, widely defined areas within the country (eg State, Statistical Division, Statistical Local Area (SLA) as specified in the Australian Standard Geographical Classification (ASGC))

c the boundaries of the operations of producing units at each separate location (ie in general terms, each individual workplace, eg each shop, factory, mine, warehouse, farm, etc - for a full explanation of a single location see Part 5.2); this boundary is considered because it is the narrowest possible and permits compilation of data for almost any area required.

3.4.3.2 The choice of a limit for location depends largely on the requirements for statistics dissected by area and size. If it is assumed that at least some of the statistical data to be collected in economic collections will be required to be dissected by relatively detailed areas (eg SLA's), a unit limited at least by the boundaries of an SLA would be required. This is the equivalent of the local unit defined in the ISIC, which restricts the location characteristic to the single location or to two or more nearby sites.

3.4.3.3 However, in some cases only a few items of data may be available for individual locations. As a result, it might be necessary to adopt two kinds of producing unit, ie a narrower unit limited to the single location for which the limited range of data would be collected, and a wider unit for which a fuller range of data would be collected. For example, if data on total employment were required to be dissected by SLA, and other economic data (say the components of value added) were not required to be dissected in this way, full returns (ie all items of data) could be collected for the wider unit and supplemented by details of total employment for each separate location. Of course it would be essential that the various 'narrower units' be directly aggregatable to the 'wider unit' without gaps or overlaps between all producing units of an owning and financing unit.

3.4.3.4 The question of general availability of accounting records will nearly always determine the geographical boundary placed upon producing units. Thus, given that the principle of general availability does not permit variation in individual cases, producing units with boundaries wider than the single location will need to be defined for classes of units where data are generally not available at the single location level. For producing units, the appropriate classes of units are units classified to the same industry - industry being the main classification applied to producing units (the relevant Australian classification is the Australian Standard Industrial Classification, 1983 (ASIC)). Thus, where units are defined which are wider than single locations, they will be defined uniformly for all producing units within a given industry.

3.4.3.5 The foregoing principles notwithstanding, it may be necessary to allow some variations in isolated individual cases. For example, it is not uncommon for two or more separate physical locations to be conducted as one combined business under one legal ownership without any separate accounting records being kept for the individual locations. Provided the two locations fall within the same statistical area representing the smallest area for which data are required (SLA), it would be reasonable to permit merging of the locations to form one producing unit.

### 3.4.4 Activity Homogeneity

3.4.4.1 In principle, a single economic activity may be defined as narrowly or broadly as one wishes. Therefore, in order to give meaning to the term 'single activity' it is used here as relating to the totality of economic activities which have been designated as primary to one ASIC class. This choice is appropriate since the definition of each industry class has been determined so as to recognise, as far as practicable, the ranges of activities which are commonly carried out in the separate producing units which would be classified to that class, as ascertained by empirical investigations or on the basis of experience in statistical collections. Thus, the objective of activity homogeneity can be defined as delineating producing units so as to maximise the extent to which they engage in activities classified to the industry to which the unit is classified.

3.4.4.2 Broadly, there are two possible approaches to the kind of activity characteristic. One possibility would be to place no limit on kind of activity and to define the unit only in terms of ownership and control and geographical limitations. The other broad possibility would be to split (in accordance with some prescribed rules) units already limited in respect of ownership and control and geographically, into smaller units on the basis of distinction between different kinds of activity.

3.4.4.3 In practice the choice will generally depend on the availability of data. From this point of view it is very unlikely that data will be generally available for units defined in terms of a kind-of-activity boundary. In general, there are difficulties involved in obtaining separate particulars relating to the full range of required data for the different activities primary to each industry. In other words, producing units defined in terms of ownership and control and geographical limitations generally do not keep full separate records for each activity in which they engage.

3.4.4.4 For this reason the objective of maximising the degree of homogeneity of producing units in terms of activity will be achieved more by defining industries appropriately, than by defining units in terms of activity boundaries. In other words, producing units will be defined in terms of ownership and control and geographical limitations and will be grouped into industries in such a way that activity homogeneity is maximised. Since perfect homogeneity would be achieved only by defining far fewer industries than would be useful, some degree of imperfection must be tolerated, or some degree of defining producing units with activity boundaries must be employed.

#### 3.4.5 Ancillary Activity

3.4.5.1 As described in Chapter 2, the concept of ancillary activity is of activity performed in a supporting role to other activities of the same business or organisation. A clear example is the activity carried out in an administrative office, ie the activity of providing administrative services to other parts of the same business or organisation. Other examples of such ancillary activities include storage, testing of products in laboratories, own-account transport, own-account motor vehicle repairs and maintenance, and sales of the products produced by the business. In general, ancillary activities do not form a tangible part of the 'end product' of the enterprise. For this reason ancillary activities are confined generally to 'services' which are used up as they are produced. By this definition the production of goods cannot usually be ancillary. The services concerned are not 'end products' in their own right in the sense of being rendered for sale on the open market (while the services may be provided for sale on the open market in some cases, in such situations they are no longer described as ancillary).

3.4.5.2 A number of these service activities are, of course, found to some extent in all kinds of economic units; often they are insignificant in scale and are not even specifically recognised as being there - they are an integral part of the economic activity of the establishment. However, the larger the organisation becomes, the more the supporting activities tend to be organised as separate recognisable sections or departments; when this occurs they may ultimately be located separately from any other activities of the organisation. Generally, business organisations that have such 'service' activities at separate locations regard them as having a supporting role - as existing only to provide services to the 'main activities' of the organisation - and thus in some sense having a different status from that of an ordinary operating location, and they tend not to keep any comprehensive separate records relating to such units. For these reasons, it will be necessary to devise special treatments for dealing with these supporting locations.

3.4.5.3 As indicated above the rationale behind ancillary activities is that they are more appropriately considered as part of the activities they support than as an end-product in their own right. Thus, producing units mainly engaged in ancillary activities are considered more appropriately classified to the industry of the producing units they serve, than to the industry to which their main activity is primary when carried out for sale in the open market; otherwise, numerous artificial commodities would be created for which the valuation of output would be very difficult.

3.4.5.4 On the other hand, a case can be made for regarding some ancillary activities as competitive with, and therefore part of, the industry to which the activities concerned are primary when carried out for sale on the open market. In such cases the question of whether or not to regard the activities concerned as ancillary may need to be determined on the basis of their importance in the context of the industry concerned, on the question of whether separate data are available and on the specification of a clearly defined user requirement for inclusion of data relating to the locations concerned with other data for the relevant industry. Where a decision is made to treat such locations as part of the relevant industry, for practical reasons (eg paucity of relevant data among smaller businesses) it might be necessary to restrict this treatment to a few locations, the operations of which account for a large part of the industry's output. The rules resulting from these considerations are detailed in Section 5.4.2.

3.4.6 The Australian Approach (including a brief outline of the units adopted)

3.4.6.1 In general, the Australian approach has been to define producing units in terms of single locations, or combinations of locations. For each producing unit, ownership and control is constrained to the operations carried out by one enterprise ie single ownership or control. This approach has been adopted for the following reasons:

- i the required data (for details, refer paragraphs 3.4.6.8 and 3.4.6.11) are generally available for units defined in this way;
- ii the units can be described in physical terms and are therefore capable of being meaningfully described to both users and suppliers of statistical data; in other words the units are formed from units clearly recognisable in the 'real world';
- iii the units can be defined consistently one with the other, without the risks of gaps or overlaps between them (ie 'horizontal integration' is achieved);
- iv the maximum level of geographical disaggregation is achieved in the case of single location producing units.

3.4.6.2 On the other hand the units have some disadvantages, namely:

- i where combinations of locations are employed, the maximum level of geographical disaggregation is not achieved; (in practice, such combinations are restricted to industries for which detailed 'structural' data (for an explanation of such data see paragraph 3.4.6.8) are not generally available for single locations and in any event, single locations are retained as a supplementary unit for which selected data are available);
- ii the units do not always maximise activity homogeneity given that, in general, there is no boundary on economic activity; (in practice, industries are defined so that specified minimum homogeneity standards are met; however, in a small number of important cases splitting of location-based units is permitted to maintain the homogeneity standards).

3.4.6.3 In adopting this approach a number of other possible alternatives were rejected. In a small number of cases, units based on kind-of-activity might have been feasible in terms of data availability, but were rejected because the relevant data were not generally available on this basis and because the units would not be compatible with location-based units (ie horizontal integration would not be feasible). Management/accounting entities were generally rejected on the grounds that they contravene the principle of defining units which are uniformly defined in terms of physical characteristics. In addition, the use of management/accounting units would amount to abandonment of the principle of defining units for which data are generally available - in effect, units would be defined according to the accounting practice of each particular enterprise. However, an Australian accounting standard for segment accounting (AAS16) was released in March 1984. Once businesses have had an opportunity to adopt the new standard it may be appropriate to review the ABS position with respect to the use of management/accounting entities. See Section 3.2.5 for a detailed explanation of the role of data availability in integrated economic statistics. Special rules relating to this factor are detailed in Part 5.5. The technical unit (refer paragraph 2.2.4.33) was not considered further because there has been no requirement for such a unit in the Australian system of integrated economic statistics.

3.4.6.4 The basic sequence of events for identifying producing units which arises from this general approach is as follows. Firstly, a single location is identified at which or from which economic activity is undertaken by an enterprise. The nature of this activity is then determined and the location unit is treated as an establishment or ancillary unit depending on the nature of the activities carried out. The unit is then classified according to the classification principles set out in ASIC. In some cases however (mainly where the activities are primary to certain industries) locations mainly engaged in activities primary to each such industry are combined to form establishments. Additionally, establishment units may, after reporting relevant data, be split into two or more establishments if their activities which are not classified to the industry of the establishment exceed a pre-determined 'splitting limit'. The application of these splitting rules is aimed at improving the industry homogeneity of establishment units.

3.4.6.5 Thus, the basic hierarchy of producing units comprises location units at the lower level which form the basis of establishment and ancillary units at the next level. The latter are the main statistical units in the structure, although the 'real world' location units are sometimes used as statistical units (ie units for which statistical data are collected and compiled). A brief definition of these units is given below - more detailed definitions and working rules for applying these definitions are given in Chapter 5.

#### Location Unit

3.4.6.6 A location is a single, unbroken physical area, occupied by an enterprise, at which, or from which, the enterprise is engaged in productive activity on a relatively permanent basis, or at which the enterprise is undertaking capital expenditure with the intention of commencing productive activity on a relatively permanent basis at some time in the future. For an elaboration of this definition see Part 5.2.

#### Establishment Unit

3.4.6.7 Three 'location-based' establishment unit definitions are used in the Australian system of integrated economic statistics. These are units covering:

- a all the operations of an enterprise conducted at or from a single location (single location unit),
- b all the operations of an enterprise conducted at or from all of its locations in a State/Territory predominantly engaged in activities primary to a given industry (enterprise/State/industry unit) and
- c all the operations of an enterprise conducted at or from all of its locations in Australia predominantly engaged in activities primary to a given industry (enterprise/industry unit).

An 'industry' is composed of establishment and ancillary units mainly engaged in a specified range of activities, ie the primary activities of the industry as specified in ASIC. In general, in the Australian system one of the above three definitions is the designated establishment definition for each industry so defined (ie with some exceptions, the same definition is applied throughout an industry). The establishment is the main producing unit in the Australian system and detailed establishment unit definitions, including exceptions to the above approach, are outlined in Part 5.3.

3.4.6.8 The establishment is the unit used in the compilation of detailed 'structural' statistics. These statistics relate to particulars such as value added, capital expenditure and employment, classified by characteristics such as industry, size of establishment or geographical area. More specifically, the range of data items which it is desired to classify by these characteristics, in establishment statistics, is as follows:

- a Sales (including transfers of goods from one establishment to another within the same enterprise)

- b Other selected items of income (eg repair revenue, commission)

- c Stocks

- d Purchases (including transfers of goods from one establishment to another within the same enterprise) and usage of materials, fuels, containers, etc

- e Other selected expenses (eg repairs, delivery charges, commission)

- f Capital expenditure

- g Employment, wages and salaries

Investigations undertaken prior to the development of the establishment definitions have shown that these data are generally available from units defined in the ways described above. However, there are circumstances where the data are not available and variations are permitted in a few, special cases. These cases are described in Chapter 5.

#### Ancillary Unit (including Administrative Offices)

3.4.6.9 An ancillary unit is defined, in general, as a unit covering all the operations of an enterprise conducted at or from a single location where those operations are mainly the provision of services to other locations of the same enterprise.

3.4.6.10 Following SNA guidelines such units are classified to the industry of the establishment(s) served rather than to the industry to which the activity carried out is primary (when carried out for sale in the open market). Detailed definitions and working rules for ancillary units are outlined in Part 5.4.

3.4.6.11 The data requirements imposed for ancillary units are restricted, in general, to employment, wages and salaries and capital expenditure. Any other data relevant to ancillary units are collected at the enterprise level and allocated to the industry of the establishments served by the ancillary units. Also, in certain circumstances, units performing ancillary-type activities are treated as establishments. Details of these variations are also given in Part 5.4.

### 3.5 Integrated Economic Statistical Units - Diagrammatic Overview

3.5.1 Before outlining the definitions and working rules in respect of the units in integrated economic statistics (ie in Chapters 4 and 5) it is worthwhile to outline a diagrammatic overview of the economic statistics units used in Australia. The different classes of units in integrated economic statistics are linked in a hierarchic fashion and the main hierarchic links are shown in the diagram below.

3.5.2 The units in the diagram are:

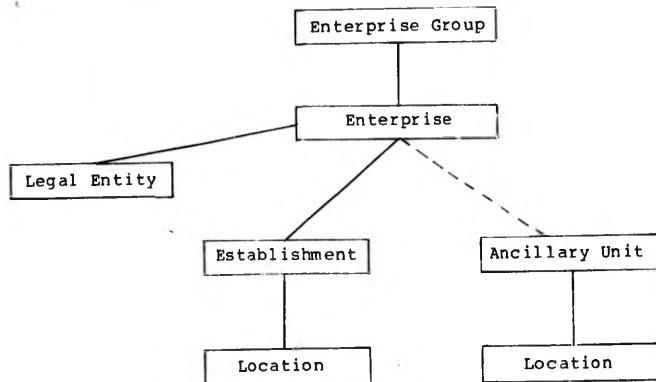
a owning and financing units:

- . legal entity
- . enterprise
- . enterprise group

and

b producing units:

- . location
- . establishment
- . ancillary unit



The links represented by unbroken lines indicate the minimum necessary hierarchic links between the classes of units in an enterprise group. The link represented by the broken line, ie between the enterprise and the ancillary unit, means that an enterprise can, but need not have any ancillary units. In addition, each higher level unit in an enterprise group, eg each enterprise, can, but need not consist of more than one lower level unit, eg establishments. However, there is one exception. This is that ancillary units usually consist only of one location each. Other types of relationships between different classes of units (eg between ancillary units and the establishments served by them) are described in the detailed units definitions in Chapter 4 and 5.

3.5.3 A units model based on such a diagram provides the standard framework for the systematic recording on the ABS's Integrated Register of all identified Australian resident units needed for the conduct by the ABS of its integrated economic censuses and surveys.

3.5.4 The units in the diagram are classed as fundamental units or standard units:

i Fundamental units comprise the 'real world' units, namely legal entities and the locations at which, or from which they operate. They form the components from which standard or statistical units are formed. Fundamental units can also be quasi-statistical units.

ii Standard units are the units within the framework of integrated economic statistics from and about which statistical information is collected. These units are divided into two categories: 'basic' standard units (ie enterprise groups, enterprises, establishments and ancillary units) and units derivable from basic standard units (hybrid units - none of which is shown in the diagram). Hybrid units may be derived from the basic standard units on the basis of the data that are recorded on the Integrated Register for all basic standard units of, at least, the same type. The data are:

- institutional sector classification
- industry classification
- geographic area classification
- the structural relationships between units.

Examples of hybrid units are the enterprise group/industry unit which may be defined as all establishments in the one enterprise group classified to an industry, and the enterprise/State unit which covers all the operations of an enterprise conducted at or from all of its locations in a State or Territory.

## CHAPTER 4 DEFINITIONS OF OWNING AND FINANCING UNITS IN THE AUSTRALIAN SYSTEM

### 4.1 Introduction

4.1.1 This chapter outlines the definitions of owning and financing units in the Australian system of integrated economic statistics and lists the working rules which support the application of these definitions, including accepted variations to the definitions, and records decisions of a general nature on interpretation of the definitions and rules which have been made since the integrated system was introduced.

4.1.2 Based on the conceptual and practical considerations outlined in Chapter 3, two standard owning and financing statistical units are used in the Australian system - the enterprise unit and the enterprise group unit. In addition, since these units are defined in terms of 'legal entities', a 'real world' unit, the legal entity unit, is defined within the system which, of necessity, is interpreted more broadly than common usage of the term would imply. For some purposes, the legal entity unit may also be used as a statistical unit in its own right. The relationships between these units are reflected on the Integrated Register as indicated briefly in Part 3.5 and outlined in detail in Integrated Register procedures documentation.

4.1.3 The enterprise is defined in terms of a single legal entity. However, working rules allow for the merging of legal entities to form one enterprise for practical reasons in certain situations, and for the splitting of legal entities in certain situations to ensure reasonable institutional sector homogeneity (for an explanation of institutional sectoring refer to the Standard Institutional Sector Classification of Australia (SISCA)). It is also necessary to define the Australian national boundary in relation to integrated economic statistical units. Rules for this purpose are given in paragraphs 4.3.1.12-18 below. Working rules relating to the enterprise group definition, including one resulting from the legal entity splitting rule noted above, are outlined in paragraphs 4.4.1.5-7.

### 4.2 Legal Entity Unit

#### 4.2.1 Introduction

4.2.1.1 Statistical legal entities are the real world units which are the basic building blocks for defining owning and financing units in the Australian system. For statistical purposes, the concept of a legal entity goes beyond the commonly accepted limitation to individual persons and incorporated bodies in order to provide the basis for defining owning and financing units in keeping with the concepts enunciated in the SNA. Where 'legal entity' is referred to in the following it relates to statistical legal entities, unless otherwise indicated.

#### 4.2.2 Definition and Elaboration

##### Short Definition

4.2.2.1 For statistical purposes a legal entity is defined as a unit covering all the operations in Australia of an entity possessing some or all of the rights and obligations of individual persons or corporations or which behaves as such, at least in respect of those matters of concern for economic statistics (ie an entity which covers all production and/or capital accumulation undertaken or owned in common or jointly).

##### Elaboration

4.2.2.2 As outlined in Chapter 3 the legal entity concept is derived from the common law under which persons possess certain rights, including the right to ownership of property, the right to enter into contracts and the right to sue. Appropriate obligations also apply. Persons who have these rights and obligations include both natural persons (both personal and business activities) and artificial persons, ie corporations.

4.2.2.3 Other entities operating in the economy assume the rights and obligations of a strict legal entity to varying degrees. In order to recognise as owning and financing units most of the types of entities recommended in the SNA, it is necessary to define the ABS enterprise unit in terms of a wide interpretation of legal entity, ie legal entities cover the range of entities from strict legal entities to those which behave as if they are strict legal entities, at least with respect to those matters which are of statistical relevance. A legal entity, so defined, is a real world unit used as the basis for defining owning and financing units in the Australian system.

4.2.2.4 The following private sector entities are treated as legal entities in the Australian system:

a Incorporated entities

i entities incorporated under the uniform Companies Acts

A company may be, in terms of financial liability of its shareholders:

- 1 a company limited by shares, ie limited to the amount (if any) unpaid on the shares held by company shareholders;
- 2 a company limited by guarantee, ie each shareholder guarantees a specified contribution if the company is wound up;
- 3 a company limited by both shares and guarantee;
- 4 an unlimited company, ie no limit is placed on the liability of shareholders; or
- 5 a no liability company (in the case of mining companies) ie the company does not have a contractual right to recover calls made upon its shares from a shareholder who defaults in payment of those calls. Such a company bears the suffix 'No Liability' or 'NL'.

A company formed outside Australia and the external Territories that is registered under the uniform Companies Acts is included in this type of incorporated entity (generally such companies must be so registered in order to carry out business in Australia).

Companies may be public companies or proprietary companies. Proprietary companies are distinguished from public companies by the fact that they may have only a limited number of shareholders, generally not more than fifty, excluding employees, and the rights of the shareholders to transfer their shares are restricted. In addition, shares of proprietary companies are not open to public subscription. An exempt proprietary company, is a proprietary company, no share in which is deemed to be owned by a public company. An exempt proprietary company is not required to appoint an auditor.

A limited liability company has the suffix 'Limited' ('Ltd') or 'Proprietary Limited' ('Pty Ltd') where the company is a public or proprietary company respectively. (However, charitable and other non-profit companies may be authorized to omit the word 'Limited').

ii entities incorporated under other 'generalised' Parliamentary Acts (eg under the Associations Incorporation Acts, Co-operative Societies Acts and the Mining Companies Acts)

Although, in terms of conferring legal status, some such Acts do no more than provide for registration or recognition of an entity (eg most Friendly Societies Acts only provide for registration and not incorporation of such organisations), the entities concerned generally behave as if they are 'legal entities', at least in respect of matters of statistical concern.

iii entities incorporated under a special Act of Parliament, (eg those Acts relating to Royal Agricultural Societies and racing clubs)

iv entities incorporated under Royal Charter.

b Unincorporated entities

i sole proprietorship - an individual person owning and operating a business or businesses. The business activities of an individual are seen as a statistical legal entity.

ii partnership - the relationship which exists between two or more entities carrying on business in common with a view to profit. A partnership generally cannot consist of more than twenty members (limits for professional partnerships are stipulated in the uniform companies legislation, eg for accountants - 200 members and for barristers and solicitors - 100 members). The partnership is seen as a 'legal entity' for statistical purposes even though, legally, each partner is individually liable. However, 'limited' partnerships exist which limit the liability of 'limited' partner(s). Partnerships may exist between incorporated and/or unincorporated entities.

iii joint venture - an agreement between legal entities to jointly undertake a particular project. Joint ventures are unincorporated joint arrangements and have similarities to partnerships. They are not regarded as undertaking 'business in common', which distinguishes joint ventures from partnerships, ie the participants in an (unincorporated) joint venture share costs up to the stage of production or output and then each participant deals with its share of the output independently. With one exception, joint ventures are each treated as legal entities in their own right. The exception relates to mining exploration joint ventures which are not treated as legal entities, due to the rapidity with which these joint ventures can be set up, changed in composition or broken up. The activities of these joint ventures are regarded as merely extensions of the activities of the participating legal entities. Obviously, where a company is created to undertake a particular project then it is a separate legal entity in its own right, as is a company formed to manage a joint venture.

iv trust - a 'trust' is simply a general term used to describe a whole range of trust obligations, as normally set out in a trust deed, binding one or more trustees to deal with trust property for the beneficiaries of the trust. Several types of trust exist, including discretionary and unit trusts. A trust is regarded as a unit of statistical interest and as such is a statistical legal entity. However, trusts are 'linked' in a (strictly) legal and operational sense to a trustee and in integrated economic statistics a trust and its trustee are linked together to facilitate the identification of the trust. Trustees which operate in their own right are, in addition to the 'trust link', included in the system as separate legal entities.

v other unincorporated entities - these are unincorporated associations and organisations which are generally involved in social, sporting, charitable and other community activities. Professional and trade associations may also be unincorporated. Such of the entities in this category which behave as if they are strict legal entities, at least in respect of matters of statistical interest, are treated as legal entities.

4.2.2.5 The concept of a legal entity, when applied in the public sector, requires further elaboration. In addition to the registered companies owned and/or controlled by governments, which have a direct parallel in the private sector, the following other entities are recognised as legal entities in the public sector:

1 'statutory entities', which are entities established by the Constitution, by an Act of Parliament of the Commonwealth or one of the States, or by an ordinance of the Australian Capital Territory; they include the Governor-General and the Governor of each State, each house of the parliaments of the Commonwealth and each State and each court of law; the concept is not restricted to entities created as bodies corporate but includes any other entity which is described in legislation as having been established by that legislation; also included are entities established under legislation which provides for the establishment of a class of entities (eg local government authorities) rather than for each entity individually; the concept also includes entities which are created as statutory offices held by individual persons or statutory bodies comprised of several statutory offices named in the legislation;

2 'departmental entities', which are entities created as 'Departments of State' (including sub-departments in Western Australia and Queensland, 'administrative offices' in New South Wales and the so-called 'parliamentary departments' in the Commonwealth and those States where they occur) by the instrument (eg proclamation, Executive Council order - refer Appendix B for details) required by legislation in the Commonwealth and each State; however, for statistical purposes, 'departmental entities' exclude any statutory entities which may be named as part of a department in the instrument of creation.

## 4.3 Enterprise Unit

### 4.3.1 Definition and Elaboration

#### Short Definition

4.3.1.1 In general, an enterprise is defined as a unit covering all the operations in Australia of a single operating legal entity.

4.3.1.2 The above definition applies to both the private and public sectors. However, provision is made in certain circumstances for legal entities to be merged to form an enterprise and in certain other circumstances legal entities may be split to form more than one enterprise. The circumstances under which these variations to the general concept are permitted are described below. For the purpose of defining enterprise units it is also necessary to elaborate on what is meant by 'all the operations in Australia'. This is done below under the heading 'residence'.

#### Merging of Legal Entities

4.3.1.3 The word 'operating' is specified in the enterprise unit definition so that legal entities which have no employees and conduct no business (ie 'non-operating' legal entities) are not, subject to the exceptions in paragraph 4.3.1.5 below, treated as separate enterprises. Companies that are non-operating, except those specified in paragraph 4.3.1.5, are merged with an individual related operating company to form an enterprise. ('Related' here means part of the same enterprise group - see definition in Part 4.4 below.) Non-operating legal entities which are not 'related' to another legal entity and which are not covered by paragraphs 4.3.1.5-6 below are not currently included in the system.

4.3.1.4 The merging of legal entities to form enterprises is also permitted in other cases. For example, companies for which no separate records or accounts are maintained (ie no separate accounts for management purposes - disregarding minimum accounts for taxation or company registration purposes) are generally merged with a related operating company in the group to form one statistical enterprise.

4.3.1.5 However, the following types of companies cannot be merged with another to form an enterprise and are always treated as separate enterprises in their own right:

a companies which could be regarded as non-operating because they have no employees of their own but which belong in the institutional sector 'Financial Enterprises' in the SISCA, eg hire purchase or other instalment credit companies, companies formed to operate superannuation schemes and investment companies holding shares in companies outside the enterprise group; and

b holding or property-owning companies which may or may not have employees.

4.3.1.6 Similar merging concepts as those outlined above apply also to types of enterprises which are specific to the public sector. Statutory entities must be shown to 'operate as a separate unit' from any department with which they are associated in order to be treated as a separate enterprise; the definition of what constitutes 'operating as a separate unit' is not specified, but at least two criteria have to be satisfied: separate accounts must be available for the unit and staff must mainly be engaged on the functions of the unit. If these criteria are not satisfied the statutory entity is merged with the department to which it 'belongs', to form an enterprise. Most courts of law are treated this way since in general, they do not have full, separate accounts available for the court as such. Thus, in general, courts of law are merged with the department which administers them.

#### Splitting of Legal Entities

4.3.1.7 As outlined in Chapter 3 the general objectives for defining the enterprise unit require that enterprises be units which are reasonably homogeneous in terms of the institutional sectors defined in the SISCA. It has therefore been found necessary to apply rules to permit the splitting of legal entities to meet this requirement. The relevant splitting rules are described below.

4.3.1.8 In the public sector, in a number of significant cases, the general enterprise definition gives units which cut across the boundary between the institutional sectors 'Corporate Trading Enterprises' and 'General Government Enterprises'. Two types of cases occur:

i Cases which are significant numerically and in aggregate but not always individually; these are mainly 'trading undertakings' belonging to local government authorities, and

Cases which are few in number but individually of statistical significance.

'Statistical significance' in this context refers to the difference in effect on statistics classified by institutional sector if the existing enterprise definition was retained compared to varying it in some way to 'split out' the cases referred to above.

4.3.1.9 As a result, legal entities which engage in activities classifiable to the 'Public Trading Enterprises' or 'Public Financial Enterprises' institutional sub-sectors and also in activities classifiable to the 'General Government Enterprises' institutional sector are split into separate enterprises if the following circumstances apply:

a The legal entity is a Local Government Authority with any of the following types of trading undertaking classifiable to the 'Public Trading Enterprises' sub-sector:

- i electricity undertakings,
- ii gas undertakings,
- iii abattoir undertakings,
- iv bus transport undertakings,
- v water supply undertakings with a total annual current expenditure for all such undertakings greater than \$50,000 measured in 1977-78 prices,
- vi sewerage undertakings with a total annual current expenditure for all such undertakings greater than \$50,000 measured in 1977-78 prices, or
- vii any other trading undertaking with annual revenue greater than \$500,000 measured in 1977-78 prices

Where the above circumstances apply, the legal entity is split into separate enterprises, one for each of the types of undertaking listed above which exist (ie one enterprise for all electricity undertakings, one enterprise for all gas undertakings and so on) and one for the balance of the entity.

b The scale of operations of the institutional sector/sub-sector which is of secondary importance to the legal entity is as follows:

i annual revenue classifiable to the 'Public Trading Enterprises' or the 'Public Financial Enterprises' sub-sectors is in excess of \$2,000,000 measured in 1977-78 prices; or

ii annual purchases of goods and services classifiable to the 'General Government Enterprises' sector is in excess of \$2,000,000 measured in 1977-78 prices.

Where the above circumstances apply, the legal entity is split into two separate enterprises, one incorporating the secondary activities and the other being the balance of the legal entity. However, in some circumstances the legal entity may be split into more than two enterprises where this accords better with the organisational or accounting structure of the entity. It should be noted that the splitting rules thresholds which were established using the, at the time, latest available data are expressed in terms of 1977-78 values. The thresholds will be periodically reviewed and updated to more current prices.

4.3.1.10 In addition, legal entities which are self-financing non-profit institutions and which are engaged in both trading and non-profit activities, are split into a trading enterprise and a non-profit institution if the smaller of the following exceeds a significant amount (yet to be determined):

. annual gross profit or operating surplus (ie sales and other trading income less purchases of trading stock); or

. annual gross non-trading receipts (ie membership fees, donations and grants).

4.3.1.11 It should also be noted that in relation to households, an unincorporated enterprise which is owned by an individual or individuals is the appropriate statistical unit in integrated economic statistics.

## Residence

4.3.1.12 In relation to the concept of 'residence', the term 'Australia' covers the domestic territory of Australia, which is considered to consist of all land lying within its political frontiers (including, for example, Lord Howe Island), its territorial seas and any international waters over which it has exclusive jurisdiction. It does not include Australia's external territories (eg Norfolk Island, Christmas Island). In principle, the residents of Australia consist of those economic entities which have a closer association with the 'territory' of Australia than with any other territory. An outline of the operational approach to this concept in Australia follows.

4.3.1.13 Residents of Australia consist of businesses and general government and private non-profit bodies which operate within the domestic territory of Australia, as well as all individuals who may be expected to consume goods and services or participate in production in that territory on a permanent basis.

4.3.1.14 A single legal entity with operations in more than one country is considered to have separate enterprises in each of the economies in which it operates. Thus a foreign company with operations in Australia is considered to have an Australian branch (unless it incorporates a separate company within Australia). Similarly the operation of an Australian company in another country is regarded as a branch enterprise in that country.

4.3.1.15 Embassies, consulates, military 'establishments' and other entities of general government located abroad are treated as resident units, ie the production, fixed capital formation and other transactions (except in land) are included in Australian domestic territory; similar 'establishments' of other countries located within Australia are treated as non-resident units.

4.3.1.16 In relation to individuals, foreign diplomatic and military personnel (and their dependents) stationed in Australia are viewed as residents of the country in which they normally live (ie have their general centre of interest). Employees (other than those with diplomatic status) of international bodies of which the members are governments (eg the UN) who are stationed within Australia for one year or more are treated as residents of Australia.

4.3.1.17 The operation of foreign owned mobile equipment (eg ships, aircraft, drilling rigs) in Australia for one year or more, is considered to be a resident activity and international transactions concerned with the operation of the equipment are therefore attributed to a resident enterprise. That enterprise may be an actual or notional unit. In cases where mobile equipment operates in more than one economy during the year or moves frequently between countries (eg ships and aircraft on international routes), the operation is attributed to the enterprise responsible for directing and organising the services involved. The residence of that enterprise is determined in accordance with the principles set out in the preceding paragraphs.

4.3.1.18 International bodies with a presence in Australia and which do not qualify as trading or financial enterprises are treated as non-resident units (but note the treatment of their employees - see paragraph 4.3.1.16 above). In contrast, international bodies which do engage in production of goods and services within Australia are treated in the same way as other businesses.

#### 4.4 Enterprise Group Unit

##### 4.4.1 Definition and Elaboration

###### Short Definition

4.4.1.1 An enterprise group is defined as a unit covering all the operations in Australia of a group of companies which are related in terms of the uniform Companies Acts. All other enterprises are, in general, treated as single enterprise, enterprise groups.

###### Elaboration

4.4.1.2 This definition is a narrow interpretation of the general concept, which is generally expressed as a group of legal entities under common ownership or control. The main reason behind the restriction to this narrow interpretation of 'common ownership or control' is that most of the other situations where common control of legal entities might be seen to exist are not capable of being captured in one or a few, unambiguous rules which can be applied with uniformity and objectivity. A more detailed explanation follows of the meaning of 'related in terms of the uniform Companies Acts'.

4.4.1.3 According to the Commonwealth (ACT) Companies Act 1981, for example, 'corporation' means any body corporate, whether formed or incorporated within or outside the Territory, and includes any company, any foreign company and any recognized company (each as defined in the Act) but does not include:

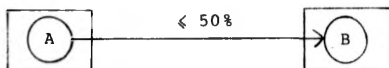
- a a body corporate that is incorporated within Australia or an external Territory and is a public authority or an instrumentality or agency of the Crown;
- b a corporation sole (an incorporated body which is an office held by a person who is replaced in succession);
- c a society registered under the Co-operative Societies Ordinance 1939; or
- d an association, society, institution or body incorporated under the Associations Incorporation Ordinance 1953.

4.4.1.4 The relevant section of each of the uniform Companies Acts is that which concerns subsidiaries, holding companies and related corporations. (Section 7 is the relevant section in the Commonwealth (ACT) Companies Act and it is shown in Appendix C). In this section of the Acts subsidiaries are defined in terms of:

- i majority shareholdings (of voting shares);
- ii control of the composition of the board of directors; and
- iii the majority of votes cast at a general meeting of a corporation.

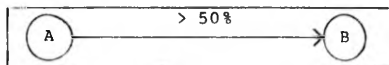
In practice, in integrated economic statistics, 'common ownership or control' relates to holding companies and subsidiary companies linked in the above way. All other enterprises (other than those public sector enterprises outlined in paragraphs 4.4.1.6-7), whether incorporated or unincorporated, are treated as single enterprise, enterprise groups. Examples of the treatment of potential enterprise groups in respect of the most common criterion, ie ownership of shares, are outlined below:

- a Company A owns 50% or less of Company B.



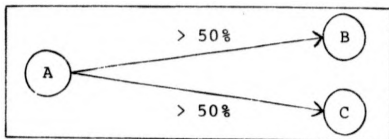
Result: 2 Single enterprise, enterprise groups.

- b Company A owns more than 50% of Company B.



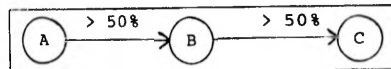
Result: 1 Multi enterprise, enterprise group.

- c Company A owns more than 50% of Companies B and C.



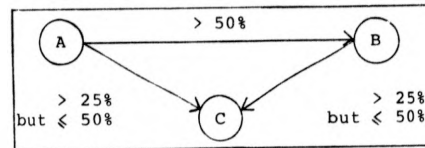
Result: 1 Multi enterprise, enterprise group.

- d Company A owns more than 50% of Company B and Company B owns more than 50% of Company C.



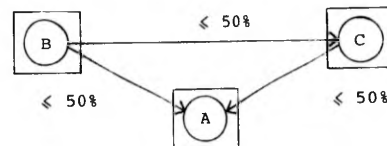
Result: 1 Multi enterprise, enterprise group.

- e Company A owns more than 50% of Company B. A and B each owns more than 25% but 50% or less of Company C.



Result: 1 Multi enterprise, enterprise group. NB This results from applying the third criterion above, ie Company A achieves control of Company C via the use of voting rights held by Company's A and B.

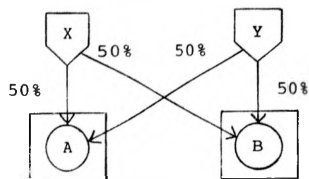
- f Company B owns 50% or less of Company C and Companies B and C each own 50% or less of Company A.



Result: 3 single enterprise, enterprise groups.

g Two companies are 'effectively' owned and controlled by the same group of individuals.

Persons



Companies

Result: 2 single enterprise, enterprise groups. This relationship between companies and individuals is not recognised as an enterprise group relationship. Even if X and Y were companies these entities would not be related since majority ownership by X or Y does not exist.

4.4.1.5 Joint ventures are a special type of unincorporated joint arrangement which have many similarities to partnerships - another form of unincorporated joint arrangement. Joint ventures other than mining exploration joint ventures are considered to be separate legal entities (see paragraph 4.2.2.4). Currently such enterprises are not treated as being related to any of the joint venturers and are therefore single enterprise, enterprise groups. The same rule applies to partnerships of companies.

4.4.1.6 For the public sector the control links which exist are complex and not well defined, so that no attempt has been made to define 'common control'. Consequently, with a few exceptions, each enterprise in the public sector is, by convention, treated as a single enterprise, enterprise group. However, public sector enterprises which are related companies in terms of the Companies Acts are treated as part of the one enterprise group. In addition, as a logical extension of this, any other public sector enterprise which, according to law, is entitled to hold property in its own name, (eg the legislation establishing the enterprise specifies such), together with any registered companies which are the equivalents of subsidiaries of the enterprise (as defined in the Companies Acts), constitute an enterprise group. It is important that the enterprise which apparently owns the majority of shares in a registered company is legally entitled to do so. For example, it is possible that the shares are 'owned' only notionally by a public sector enterprise, which has no legal entitlement to own property, in which case the shares would be considered to be owned by the 'government' in general, rather than a particular enterprise. If such is the case the registered companies are each treated as a single enterprise, enterprise group.

4.4.1.7 A further exception arises from the decision to split public sector legal entities which include elements engaged in activities classifiable to different institutional sectors (see paragraphs 4.3.1.7-9 above). The separate enterprises created from a legal entity are regarded as being under the common control of that entity. Thus, public sector enterprises which are created from the same statutory or departmental entity are regarded as part of the one enterprise group, which is coextensive with the original entity.

#### 4.5 Owning and Financing Units Decisions

4.5.1 Strict application of the foregoing general definitions and working rules may give rise to situations which are not practical from a statistical viewpoint and other cases arise which require further elaboration. Thus, the general definitions and working rules require modification or elaboration in some cases. Units decisions of this type currently in force are described below:

a Companies, the Majority of the Expenses of Which are Paid by a Related Company.

4.5.2 This case relates to companies which have sales, other income etc, but which do not have any (or very few) expense items as all, or the majority of their expenses are met by a related company.

4.5.3 The main consideration is whether any action to impute statistical data to account for the 'missing' transactions will create more conceptual problems than it solves, and would in fact create an even more 'artificial' situation than would be created by accepting the data 'as reported'. Arrangements such as these are generally not considered to qualify for merging each such company with a related operating company to form a separate enterprise under the rules described in paragraphs 4.3.1.3-6. (In some cases it may be appropriate to merge the relevant companies). Overall, decisions are made on a case by case basis.

b Enterprises within the Constitutional Category - The Legislature.

4.5.4 The constitutional categories are:

- a The Executive
- b The Legislature
- c The Judiciary, and
- d The Administration.

The parliaments, both Commonwealth and State, come under the Legislature grouping. Each house of each parliament is treated as a separate enterprise since each is a separate statutory entity. Each enterprise comprises the members of parliament and their non-departmental staff. Non-departmental staff include those employees paid by members from their allowance as well as those paid direct from the Consolidated Revenue Fund.

4.5.5 Members may employ additional staff to those mentioned above. This is a private arrangement made by the members and is financed by the members themselves. In this case each member of parliament employing their own staff is regarded as a separate enterprise.

4.5.6 In practice the occurrence of such cases is spasmodic and it is difficult to maintain comprehensive and accurate coverage of them on the Integrated Register. For this reason, only those cases are recorded which come to notice and clearly fit the definitions.

## CHAPTER 5 DEFINITIONS OF PRODUCING UNITS IN THE AUSTRALIAN SYSTEM

### 5.1 Introduction

5.1.1 The objective of this chapter is to outline the definitions of producing units in the Australian system of integrated economic statistics, to list the working rules which support the application of these definitions, including accepted variations to the definitions and to record decisions of a general nature on interpretation of the definitions and rules which have been made since the integrated system was introduced. Finally, Part 5.5 of the chapter is devoted to two cases where special rules apply to selected enterprises.

5.1.2 As outlined in Chapter 2, producing units are concerned with the flow of goods and services in an economy and are the appropriate units of observation for basically the production accounts of the national accounts. The SNA considers that businesses and institutions should be divided into narrower, more homogeneous producing units in order to delineate each of the functional sectors and to separate the activities of households as producers from their activities as consumers. Furthermore, both the SNA and the ISIC recommend that such units are required in order to classify producers by the major kind of activity in which they are engaged. The main types of statistical data of relevance for such units in an integrated system of economic statistics are the data associated with production and capital formation (see paragraph 3.4.6.8 for further details).

5.1.3 The producing units in the Australian system have been defined on the basis of the conceptual and practical considerations outlined in Chapter 3. Two levels of producing unit are recognised in the Australian system: the location unit (which is a 'real world' unit but may also be employed as a statistical unit), and the basic statistical units, the establishment and the ancillary unit. Establishments and ancillary units are defined in terms of location units to ensure that they are clearly and consistently delimited. The establishment is the producing unit of chief concern in integrated economic statistics. The relationships between these units are reflected on the Integrated Register as indicated briefly in Part 3.5 and in detail in Integrated Register procedures documentation.

5.1.4 The working rules outlined in this chapter basically relate to:

- a the elaboration of the location unit definition;
- b combining locations in certain circumstances for practical reasons to form establishments in industries for which the single location is the establishment unit;
- c splitting establishments in certain circumstances to ensure reasonable industry homogeneity in integrated economic statistics; and
- d appropriately treating locations, in various situations, which might potentially be ancillary units.

For a detailed explanation of industries in Australia, refer to the Australian Standard Industrial Classification, 1983 (ASIC).

The special rules outlined in Part 5.5 relate to selected, large enterprises which:

- i are engaged in activities which are primary to industries for which multi-location establishments are defined (the rules apply only to those industries investigated so far); and
- ii have a divisional accounting structure and cannot report according to standard location-based units.

## 5.2 Location Unit

### 5.2.1 Introduction

5.2.1.1 As outlined above, the location unit is a real world unit which is the building block from which establishments and ancillary units are formed. Where it has been necessary to define establishment units which are combinations of locations, the location unit can be used as a supplementary statistical unit for which a limited range of data, eg employment, wages and salaries, can generally be collected in order to satisfy some of the requirements for small area statistics. The concept of a location is that of a single, unbroken area owned and/or occupied by an enterprise. Residences of households, ie locations of such units used for demographic statistics purposes, are excluded (but see also paragraph 5.2.2.8 below). For practical purposes, this broadly stated concept requires further delineation. Accordingly, the short definition of a location, an elaboration of the definition and specific location unit decisions follow.

### 5.2.2 Definition and Elaboration

#### Short Definition

5.2.2.1 A location is a single, unbroken physical area, occupied by an enterprise, at which, or from which, the enterprise is engaged in productive activity on a relatively permanent basis, or at which the enterprise is undertaking capital expenditure with the intention of commencing productive activity on a relatively permanent basis at some time in the future (a location not yet in operation).

#### Elaboration

5.2.2.2 Included in the above short definition is a set of general requirements which have to be met for a location to be recognised as a unit. These relate to the delimitation of the unbroken physical area of the location, the nature of its legal occupation by the enterprise and the nature of the activity carried out by the enterprise. These requirements are explained in more detail in the following paragraphs.

#### a Unbroken Physical Area

5.2.2.3 The requirement in this respect is that the area should not be intersected by a road, waterway, or other public thoroughfare, or by another area owned or occupied by some other enterprise.

5.2.2.4 In built-up areas some reliance has been placed on the existence of separate street numbers to define separate locations ie where the boundary of the productive activity can be delineated by the address. Less clear-cut examples are offices occupied by different enterprises in a multi-tenanted building and shops occupied by different enterprises in a retail shopping mall. Non-contiguous spaces of an enterprise in a building, such as two or more physically separate office areas, which are operated as a single economic unit are usually treated, by convention, as a single location.

#### b Occupation

5.2.2.5 The requirement in this respect is for the enterprise to have a legal right (eg as owner or lessee) to occupy and use the area on a relatively permanent basis.

5.2.2.6 As a general rule, locations are not recognised unless an enterprise has a relatively permanent workforce based at the area in question. Thus, unmanned areas and unmanned capital assets (such as pipelines maintained by a manned base of operations elsewhere) while meeting the criteria for definition as a location, are generally not recognised as such. Two exceptions are locations not yet in operation (where capital expenditure is being incurred but employees of the owning enterprise may not yet be working) and unmanned warehouses (where significant stocks of goods may be held). Both of these examples are generally recognised as locations.

5.2.2.7 In some cases occupancy of the same physical area may be shared by several enterprises, in which case a location may be defined for each occupant, which has the same physical dimensions in each case. However, where the operation at a physical area is carried out by the workforce of one enterprise, on a contract or agency basis for another enterprise, various treatments can apply. These situations, along with corresponding location unit decisions are outlined below in paragraphs 5.2.3.2-4. On the other hand, areas or spaces owned by one enterprise but leased to another enterprise or enterprises are generally not recognised as locations of the lessor enterprise. (In such cases the productive activity of the lessor enterprise is seen as being based at an office or some other location where the enterprise arranges the lease).

5.2.2.8 In the case of operations carried out by a mobile work force, such as travelling sales representatives, timber getters, truck owner-drivers, construction workers, etc, although their production activity is carried out over a wide area, these workers and their production are attributed to the location which is their relatively permanent base of operations. In general, building sites and other sites at which an enterprise is carrying out work on the property of another enterprise, are not regarded as locations of the enterprise doing the work unless it establishes a relatively permanent base of operations at the site (ie the operations are controlled/managed at the site on a relatively permanent basis). Where individual employees operate from private homes but are controlled from some other location, the location from which they are controlled rather than their homes is treated as their base of operations. However, where individuals work at home (or use their homes as operating bases) on their own account, the home address is regarded as a location. Further, in some cases locations need to be recognised to accommodate economic activity which has no permanent base of operations. For example, in the case of an enterprise operating a fishing vessel the location to be recognised may need to be an office in the general port area or perhaps the home address of a sole proprietor or the registered office of a company operation.

c Productive Activity

5.2.2.9 The requirement in this respect is that the enterprise must be engaged in the production of goods and/or services at the location or the enterprise must use it as a base of operations from which a mobile workforce operates to produce goods and/or services elsewhere. Production in this context includes not only the production of goods and/or services for sale to other enterprises, private households or for transfer to other locations of the same enterprise but also the production of goods and/or services by non-profit organisations and governments free of charge, as well as production of capital goods, such as the construction of a new factory, by enterprises for their own use, or for rental or lease to other enterprises.

5.2.3 Location Unit Decisions

5.2.3.1 Strict application of the foregoing general definition sometimes gives rise to situations which are not practical from a statistical viewpoint, so that the general definition requires modification in such cases. Consequent location unit decisions follow.

a Joint Operations at an Unbroken Physical Area

5.2.3.2 Where the operation at a single physical area is carried out by the workforce of one enterprise, on a contract or agency basis for another enterprise, there are a variety of situations which can apply with regard to the involvements of each enterprise in the productive activity at the area concerned. Each situation can be defined in terms of factors such as the ownership (or leasehold) of assets and/or the responsibility for negotiating and funding purchases, receipt of income from sales and provision of employment. It should be noted that this specific location decision relates to cases where only one enterprise 'owns' or is responsible for, each of the factors involved. Depending on these situations, a location unit may be created for either of the enterprises concerned, or in some cases a location is recognised for both enterprises. In considering the various situations it is necessary to draw a distinction between mining areas and other areas because, in the case of mining, the mining (production) lease (ie the right to mine the site) should always be in the same hands as the enterprise 'responsible for' purchases, sales, and stocks.

5.2.3.3 The factors relating to each enterprise which are taken into account, are as follows:

NON-MINING AREAS

- i Ownership (or leasehold) of land and buildings
- ii Ownership (or leasehold) of plant and machinery
- iii Responsibility for purchases and receipt of income from sales, and ownership of stocks
- iv Responsibility for provision of employment

MINING AREAS

- i Ownership (or leasehold) of buildings and fixed equipment
- ii Ownership (or leasehold) of plant and machinery
- iii Ownership of mining lease, responsibility for purchases and receipt of income from sales, and ownership of stocks.
- iv Responsibility for provision of employment

5.2.3.4 The following tables relate to various situations in which two enterprises, A and B, are involved at the one area. Given that either A or B has to be involved in each of the 4 elements, there are 7 possible unique combinations that could exist and these are referred to as situations 1-7 in each table. Table 1 refers to non-mining areas and Table 2 to mining areas.

1 NON-MINING AREA AT WHICH ENTERPRISES A AND B ARE INVOLVED

SITUATION NUMBER	ENTERPRISE A'S INVOLVEMENT	ENTERPRISE B'S INVOLVEMENT	LOCATION DEFINED FOR
1	Land and buildings	Plant and machinery  Purchases, sales and stocks  Employment	B
2	Land and buildings  Plant and machinery	Purchases, sales and stocks  Employment	B
3	Land and buildings  Purchases, sales and stocks	Plant and machinery  Employment	B
4	Land and buildings  Employment	Plant and machinery  Purchases, sales and stocks	A
5	Land and buildings  Plant and machinery  Purchases, sales and stocks	Employment	A and B
6	Land and buildings  Plant and machinery  Employment	Purchases, sales and stocks	A

7	Land and buildings	Plant and machinery	A
	Purchases, sales and stocks		
	Employment		

2 MINING AREA AT WHICH ENTERPRISES A AND B ARE INVOLVED

SITUATION NUMBER	ENTERPRISE A'S INVOLVEMENT	ENTERPRISE B'S INVOLVEMENT	LOCATION DEFINED FOR
1	Buildings and equipment	Plant and machinery  Mining lease, purchases, sales and stocks  Employment	B
2	Buildings and equipment  Plant and machinery	Mining lease, purchases, sales and stocks  Employment	B
3	Buildings and equipment  Mining lease, purchases, sales and stocks	Plant and machinery  Employment	A and B
4	Buildings and equipment  Employment	Plant and machinery  Mining lease, purchases, sales and stocks	A and B
5	Buildings and equipment  Plant and machinery  Mining lease, purchases, sales and stocks	Employment	A and B
6	Buildings and equipment  Plant and machinery  Employment	Mining lease, purchases, sales and stocks	A

7	Buildings and equipment	Plant and machinery	A
	Mining lease, purchases, sales and stocks		
	Employment		

b Physically Distinct Operations of One Enterprise within One Unbroken Area

5.2.3.5 The general definition does not admit the recognition of a location for physically distinct operations of the one enterprise within the one unbroken area even though some such operations may be significant, either singly or collectively, in terms of their potential contribution to industry statistics. While application of the general rules for splitting (see paragraphs 5.3.1.11-20) might eventually result in separate identification of these operations in some cases, this will only occur if (and when) the location of which they form a part is included in an economic census or survey.

5.2.3.6 In practice, many such operations are reported by respondents (eg in ABS units coverage surveys) as separate locations. There is also a strong case to recognise them as separate locations where they are statistically significant, particularly if locations of which they form a part will only be included infrequently in economic censuses and surveys, or not at all. Therefore the unbroken area criterion is relaxed in certain cases where physically distinct operations within an unbroken area are judged to be statistically important either singly, or as a class. The instances where the criterion is relaxed are brought to notice on a case by case basis. This approach has been adopted due to the variability of relevant factors across all cases and because subjective judgements are involved in most cases. The cases brought to notice to date and the decisions there-on are as follows:

i Operations Within Railway Yards, Premises, etc

- Railway repair workshops (operated by rail authorities) are all treated as separate locations, if physically distinct within the railway yard area, since the class of units concerned is considered to be statistically important.

- Refreshment rooms operated by rail authorities within railway premises are not identified as separate locations since they are not considered sufficiently important, individually, or as a group.

- Retail shops operated by rail authorities within railway yards, premises, etc are not identified as separate locations, since they are not considered sufficiently important individually, or as a group.

#### ii Operations Within Airports

- Aircraft repair units (operated by airlines) are all identified as separate locations if physically distinct within the airport, since the class of units concerned is statistically important.

- Airline catering centres - each catering centre, operated by an airline, is treated as a separate location if physically distinct within the airport and statistically important, since the class of units concerned is not considered sufficiently important, but individual cases may be. In this instance the judgement as to what is 'statistically important' is made for each individual catering operation. It should be noted that some centres may 'cater' for other enterprises as well as the enterprise's own airline. Centre(s) recognised as location(s) are mainly engaged in food manufacturing whether it is predominantly for other enterprises or predominantly own-account. For cases where no separate location is identified, the activity would generally be ancillary to air transport since food preparation, where the food is served in the same establishment, is ancillary activity and not manufacturing activity.

#### iii Accommodation Areas in National Parks

Accommodation areas, operated by national parks authorities within these parks are not identified as separate locations on the grounds that they are not significant, individually or as a group.

#### iv Retail Shops In Caravan Parks

Some caravan parks have retail shops operated by the caravan park proprietor(s), within the caravan park. In such cases the whole caravan park is recognised as a location and not broken up since the retail activities, while physically distinct, are not considered statistically important, individually or as a group.

#### v Butchers' Shops in Abattoirs

Butchers' shops operated within abattoir premises by the abattoir proprietor(s) are not treated as separate locations. While physically distinct, the butchers' shops are not considered sufficiently important either individually or collectively, to warrant separate identification.

#### c Separate Plots of Land Operated as One Farm

5.2.3.7 In the case of agriculture, physically separate plots of land within the same or adjacent Statistical Local Areas (SLA's) which are operated as an integral part of a farm are not treated as separate locations, but as part of the main location comprising the whole farm establishment.

#### d Campuses of Universities and Colleges of Advanced Education

5.2.3.8 For these enterprises, a location, in respect of the main campus, is defined as an area unbroken by another area owned or occupied by another enterprise (and at which the university or college of advanced education enterprise is engaged in productive activity on a relatively permanent basis) ie the public thoroughfare restriction is lifted. Thus, operations separated from the main campus only by a road are treated as part of the main campus location while, outlying addresses of the enterprise, physically separated from the main campus, are recognised as separate locations.

#### e Pipeline Locations

5.2.3.9 Only relatively permanent (manned) bases of operations along the pipelines are identified as locations.

#### f Quarry Locations

5.2.3.10 Where one or more quarries are intermittently operated by the one enterprise within the one general area, eg quarries operated by a Local Government Authority, one location should be recognised per SLA. However, where continuing quarrying operations are carried out, a location should be identified for each unbroken area in question.

#### g Mineral and Petroleum Exploration Locations of Own Account Explorers

5.2.3.11 Each mineral or petroleum exploration lease of an own account mineral or petroleum exploration enterprise is treated, by convention, as a separate location. (Locations of contract exploration enterprises are delimited in accordance with the standard location definition.)

h Market Stalls, Opportunity Shops and Seasonal Business Locations

5.2.3.12 The areas pertaining to such operations, where operated on a regular basis (not on an occasional basis) should be recognised as locations. Seasonal businesses are always considered to operate on a regular basis. However, transient market stalls (which need not occupy the same site each week) should not be defined as separate locations, even where the stalls are operated on a regular basis. In such cases a base of operations, ie an address other than the stall operation, must be determined (eg the lessee's home) and treated as the location.

i Booths or Selling Points at Sporting Grounds, Showgrounds, etc

5.2.3.13 All booths or selling points of the one enterprise within the one sporting ground, or showground etc are regarded as constituting one location.

j Locations Not Yet in Operation

5.2.3.14 A location not yet in operation (LNYIO) is an unbroken physical area at which an enterprise undertakes capital expenditure with the intention of commencing productive activity on a relatively permanent basis at some time in the future.

5.2.3.15 Although such locations have not commenced operations they are recognised as producing units because economic activity is carried out at such areas. In essence LNYIO's differ from 'operating' producing units in that the former do not have any output to be marketed or any own-account production whereas the latter do. Each LNYIO is treated as an establishment, a component of an establishment or an ancillary unit depending on the main activity intended to be carried out at the area concerned.

5.2.3.16 It should be noted that all private sector LNYIO's at which there is an own-account construction base of operations are treated as two units, ie a LNYIO and a construction establishment. For the public sector, given that own-account construction activity is treated as ancillary activity (refer paragraph 5.4.2.9) and industry statistics are consequently not affected in such cases, only one unit is recognised. Establishment-type LNYIO's are industry classified according to the intended main activity of the location whereas LNYIO's which are ancillary units are classified according to the predominant industry of the establishments to be served by the unit concerned.

k Mines Operated on a Care and Maintenance Basis

5.2.3.17 Such mines are treated as locations as long as there is permanent employment at the mine concerned. If an enterprise undertakes capital expenditure with the intention of renewing the operation of the mine then the mine becomes a location not yet in operation prior to becoming an operating mining establishment.

### 5.3 Establishment Unit

#### 5.3.1 Definitions, Elaboration and General Working Rules

##### Short Definitions

5.3.1.1 Three establishment unit definitions are used in the Australian system of integrated economic statistics. These are:

- a Single Location (SL) unit, ie a unit covering all the operations of an enterprise conducted at or from a single location;
- b Enterprise/State/Industry (ESI) unit, ie a unit covering all the operations of an enterprise conducted at or from all of its locations in a State/Territory predominantly engaged in activities primary to a given industry; and
- c Enterprise/Industry (EI) unit, ie a unit covering all the operations of an enterprise conducted at or from all of its locations in Australia predominantly engaged in activities primary to a given industry.

5.3.1.2 In general, in the Australian system one of the above three units is the appropriate establishment unit for each industry defined in the ASIC, although there are variations within some industries between the definition applied to public sector units and that applied to private sector units. This is due to the fact that in an investigation carried out to determine definitions for the public sector, some industries were identified in which neither sector was insignificant and therefore a single unit definition for the industry concerned was not a necessary outcome. For some industries the SL unit applies by default, the necessary investigations to determine workable definitions having not yet been carried out.

5.3.1.3 It should also be pointed out that not all locations are SL establishments or part of ESI or EI establishments. Some are defined as ancillary units - see Part 5.4 below.

##### Application of the Definitions

5.3.1.4 The table in paragraph 5.3.1.7 below shows the establishment definitions which currently apply within broad industry groupings. With some exceptions the reference to an 'industry' in the case of multi-location establishment definitions (ie in the case of ESI and EI type establishments) is to the lowest level in the four-level structure within ASIC, ie industry class. The exceptions, which relate to transport and local government administration industries are discussed in the following paragraphs.

5.3.1.5 In the case of the road freight transport industry (ie ASIC Group 511) the establishment is defined, for each of the classes in that ASIC Group as a unit consisting of all locations in Australia of the one enterprise mainly engaged in road freight transport activities (ie in activities primary to ASIC Group 511). The establishment, so defined, is classified to industry class on the basis of its predominant activity (ie in accordance with usual procedures) and is subject to splitting (ie in accordance way if its secondary activity exceeds the general splitting limit (see paragraphs 5.3.1.11-20 for a description of splitting procedures).

5.3.1.6 For ASIC Class 7113, Local Government Administration, the establishment is defined as a unit consisting of all the locations of a 'local government administration' enterprise OTHER THAN its locations mainly engaged in activities primary to the following ASIC categories:

- a ASIC Divisions A (Agriculture, Forestry, Fishing and Hunting), B (Mining), C (Manufacturing) and F (Wholesale and Retail Trade)
- b ASIC Sub-divisions 82 (Education, Museum and Library Services) and 83 (Welfare and Religious Institutions)
- c ASIC Class 9144 (Sport and Recreation nec) and
- d ASIC Group 923 (Restaurants, Hotels and Accommodation).

Locations of 'local government administration' enterprises mainly engaged in activities primary to the above ASIC categories are subject to the standard rules for defining establishment units applicable to industries in these categories. In this context it is important to note that 'local government administration' establishments also may exclude locations mainly engaged in other trading activities because of the manner in which local government administration enterprises are defined (such local government administration enterprises exclude, by splitting relevant Local Government Authorities, those trading undertakings which are treated as separate enterprises - see paragraph 4.3.1.9).

Appendix D gives an example of the application of this definition to a Local Government Authority.

5.3.1.7 The establishment definitions applicable to private sector and public sector units in all industries are shown in the following table:

## APPLICATION OF ESTABLISHMENT UNIT DEFINITIONS

ASIC Industry Category	Private Sector (a)	Public Sector (a)
Division A - Agriculture, Forestry, Fishing and Hunting (excl. Classes 0206 and 0304)	SL	SL
Class 0206 - Services to Agriculture nec	SL	ESI
Class 0304 - Forestry and Services to Forestry	ESI	ESI
Division B - Mining (However, in the case of own account mineral exploration activities, carried out on non-producing leases, the establishment covers all non-producing leases of the enterprise within one State)	SL	SL
Division C - Manufacturing	SL	SL
Division D - Electricity, Gas and Water	ESI	ESI
Division E - Construction	SL	ESI
Division F - Wholesale and Retail Trade	SL	SL
Division G - Transport and Storage		
Group 511 - Road Freight Transport (Special Unit definition - refer paragraph 5.3.1.5)	EI	EI
Class 5121 - Long Distance Bus Transport	EI	EI
Class 5122 - Short Distance Bus Transport (Inc. Tramway)	ESI	ESI
Class 5123 - Taxi and Other Road Passenger Transport	SL	SL
Sub-division 52 - Rail Transport	EI	EI
Sub-division 53 - Water Transport (excl Class 5309)	EI	EI

## ASIC Industry Category

	Private Sector (a)	Public Sector (a)
Class 5309 - Inland Water Transport	ESI	ESI
Sub-division 54 - Air Transport	EI	EI
Sub-division 55 - Other Transport	EI	EI
Class 5711 - Motor Vehicle Hire	EI	EI
Class 5712 - Parking Services	SL	SL
Class 5713 - Services to Road Transport nec	SL	SL
Class 5721 - Stevedoring	SL	SL
Class 5722 - Water Transport Terminals	ESI	ESI
Class 5723 - Shipping Agents	SL	SL
Class 5724 - Services to Water Transport nec	ESI	ESI
Class 5730 - Services to Air Transport	EI	EI
Class 5741 - Travel Agency Services	SL	SL
Class 5742 - Freight Forwarding (Except Road)	EI	EI
Class 5743 - Customs Agency Services	SL	SL
Class 5744 - Other Services to Transport nec	SL	SL
Class 5801 - Grain Storage	ESI	ESI
Class 5802 - Cold Storage	SL	SL
Class 5803 - Storage nec	SL	SL
Division H - Communication	EI	EI
Division I - Finance, Property and Business Services		
Sub-division 61 - Finance and Investment	ESI	ESI
Sub-division 62 - Insurance and Services to Insurance	ESI	ESI
Group 631 - Real Estate Agents	SL	ESI
Group 632 - Real Estate Operators and Developers	SL	ESI
Class 6334 - Architectural Services	SL	SL
Class 6335 - Surveying Services	SL	ESI
Class 6336 - Technical Services nec	SL	ESI
Class 6371 - Legal Services	SL	ESI
Class 6372 - Accounting Services	SL	SL
Group 638 - Other Business Services (excl Class 6383)	SL	SL
Class 6383 - Market and Business Consultancy Services	SL	ESI

ASIC Industry Category	Private Sector (a)	Public Sector (a)
Group 639 - Plant Hire and Leasing nec	SL	SL
Division J - Public Administration and Defence		
Class 7111 - Federal Government Administration	(b) ..	ESI
Class 7112 - State Government Administration	..	ESI
Class 7113 - Local Government Administration (Special unit definition - refer paragraph 5.3.1.6)	..	ESI
Class 7120 - Justice	..	ESI
Class 7130 - Foreign Government Representation	..	SL
Class 7200 - Defence	..	EI
Division K - Community Services		
Group 814 - Hospitals and Nursing Homes	SL	SL
Group 815 - Other Health (excl Classes 8153 and 8154)	SL	ESI
Class 8153 - Dental Laboratories	SL	SL
Class 8154 - Optometry and Optical Dispensing	SL	SL
Class 8160 - Veterinary Services	SL	SL
Group 823 - School Education	SL	SL
Group 824 - Post School and Other Education	ESI	ESI
Group 825 - Libraries, Museums and Art Galleries	SL	SL
Group 830 - Welfare and Religious Institutions	SL	SL
Class 8461 - Research and Scientific Institutions	EI	EI
Class 8462 - Meteorological Services	ESI	ESI
Group 847 - Business and Labour Associations	SL	SL
Group 848 - Other Community Organisations	SL	SL
Class 8491 - Employment Services	SL	SL
Class 8492 - Police	..	ESI
Class 8493 - Prisons and Reformatories	..	SL
Class 8494 - Fire Brigades	ESI	ESI
Class 8495 - Sanitary and Garbage Disposal Services	SL	SL

ASIC Industry Category	Private Sector (a)	Public Sector (a)
Division L - Recreation, Personal and Other Services (excl Classes 9141-9143)	SL	SL
Class 9141 - Parks and Zoological Gardens	ESI	ESI
Class 9142 - Lotteries	ESI	ESI
Class 9143 - Gambling Services (except Lotteries)	ESI	ESI

(a) The meaning of the terms public sector and private sector is in accordance with the definitions of these sectors in the Standard Institutional Sector Classification of Australia (SISCA).

(b) .. means not applicable

## General Working Rules

5.3.1.8 The establishment definitions listed above are based on single locations or combinations of single locations. Although these establishment definitions can be applied in a majority of cases to delimit practical, realistically based and statistically appropriate establishments, there are, nevertheless, certain circumstances in which it is necessary to vary these definitions. Thus, in prescribed circumstances where data are not available from respondents to enable establishment units to be defined as single locations, rules have been devised to allow the establishments to be defined as combinations of locations. Similarly, in prescribed circumstances where the homogeneity of industry statistics in terms of the activities covered would be improved substantially, rules have been devised to allow establishments, which are substantially engaged in activities primary to two or more industries, to be split into two or more establishments. These rules for combining or splitting locations in the process of forming or re-forming establishment units are described below.

### General Rules for Combining Locations in Forming Establishments

5.3.1.9 For those industries for which a single location establishment unit has been defined, each separate location mainly engaged in activities primary to one of the industries concerned should generally be treated as a separate establishment. However, there are some specific circumstances in which separate locations may be combined to form such establishments. This treatment applies to two kinds of situations:

a Where one location is used merely to accommodate what is obviously an integral part of an establishment operating principally at another location 'close by' - eg. where because of shortage of space some part of an operation (such as, the printing department of a factory) is 'hived off' to a separate location.

b Where two (or more) locations, situated close by one another, are mainly engaged in activities primary to the same industry class and their operations are 'inextricably mixed', eg they have common employees and combined accounts, which make it obvious that they are operated as one entity. For example in ASIC Class 4862, Used Motor Vehicle Dealers, in ASIC Sub-division 48, Retail Trade, it might be found that two used-car yards are operated by the same sales staff and a customer who calls at one yard may be sold a vehicle from the stock at the second yard, and also that only one set of accounts is kept, covering the combined operations of the two yards. In the case of very small locations the operations would be regarded as 'inextricably mixed' if there were either no separate employees or no separate records; for larger locations both these criteria would have to be satisfied.

5.3.1.10 For cases of both kinds, locations are combined to form one establishment only when the locations are within the same SLA. Otherwise small area statistics would be affected. (This rule is modified where two locations are extremely close, eg on opposite sides of a street, and happen to be separated by an SLA boundary line.) The process of combining locations to form multi-location establishments in these circumstances is referred to in the statistical system as the 'absorption' of one location into an establishment mainly centred on another location.

### General Rules for Splitting Establishments

5.3.1.11 The rationale for splitting establishments with substantial activities in two or more industries into two or more establishments has its origin in the desire to have establishment units which are relatively homogeneous in terms of activity. This desire reflects the related aim to have statistical industries which are as homogeneous as possible in terms of activity carried out in the establishments comprising each industry. At the same time it is important to represent, as realistically as possible, the industries as they are actually organised and structured. These two aims (ie to have both homogeneous and realistic industries in the statistical framework) can conflict with each other.

5.3.1.12 The approach taken by the ABS on this issue is to give most weight to the need for realistic industries in the ASIC. Accordingly, the ABS has attempted to minimise the degree of artificiality in defining industries and units consistent with the needs for standardised and integrated statistics. The incidence of splitting of establishments into two or more establishments has, therefore, been kept low in an overall sense and is restricted to the kinds of situation described in the following paragraphs.

5.3.1.13 The situation in which establishments are split relates to cases where establishments engage on a large scale in activities primary to more than one ASIC industry class, ie where establishment operations are on a scale such that the activities which are primary to each industry class could be expected to be more commonly organised as separate establishments. For example, a single location establishment engaged both in large-scale production of women's skirts (primary to ASIC Class 2453) and large-scale production of men's trousers (primary to ASIC Class 2451) might be regarded as an exceptional case and split into two establishments, since each of these activities, if engaged in on a large scale, would more commonly be carried on at a separate location.

5.3.1.14 In assessing just what size limits should be applied in determining that activities are large in this sense, two factors have an important bearing. Firstly, there are the considerations outlined in paragraphs 5.3.1.11-12 above for minimising the degree of artificiality in defining units and industries. Secondly, in a considerable proportion of cases, it would be extremely difficult to obtain reliable data for establishments created by splitting. For these reasons it has been necessary to keep to manageable proportions the incidence of cases which are split, by determining a secondary activity size limit which is relatively high. This 'splitting limit' has been based on past experience and is specified as the value of an establishment's gross receipts from its secondary activities primary to one ASIC class. Gross receipts are equal to sales (or equivalent income) plus, where relevant, transfers to other establishments of the enterprise concerned. The limit is an indexed value, which in respect of 1984-85 was set at \$4.3m.

5.3.1.15 It is considered that splitting of establishments is most appropriate where the combination of activities engaged in comprises activities primary to more than one division of the ASIC. In cases where the combination of activities relates wholly to activities primary to the one division, splitting of establishments is considered less important in some ASIC divisions than in others. In accordance with the above approach the splitting criteria outlined below have been determined for application in integrated economic censuses and surveys.

a Establishments with Main and Secondary Activities in One ASIC Division

5.3.1.16 Secondary activities within an ASIC division are those which are primary to an ASIC class or classes within that division which are different to the ASIC class to which the main activity is primary. The splitting criteria in this category are as follows:

i DIVISION A: In view of the relatively small scale of operations of most producing units in this division, the ease with which many agricultural or fishing establishments can move into different fields of activity (within their respective sub-division), and the relatively specialised nature of some other establishments within this division (eg in the case of logging), it has been determined that secondary Division A activities of Division A establishments are not split out for treatment as separate establishments.

ii DIVISION B: In view of the very specialised nature of most mines in Australia no secondary Division B activities of Division B (ie mining) establishments are split out for treatment as separate mining establishments.

iii DIVISION C: Prima facie, a manufacturing establishment is split if the size of its secondary manufacturing activities equals or exceeds the designated splitting limit. In assessing the size of secondary manufacturing activities of a manufacturing establishment for splitting purposes, gross receipts from its secondary manufacturing (ie Division C) activities are linked to the ASIC classes to which they are primary and are then summed to class totals. If one of these 'secondary activity class totals' of the establishment equals or exceeds the designated splitting limit, the establishment is, prima facie, split into two establishments. If two of these 'secondary activity class totals' of the establishment each individually equal or exceed the designated splitting limit, the establishment is, prima facie, split into three establishments, etc. However, in certain situations, establishments within Division C are not split even though they would normally qualify for splitting on the basis of the size of their secondary activities. The situations referred to cover secondary activities arising due to material substitution in a production process or the sale or transfer of by-products. Material substitution occurs when an establishment uses the same processes or equipment and the same employees to produce very similar end products from different raw materials. Further, these raw materials are the basis of delineation of different ASIC classes. Instances of material substitution occur, for example, where establishments are engaged in the manufacture of fibres, yarns and fabrics.

iv DIVISION D: In view of the fact that hardly any establishments within this division engage in significant intra-divisional secondary activities no secondary Division D activities of Division D establishments are split out for treatment as separate establishments.

v DIVISION E: An establishment classified to one of the classes in Sub-division 41 is split if the size of its secondary construction activities equals or exceeds the designated splitting limit. In assessing the size of secondary construction activities for splitting purposes, gross receipts from the secondary construction (ie Division E) activities are linked to the ASIC classes to which they are primary and are summed to class totals. If one or more of these 'secondary activity class totals' of the establishment (including any in Sub-division 42) equals or exceeds the splitting limit, the establishment is split into two or more establishments. However, a construction establishment classified to one of the classes in Sub-division 42 is only split into further construction establishments if its secondary activities for particular ASIC classes in Sub-division 41 individually equal or exceed the designated splitting limit.

vi DIVISION F: Division F establishments are not split into further Division F establishments.

vii DIVISION G: Establishments classified to a class in Group 511, Road Freight Transport, with secondary activities primary to other classes within this group which individually exceed the splitting limit are split in accordance with the usual splitting procedures into further road freight transport establishments. Additionally, establishments within this division with secondary activities primary to classes in another industry sub-division within Division G which individually exceed the general splitting limit, are split according to the usual procedures. However, no other intradivisional establishment splits are made in the case of Division G establishments.

viii DIVISIONS H TO M: No intradivisional establishment splits are made in the case of establishments classified to these divisions.

b Establishments with Main and Secondary Activities in Different ASIC Divisions

5.3.1.17 If establishments classified to a class in one ASIC division have secondary activities which are primary to another ASIC division then the establishments are split if the size of the secondary activities in the other division equal or exceed the designated splitting limit. In assessing the size of the secondary activities in the other division for splitting purposes, gross receipts from these secondary activities are linked to the ASIC classes in the other division to which they are primary and are then summed to ASIC class totals. If one or more of these 'secondary activity class totals' in the other division individually equal or exceed the splitting limit, the establishment is normally split into two or more establishments. In view of the practical difficulties involved in identifying and valuing production which is not sold as such but which is used as input to another process in the same establishment this production is not taken into account in measuring the size of activities. Where an establishment has activities in more than one ASIC division and the secondary activities are in a division within which establishments are not normally split, only one establishment should be split off covering all the secondary activities in that division.

Application of the General Rules for Splitting Establishments

5.3.1.18 The way in which the foregoing splitting criteria are applied varies according to whether the establishment is a single or multi location establishment. Where the establishment comprises a single location, that location is split into separate parts, one for each of the establishments to be created or reconstituted. Where the establishment comprises more than one location, the following procedures apply:

a Where the establishment is classified to an industry for which establishments are generally defined as single location units, it will have been created as a multi-location establishment only through application of one of the working rules outlined in paragraphs 5.3.1.9-10 above. In such cases, in deciding if the establishment is to be subject to splitting, the secondary activities at each location are considered separately and each location at which the splitting criteria described in paragraphs 5.3.1.16-17 are met, is split and the split-off part or parts formed into a new or reconstituted establishment or establishments.

b Where an Enterprise/Industry (EI) or Enterprise/State/Industry (ESI) establishment qualifies for splitting according to the criteria described in paragraphs 5.3.1.16-17 above and the secondary activity is primary to an industry for which multi-location establishment units are defined, then that secondary activity in total (ie at all locations of the establishment where it occurs) is split out as a separate establishment or establishments, where relevant. Where the secondary activity is primary to an industry for which the single location is the defined establishment unit, this activity is split out only as separate (Single Location (SL)) establishment units from those locations where it exceeds the splitting limit.

5.3.1.19 The splitting criteria and rules described above are only relevant to existing establishments and are normally applied only during integrated economic census (or census equivalent survey) processing. Further, the splitting criteria are intended to operate as 'general' rules and can be waived or varied in certain circumstances, ie where their strict application would lead to a result which, on the basis of a consensus of qualitative assessments would be considered inappropriate. However, any proposals to vary the application of the criteria in particular cases are only permitted after examination and approval by the Classification Section of the ABS.

5.3.1.20 The detailed splitting procedures (which also provide for the application of resistance tests to inhibit changes to split establishments in response to minor and temporary shifts in activities) are contained in census specific procedural documents which also specify how establishments, which qualify for splitting, are to be split.

#### 5.3.2 Establishment Unit Decisions

5.3.2.1 Strict application of the foregoing general definitions and working rules sometimes gives rise to situations which are not practical from a statistical viewpoint and other cases require further elaboration in some cases. Units decisions of this type currently in force are described below:

a Certain Producing Units of Australian Resident Subsidiaries and Branches of Foreign Enterprises

5.3.2.2 The cases covered here are order-taking offices, purchasing offices and 'representative' offices of such enterprises. In each case, given that these locations are providing services to non-resident enterprises (even though the locations 'belong' to these enterprises), each such location is treated as an establishment rather than as an ancillary unit.

(NB If the resident enterprises concerned have other establishments in Australia, and the locations in question are mainly providing services to the Australian establishments, then the locations should be considered for treatment as ancillary units.)

b An Example of the Application of the Rules for Combining Locations

5.3.2.3 This case covers an enterprise operating a hotel and a bottle shop on opposite sides of a street. Each location is in a separate SLA and separate data are available for each location. Given the units rules involved each location should be treated as a separate establishment.

#### 5.4 Ancillary Unit (Including Administrative Offices)

##### 5.4.1 Introduction

5.4.1.1 The concept of the ancillary unit is that of a location mainly engaged in providing services to other locations in the same enterprise. In this respect it is similar to the concept of an administrative office as a location mainly engaged in providing administrative services to other locations in the same enterprise. The two concepts have been distinguished, however, because in many cases administrative offices not only provide services, but also provide policy direction and management; in view of the existence of such cases, the term 'ancillary unit' would not adequately convey the nature of the functions of administrative offices, and accordingly in the integrated statistical system that term is strictly applied only to locations mainly engaged in providing services other than administrative services. However, for the purposes of simplifying the exposition, the term 'ancillary unit' has been used as a convenient shorthand way of referring to both concepts. Likewise the term 'ancillary activity category' has been used to relate to administrative services as well as to other types of services.

5.4.1.2 The concept of the ancillary unit has its origin in the fact that it is common to find one economic activity being carried on in a 'service' or 'supporting' role to other activities in the same enterprise. This is particularly so with certain types of service activities, where the results of the activities do not actually form part of the 'end product' of the enterprise, nor do they form 'end products' in their own right. These administrative and service activities owe their whole existence to the other activities of the enterprise. Special treatment of locations mainly engaged in such activities is necessary. The short definition of an ancillary unit, an elaboration of the definition and details of related working rules follow.

##### 5.4.2 Definition, Elaboration and Working Rules

###### Short Definition

5.4.2.1 An ancillary unit is defined, in general, as a unit covering all the operations of an enterprise conducted at or from a single location where those operations are mainly the provision of services to other locations of the same enterprise.

## Elaboration and Working Rules

5.4.2.2 In the first instance it is necessary to determine if a location is mainly engaged in providing ancillary services. Where a location engaged in relevant administrative or service activities provides half or more of its services to other enterprises, it is regarded as an establishment in its own right. Where it provides more than half its services to other locations within the same enterprise, it is treated as an ancillary unit.

5.4.2.3 From the standpoint of industry classification, the essential difference between an establishment and an ancillary unit is that an establishment is classified to industry according to its own major activity, whereas an ancillary unit is not classified to industry on the basis of its own major activity, but is given a 'reflected' industry code corresponding to the industry which represents the predominant industry of the establishments administered or served by the ancillary unit. An ancillary unit which serves only one establishment is called a local ancillary unit (LAU) and one serving more than one establishment is called a central ancillary unit (CAU).

5.4.2.4 Locations which might potentially be ancillary units in the sense that they are predominantly engaged in the relevant kinds of service activities come to notice in three ways. Firstly, any location belonging to a multi-location enterprise and engaged predominantly in activities coming within certain defined common categories is treated as a potential ancillary unit and specifically examined to determine whether it meets the conditions for treatment as an establishment or as an ancillary unit. Locations in these categories are:

- i administrative offices
- ii storage depots, warehouses, etc
- iii laboratories
- iv transport depots
- v motor vehicle repair and maintenance workshops and
- vi producers' sales offices.

5.4.2.5 Secondly, provision is also made for any other kind of location (belonging to a multi-location enterprise) engaged mainly in service activities to be regarded as a potential ancillary unit and subjected to the specific tests if it happens to come to notice as apparently operating in an ancillary role; such cases are referred to as ancillary activity category (vii).

5.4.2.6 Thirdly, 'own-account' construction carried out by public sector enterprises, even though not strictly a service type activity, is treated as an ancillary activity (for a definition of this activity see paragraph 5.4.2.9 below). Such activity is referred to as ancillary category (viii).

5.4.2.7 Locations in categories (ii) to (v) and (vii) are treated as establishments if they have 50 percent or more of their transactions with other enterprises, and as ancillary units otherwise. Some exceptions to this rule, in the case of certain repair activities, are outlined in paragraphs 5.4.2.12-13.

5.4.2.8 With respect to category (vi), the term 'producers' sales offices' relates to sales offices that deal in goods produced by the same enterprise. Such sales offices, if separately located, are treated as establishments if they are mainly engaged in selling and supplying goods (produced by the same enterprise) from stocks physically held at their premises or from stocks under their control at some other premises. If these circumstances do not apply, eg the 'sales offices' are mere order taking offices or display centres, they are treated as ancillary units, as are, in general, sales offices of speculative builders. (Separately located 'sales offices', so called, which deal in goods produced by other enterprises are not considered here because they are always treated as establishments and classified accordingly.)

5.4.2.9 With respect to category (viii) the term 'public sector own-account construction' refers to the construction or maintenance of facilities used mainly and directly by the constructing public sector enterprises in producing or delivering their end product but not constituting part of their product as such, eg construction or maintenance of railway permanent way by a railway authority or construction or maintenance of sewerage mains by a sewerage authority. On the other hand, construction or maintenance of, for example, roads and bridges by a Department of Main Roads, or by Local Government Authorities, is not regarded as own-account because the work produces the enterprise's end-product, eg roads for use mainly and directly by the general public.

5.4.2.10 Where administrative or ancillary services are provided by a part of a location (an 'ancillary section'), these activities are not normally recognised as a separate unit of any type but are simply absorbed into the operations of the establishment or part of the establishment at which the ancillary section is located. Exceptions basically arise where 'distortion' of establishment data would occur if the ancillary section in question is not identified as an ancillary unit in its own right. (Refer Section 5.4.3 for a units decision in this respect).

5.4.2.11 In order to determine whether a location should be regarded as part of a multi-location establishment, as an establishment in its own right or as an LAU serving that establishment (ie based on the criteria outlined above) the following procedure is followed:

a Consider the location as if it were a 'single location' establishment and ascertain the major activity (in terms of industry);

b If the major activity of the location is primary to the same industry as that of the multi-location establishment the location would be serving if treated as an LAU, it is to be treated as a component location of that establishment;

c If the major activity is primary to a different industry it must be determined whether the transactions of the location are mostly conducted with other enterprises - if they are, the location is to be treated as a separate establishment or as part of a separate multi-location establishment (classified on the basis of predominant revenue-earning activity);

d If the major activity is primary to a different industry but less than half of the transactions of the location are conducted outside of the enterprise - the location should be treated as an LAU (except for special cases identified as 'captive' transport locations and treated as establishments - see paragraph 5.4.2.13) and classified to the industry of the establishment served.

5.4.2.12 As mentioned in paragraph 5.4.2.7, exceptions to the general approach of recognising ancillary units are made in the case of locations engaged in certain types of repair activities, which might come within the scope of ancillary activity category (vii) or, in some cases, of category (v). Exceptions also apply in the case of locations engaged in certain types of transport activity. In each of these cases the locations concerned may be treated as 'captive' establishments. The main criteria used to determine whether these locations are to be treated as 'captive' establishments are the significance of their activity compared to the same activity produced as non-captive output of other enterprises, the availability of the required range of data for the locations concerned (singly or in combination, depending on the establishment definition for the industry involved), and a clearly defined user requirement for inclusion of data relating to the locations with other data for the relevant industry.

5.4.2.13 The term 'captive' may be applied to units (eg 'captive transport establishments') or to activity (eg 'captive transport activity'). Selected locations mainly engaged in certain types of captive activity are treated (singly, or in combination) as captive establishments rather than as ancillary units. The locations regarded as special cases in this context and their treatments are as follows:

a ship repair yards

These are treated as establishments even if predominantly repairing the enterprise's own ships.

b aircraft repair workshops

These are treated as establishments even if predominantly repairing the enterprise's own aircraft.

c railway and tramway repair workshops -

These are treated as establishments even if predominantly repairing the enterprise's own equipment.

d motor vehicle repair workshops -

These are treated as establishments if mainly engaged in engine reconditioning, and as ancillary units if mainly engaged in repairing or maintaining (except engine reconditioning) the enterprise's own vehicles. (The latter activity is covered by 'ancillary activity category (v)').

e railway transport locations -

All locations of an enterprise mainly engaged in providing rail transport services to other establishments of the same enterprise amounting to greater than 700 million tonne-kilometres of freight carried per year, are treated as a captive railway establishment; all other captive railway locations are treated as ancillary units.

f water transport locations -

All locations of an enterprise mainly engaged in providing shipping services to other establishments of the same enterprise using a fleet of greater than 50,000 deadweight tonnes are treated as a captive shipping establishment; and all other captive shipping locations are treated as ancillary units.

### 5.4.3 Ancillary Unit Decisions

5.4.3.1 Strict application of the foregoing general definitions and working rules sometimes gives rise to situations which are not practical from a statistical viewpoint and other cases require further elaboration in some cases. Units decisions of this type currently in force are described below:

#### a Captive Pipelines

5.4.3.2 Another category examined as potentially appropriate to be treated as captive establishments was captive pipelines. However, it was decided that each own-account pipeline mainly serving a gas establishment (ASIC Class 3620) is to be treated as an integral, or separately located, part of the gas establishment rather than a separately identified ancillary unit or establishment. The same decision applies to captive pipelines in ASIC Sub-division 37 - Water, sewerage and drainage. All other own-account pipeline locations are treated as ancillary units.

#### b Splitting of Ancillary Units with Significant Establishment Type Activities or Establishments with Large Ancillary Sections

5.4.3.3 This decision covers the treatment of the following types of mixed activity locations:

i A location that is predominantly acting in an ancillary manner but has significant secondary 'establishment type' (ie revenue earning) activities; and

ii A location that is predominantly engaged in establishment type activities but has significant secondary 'ancillary type' activities.

It is considered appropriate to split such locations so as to minimise the effects of distortion in published statistics. Cases are considered on their merits but guidelines are provided below.

#### i Ancillary Units with Significant Establishment Type Activity

5.4.3.4 In this situation, where the value of revenue earning establishment type activity is greater than the current splitting value limit (1984-85=\$4.3m) and employment engaged in the ancillary activity is greater than (say) 100, consideration of whether or not to split the location is undertaken. In such instances the consequence of not splitting the location would generally be a distortion of the published statistics. Where a location is identified as having this type of mix of activities which is just below the limits nominated above, splitting is also considered where failure to do so could result in distortion of statistics.

#### ii Establishment Units with Significant Ancillary Activity

5.4.3.5 A case for splitting is warranted in this situation when it is considered that data relating to the ancillary activity would unduly distort establishment statistics. Typical of this would be the case of a head office establishment with a significant number of employees (say 100) engaged in the administrative activities carried on at that location.

## 5.5 Special Rules for Defining Producing Units for Selected Enterprises

### 5.5.1 Producing Units of Large Public Sector Enterprises

5.5.1.1 For selected large public sector enterprises the basic approach of defining producing units in terms of single locations or combinations of locations is varied to define units which more closely align with the way these enterprises are organised. Nevertheless, care is taken to ensure that the instances where locations are split is kept to a minimum and that the units defined can be related to the locations and part-locations from which they are formed.

5.5.1.2 For the purpose of applying this procedure, for all public sector enterprises, the number of persons engaged in activities primary to each of the industries for which the ESI or the EI establishment units are appropriate (refer paragraph 5.3.1.7) is determined for the enterprise as a whole. If the number of persons so-determined exceeds 100 for more than one of the industries listed, an establishment unit is formed for each such industry as follows:

a each location at which a mixture of activities primary to more than one of the industries concerned occurs, is split into separate parts mainly engaged in activities primary to each industry concerned, and

b each part-location and other location of the enterprise classified to the same industry class is combined to form an ESI or EI establishment unit, as appropriate for the industry concerned, determined from the table in paragraph 5.3.1.7 above.

(A diagrammatic example of these special rules is given in Appendix E.)

5.5.1.3 For the establishments so-formed, the ABS does, however, in accordance with normal practice accept data which approximates that required in respect of the defined unit, if readily available from the records of the enterprise (ie in situations where data precisely in accordance with the defined unit cannot be obtained).

5.5.1.4 It should be noted that the special rules outlined in section 5.5.2 below override the existing public sector special rules for divisionalised transport enterprises in the public sector. In due course it is proposed to review the application of the public sector special rules to all other public sector enterprises with a view to making it more consistent with the special rules for transport enterprises.

### 5.5.2 Producing Units of Divisionalised Transport Enterprises

#### Introduction

5.5.2.1 For the larger divisionalised enterprises engaged in transport activities, reporting data for the standard location-based establishments presents difficulties since all relevant accounting below the enterprise level is on a 'divisional' basis. Divisions are management and/or accounting units and are generally activity-specialised. They tend to operate at many locations, some of which may be shared with other divisions. Divisions, therefore, do not always coincide with location-based establishment definitions currently used in economic censuses and surveys. In order to provide establishment definitions for these enterprises which more closely match their accounting units, special establishment formation rules are applied, which use as a starting point the definition of an enterprise's divisions as establishments. The rules then incorporate some modification of this approach to bring the divisional unit closer to alignment with standard location-based establishment units. Divisionalised transport enterprises, as defined below, are the only units investigated in detail so far. Wider application of the rules to other than divisionalised transport enterprises is not proposed at this stage other than to review, in due course, the application of the public sector special rules in Section 5.5.1 in order to make it more consistent with these rules.

#### Definition of a Divisionalised Transport Enterprise

5.5.2.2 A divisionalised transport enterprise is defined as a large enterprise with divisional accounting records with at least one division mainly engaged in activities primary to modal transport or freight forwarding industries to which EI establishments apply (ASIC classes 5111-5114, 5121-5122, 5200, 5307-5309, 5405-5407, 5742), and which cannot report according to standard location-based establishment units.

## Size Cut-off

5.5.2.3 In defining the scope of divisionalised transport enterprises it was not necessary to apply a cut-off similar to that applied in the public sector due to the low incidence of divisionalised enterprises in the transport industry. The procedures outlined below are therefore applied to those private and public sector enterprises in the industry known to have divisionalised accounts and difficulty in reporting for standard location-based units.

### Special Producing Unit Formation Rules for Divisionalised Transport Enterprises

5.5.2.4 Special units formation rules are applied to divisionalised transport enterprises. The general aim of the procedures is to define multi-location transport establishment units which are co-extensive with the enterprises' divisions as far as possible. However, some limitations to this approach must be imposed in order to preserve a degree of conformity with existing definitions, particularly with regard to establishment definitions in other (non-transport) industries and to other transport industries where SL units are defined. The rules are therefore applied in full only to those divisions mainly engaged in activities primary to modal transport or freight forwarding industries to which EI establishments apply (for the relevant ASIC classes see paragraph 5.5.2.2 above). In practice however, to the extent that these divisions share locations with other divisions, there is necessarily some effect on the units formed within these other divisions. Further, the rules exclude from the divisions to be treated as establishments, all the operations at locations which, according to standard rules, are treated as (or as part of) establishments in non-transport industries, or as ancillary units.

5.5.2.5 Establishments and ancillary units are formed from the operations of each division of a qualifying enterprise as follows:

- i The enterprise is broken down into each of its divisions, and those divisions mainly engaged in activities primary to the relevant transport industries are identified.
- ii For each of the identified divisions mainly engaged in activities primary to the relevant transport industries, each location at which more than one division operates is split into separate parts, each part (a divisionally split part-location) representing all of the activities of each division at the location.

iii The major activity of each location (and divisionally split part-location resulting from (ii) above) is determined for ALL divisions.

iv Within each division mainly engaged in activities primary to the relevant transport industries:

a An establishment is formed of all locations and divisionally split part-locations mainly engaged in activities primary to ASIC Division G (Transport and Storage); the establishment so formed is classified to ASIC class based on major activity, and each location and divisionally split part-location comprising the establishment receives the 'reflected' ASIC class of the establishment, regardless of the major activity at the location or part-location.

b Each administrative office location (or divisionally split part-location) forms an ancillary unit.

c All remaining locations and divisionally split part-locations are treated as establishments or ancillary units, or parts thereof, according to standard units rules.

v For all other divisions:

a All locations and previously split part-locations mainly engaged in activities primary to ASIC Division G industries are treated as SL establishments, or combined into EI or ESI establishments within each division (by the use of additional divisional splitting if necessary).

b Each administrative office location (or divisionally split part-location) forms an ancillary unit.

c All other (ie non-Division G) locations and previously split part-locations are treated as establishments or ancillary units according to standard rules ie, the locations and previously split part-locations are combined with other non-Division G locations and previously split part-locations in other divisions as required to form standard units.

5.5.2.6 This approach defines transport establishments in the industries concerned which are equivalent to divisions or relatively straight-forward splits of divisions. Non-transport locations and divisionally split part-locations are split from these divisions but parts of other divisions are not included in the transport establishments. However, in the case of locations which form wholly non-transport establishments and which are shared between divisions, the establishment is defined in terms of whole locations ie, in economic censuses the respondent will report data from the different divisions involved.

## CONSOLIDATED ACCOUNTS FOR THE NATION

## ACCOUNT 1 - GROSS DOMESTIC PRODUCT AND EXPENDITURE

5.5.2.7 The fourth step in the special establishment formation rules (paragraph 5.5.2.5 (iv) above) leaves open the possibility that some of the EI transport establishments created may include locations mainly engaged in activities primary to a different transport industry to that of the establishment. This will result in less homogeneous units than would result from the application of location-based establishment rules. However, the establishment splitting rules for ASIC Division G ensure that significant secondary activity primary to a class in another subdivision to that of the EI transport establishment, will be split out according to usual splitting procedures. In the case of establishments classified to a class in ASIC Group 511 (Road Freight Transport), significant secondary activity primary to another class within the same ASIC group is split out according to usual splitting procedures.

5.5.2.8 A hypothetical example has been used in Appendix F to illustrate the application of these special rules. The example shows the four divisions of the hypothetical enterprise before and after application of the rules, and for comparative purposes, the situation which would have resulted using location-based establishment rules. The EI transport establishments created include all locations (and divisionally split part-locations) of the division mainly engaged in activities primary to ASIC Division G. Thus in the Appendix F example, the predominantly freight forwarding establishment created for Division 2 includes a divisionally split part-location (4(b)) mainly engaged in storage, and a location (6) mainly engaged in customs agency activities. As stated in paragraph 5.5.2.7, the general splitting rules ensure that any significant secondary activities are subsequently split out.

1.3.1 Compensation of employees (3.3.1)	2.2.20 Government final consumption expenditure (3.2.20)
1.3.2 Operating surplus (3.3.2)	2.2.30 Private final consumption expenditure (3.2.30)
1.3.3 Consumption of fixed capital (5.3.3)	4.2.5 Increase in stocks (5.2.5)
1.3.4 Indirect taxes (3.3.4)	4.2.6 Gross fixed capital formation (5.2.6)
1.3.5 Less Subsidies (3.3.5)	1.2.10 Exports of goods and services (6.2.10)
	1.1.10 Less Imports of goods and services (-6.1.10)
Gross domestic product	Expenditure on the gross domestic product

APPENDIX A  
(Continued)

ACCOUNT 3 - NATIONAL DISPOSABLE INCOME AND ITS APPROPRIATION

3.2.20 Government final consumption expenditure (2.2.20)	3.3.1 Compensation of employees (1.3.1)
3.2.30 Private final consumption expenditure (2.2.30)	3.4.2 Compensation of the employees from the rest of the world, net (6.4.1 - 6.3.1)
3.7.1 Saving (5.7.1)	3.3.2 Operating surplus (1.3.2)
	3.4.10 Property and entrepreneurial income from the rest of the world, net (6.4.9 - 6.4.8)
	3.3.4 Indirect taxes (1.3.4)
	3.3.5 Less Subsidies (1.3.5)
	3.6.23 Other current transfers from the rest of the world, net (6.6.22 - 6.6.21)
Appropriation of disposable income	Disposable income

APPENDIX A  
(Continued)

ACCOUNT 5 - CAPITAL FINANCE

5.2.5 Increase in stocks (4.2.5)	5.7.1 Saving (3.7.1)
5.2.6 Gross fixed capital formation (4.2.6)	5.3.3 Consumption of fixed capital (1.3.3)
5.7.5 Purchases of intangible assets nec from the rest of the world, net (6.7.5)	5.7.6 Capital transfers from the rest of the world, net (6.7.6)
5.7.8 Net lending to the rest of the world (5.7.9)	
Gross accumulation	Finance of gross accumulation
5.8.0 Net acquisition of financial assets (6.8.0 + 5.9.0 - 6.9.0)	5.7.9 Net lending to the rest of the world (5.7.8)
	5.9.0 Net incurrence of liabilities (6.9.0 + 5.8.0 - 6.8.0)
Net acquisition of financial assets	Net incurrence of liabilities plus net lending to the rest of the world

ACCOUNT 6 - ALL ACCOUNTS - EXTERNAL TRANSACTIONS

Current transactions	
6.2.10 Exports of goods and services (1.2.10)	6.1.10 Imports of goods and services (- 1.1.10)
6.4.1 Compensation of employees from the rest of the world (3.4.2 + 6.3.1)	6.3.1 Compensation of employees to the rest of the world (6.4.1 - 3.4.2)
6.4.9 Property and entrepreneurial income from the rest of the world (3.4.10 + 6.4.8)	6.4.8 Property and entrepreneurial income to the rest of the world (6.4.9 - 3.4.10)
6.6.22 Other current transfers from the rest of the world (3.6.23 + 6.6.21)	6.6.21 Other current transfers to the rest of the world (6.6.22 - 3.6.23)
	6.7.3 Surplus of the nation on current transactions (6.7.2)
Current receipts	
	Disposal of current receipts
Capital transactions	
6.7.2 Surplus of the nation on current transactions (6.7.3)	6.7.5 Purchases of intangible assets nec from the rest of the world, net (5.7.5)
6.7.6 Capital transfers from the rest of the world, net (5.7.6)	6.8.0 Net acquisition of foreign financial assets (5.8.0 - 5.9.0 + 6.9.0)
6.9.0 Net incurrence of foreign liabilities (5.9.0 - 5.8.0 + 6.8.0)	
Receipts	
	Disbursements

Source: Reproduced from SNA, Annex 8.2, Pp 152-154

LEGISLATIVE BACKING FOR THE CREATION OF DEPARTMENTS AND 'SUB-DEPARTMENTS' IN THE COMMONWEALTH AND EACH STATE

Listed below is a description of the legislative requirements for formalising the creation of 'Departments of State' in each State. In three States, Western Australia, Queensland and New South Wales, entities, known as 'sub-departments' in New South Wales and Queensland and as 'administrative offices' in Western Australia, are created by the same procedure as departments and they are given legal entity status in integrated economic statistics. In the other States and the Commonwealth, where only departments are created by the procedures cited, the definition of a 'legal entity' is not extended to include any non-statutory offices, bureaux, or sub-departments which may exist with some degree of autonomy but which do not have the specified legislative backing. Such entities will be included as part of the department which administers them.

It should be noted that the question as to whether an entity is a department or sub-department or not is only relevant for entities which are not statutory entities (ie entities created by the Constitution or by legislation). Statutory entities are always treated as legal entities. However, statutory entities which operate as an integral part of a department (eg have no separate accounts or no staff mainly engaged on the functions of the unit) are merged with the department concerned to form an enterprise. The definition of a statutory entity includes statutory positions (eg Registrar of Titles) which are held by individuals who may have a number of staff under their control. The statutory position and the staff it controls are regarded as separate enterprises unless they operate as an integral part of a department.

COMMONWEALTH

Section 64 of the Constitution empowers the Governor-General to appoint ministers to administer 'such departments ... as the Governor-General in Council may establish'. In practice changes to the list of departments are notified in Column 2 of the 'Administrative Arrangements Order', issued as the need arises in the name of the Governor-General. Therefore, each entity listed in Column 2 to the Administrative Arrangements Order, published in the Commonwealth Gazette, is regarded as a legal entity for the purpose of defining enterprise units, if not already so-regarded by virtue of being a statutory entity.

NEW SOUTH WALES

Section 49(2) of the Constitution (Public Service) Act 1902, as amended in 1979, empowers the Governor, by proclamation, to establish or abolish departments. The list of departments is maintained in Schedule 1 to the Public Service Act 1979. This Act also provides a list of 'Administrative Offices' in Schedule 2. Section 6 of the Act provides that Schedule 2 can be amended by the Governor, by proclamation published in the Government Gazette. Therefore, each entity listed in Schedule 1 or Schedule 2 of the NSW Public Service Act is regarded as a legal entity for the purpose of defining enterprise units, if not already so-regarded by virtue of being a statutory entity.

VICTORIA

Section 21(3) of the Public Service Act 1974, empowers the Governor, in Council, by order, to create or abolish departments. The departments are listed in Schedule 2 to the Act. Therefore, each entity listed in Schedule 2 to the Victorian Public Service Act is regarded as a legal entity for the purpose of defining enterprise units, if not already so-regarded by virtue of being a statutory entity.

QUEENSLAND

Regulation 8 to the Public Service Act 1922, provides that the Governor in Council shall appoint permanent heads of the 'departments, sub-departments, branches and sections of the Public Service' listed in the second column of the table presented in the regulation. (At this stage only two entities not entitled 'department' are listed). Therefore, each entity listed in the second column of the table presented in Regulation 8 to the Queensland Public Service Act is regarded as a legal entity for the purpose of defining enterprise units, if not already so-regarded by virtue of being a statutory entity.

WESTERN AUSTRALIA

Sections 21 and 22 of the Public Service Act 1978, provide that the Governor, on recommendation to the Public Service Board, may establish, amalgamate, divide, abolish, or alter the designation of any department and sub-department respectively. Therefore, each entity created as a department or sub-department under Sections 21 and 22 respectively of the Western Australian Public Service Act is regarded as a legal entity for the purpose of defining enterprise units, if not already so-regarded by virtue of being a statutory entity.

SOUTH AUSTRALIA

Section 25(3) of the Public Service Act 1967, provides that the Governor, by proclamation, may create or abolish departments. Section 26(a)2 of the Act requires the Public Service Board to keep a register of the names of departments currently in existence. Therefore, each entity listed in the register of departments maintained by the South Australian Public Service Board, in compliance with Section 26(a)2 of the South Australian Public Service Act is regarded as a legal entity for the purpose of defining enterprise units, if not already so-regarded by virtue of being a statutory entity.

TASMANIA

Section 21(4) of the Public Service Act 1973, provides that the Governor, by regulation, may create or abolish departments. Therefore, each entity created as a department under Section 21(4) of the Tasmanian Public Service Act is regarded as a legal entity for the purpose of defining enterprise units, if not already so-regarded by virtue of being a statutory entity.

NORTHERN TERRITORY

Section 35(1) of the Interpretation Ordinance 1978, provides that the Administrator may issue an Administrative Arrangements Order, being an order by which (inter alia) responsibility for an area of government is allotted to a department. Therefore, each department listed in the Administrative Arrangements Order made by the Administrator under Section 35(1) of the Northern Territory Interpretation Ordinance is regarded as a legal entity for the purpose of defining enterprise units, if not already so-regarded by virtue of being a statutory entity.

## COMMONWEALTH (ACT) COMPANIES ACT 1981, SECTION 7

## Subsidiaries, holding companies and related corporations

7 (1) For the purpose of this Act, a corporation shall, subject to subsection (3), be deemed to be a subsidiary of another corporation if -

(a) that other corporation -

(i) controls the composition of the board of directors of the first-mentioned corporation;

(ii) is in a position to cast, or control the casting of, more than one-half of the maximum number of votes that might be cast at a general meeting of the first-mentioned corporation; or

(iii) holds more than one-half of the issued share capital of the first-mentioned corporation (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital); or

(b) the first-mentioned corporation is a subsidiary of any corporation that is that other corporation's subsidiary (including a corporation that is that other corporation's subsidiary by another application or other applications of this paragraph).

(2) Without limiting by implication the circumstances in which the composition of a corporation's board of directors is to be taken to be controlled by another corporation, the composition of a corporation's board of directors shall be taken to be controlled by another corporation if that other corporation, by the exercise of some power exercisable whether with or without the consent or concurrence of any other person by that other corporation, can appoint or remove all or a majority of the directors, and for the purposes of this provision that other corporation shall be deemed to have power to make such an appointment if -

(a) a person cannot be appointed as a director without the exercise in his favour by that other corporation of such a power; or

(b) a person's appointment as a director follows necessarily from his being a director or other officer of that other corporation.

(3) In determining whether one corporation is a subsidiary of another corporation -

(a) any shares held or power exercisable by that other corporation in a fiduciary capacity shall be treated as not held or exercisable by it;

(b) subject to paragraphs (c) and (d), any shares held or power exercisable -

(i) by any person as a nominee for that other corporation (except where that other corporation is concerned only in a fiduciary capacity); or

(ii) by, or by a nominee for, a subsidiary of that other corporation, not being a subsidiary that is concerned only in a fiduciary capacity, shall be treated as held or exercisable by that other corporation;

(c) any shares held or power exercisable by any person by virtue of the provisions of any debentures of the first-mentioned corporation, or of a trust deed for securing any issue of such debentures, shall be disregarded; and

(d) any shares held or power exercisable by, or by a nominee for, that other corporation or its subsidiary (not being held or exercisable as mentioned in paragraph (c)) shall be treated as exercisable by that other corporation if the ordinary business of that other corporation or its subsidiary, as the case may be, includes the lending of money and the shares are held or the power is exercisable only by way of security given for the purposes of a transaction entered into in the ordinary course of business in connection with the lending of money, not being a transaction entered into with a person associated with the other corporation or its subsidiary.

(4) A reference in this Act to the holding company of a company or other corporation shall be read as a reference to a corporation of which that last-mentioned company or that other corporation is a subsidiary.

(5) Where a corporation -

(a) is the holding company of another corporation;

(b) is a subsidiary of another corporation; or

(c) is a subsidiary of the holding company of another corporation, that first-mentioned corporation and that other corporation shall, for the purposes of this Act, be deemed to be related to each other.

APPENDIX C  
(Continued)

(6) For the purposes of this Act, a corporation is the ultimate holding company of another corporation if -

(a) the other corporation is a subsidiary of the first-mentioned corporation; and

(b) the first-mentioned corporation is not itself a subsidiary of any corporation.

(7) For the purposes of this Act, a corporation is a wholly-owned subsidiary of another corporation if none of the members of the first-mentioned corporation is a person other than -

(a) that other corporation;

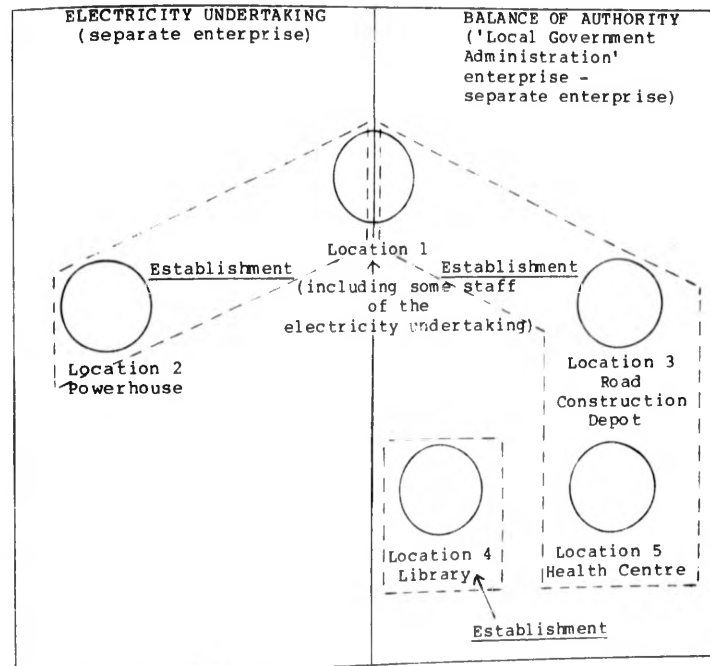
(b) a nominee of that other corporation;

(c) a subsidiary of that other corporation, being a subsidiary none of the members of which is a person other than that other corporation or a nominee of that other corporation; or

(d) a nominee of such a subsidiary.

APPENDIX D

DIAGRAMMATIC REPRESENTATION OF THE STATISTICAL UNITS FOR A TYPICAL LOCAL GOVERNMENT AUTHORITY



The authority is split into two enterprises (according to paragraph 4.3.1.9):

- |   |   |  |                                  |
|---|---|--|----------------------------------|
| 1 | Electricity undertaking   | - 1 Establishment comprised of Location 2 plus part of Location 1            |                                  |
| 2 | Balance of the authority ('Local Government Administration' enterprise) | - 1 Establishment comprised of part of Location 1, Location 3 and Location 5 | ) according to paragraph 5.3.1.6 |

## EXAMPLE OF THE SPECIAL RULES FOR DEFINING PRODUCING UNITS FOR LARGE PUBLIC SECTOR ENTERPRISES

## 1 SITUATION BEFORE APPLICATION OF RULES

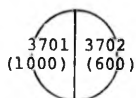
The enterprise has the following number of employees engaged in activities primary to three industries:

Class 2873: Concrete Pipes and Box Culverts (Manuf)	50
Class 3701: Water Supply	2000
Class 3702: Sewerage and Stormwater Drainage	1500

These employees (figures in parentheses) are distributed across the six locations of the enterprise as follows:



Location 1



Location 2



Location 3



Location 4



Location 5



Location 6

Before applying the rules, three establishment units exist, one comprising locations 1, 2, 3 and 4, classified to industry 3701 (with 900 employees engaged on secondary activities) another comprising location 5, classified to industry 3702 and the other comprising location 6, classified to industry 2873.

## 2 SITUATION AFTER APPLICATION OF RULES

Since the level of employment on activities primary to (ESI) industries 3701 and 3702 exceeds the threshold of 100 persons, locations 1 and 2 are split. The locations formed from this splitting are combined with locations other than location 6 and the following establishment units result:

Establishment Unit 1  
(Class 3701)



Split - Location 1a  
(formed from splitting  
previous Location 1)



Split - Location 2a  
(formed from splitting  
previous Location 2)



Location 3



Location 4

Establishment Unit 2  
(Class 3702)



Split - Location 1b  
(formed from splitting  
previous Location 1)



Split - Location 2b  
(formed from splitting  
previous Location 2)



Location 5

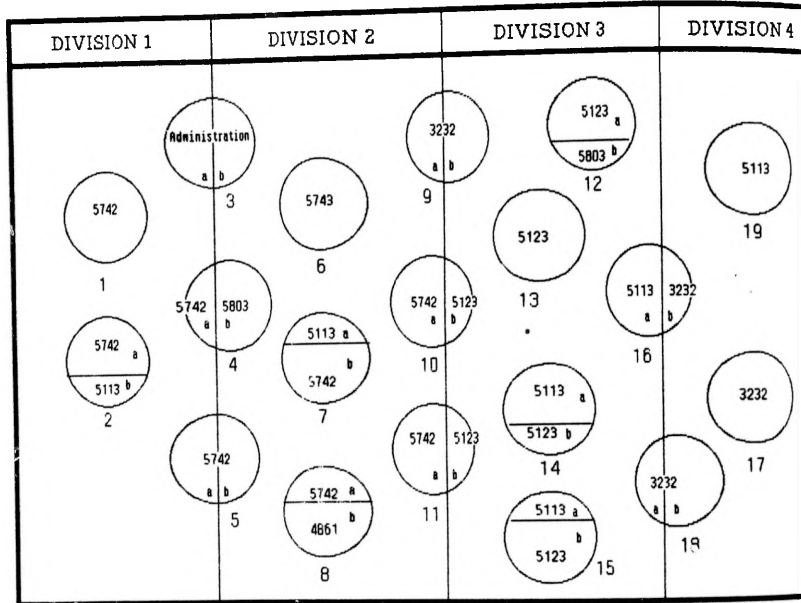
Establishment Unit 3 (Class 2873)



Location 6

EXAMPLE OF THE APPLICATION OF THE SPECIAL RULES FOR DIVISIONALISED TRANSPORT ENTERPRISES

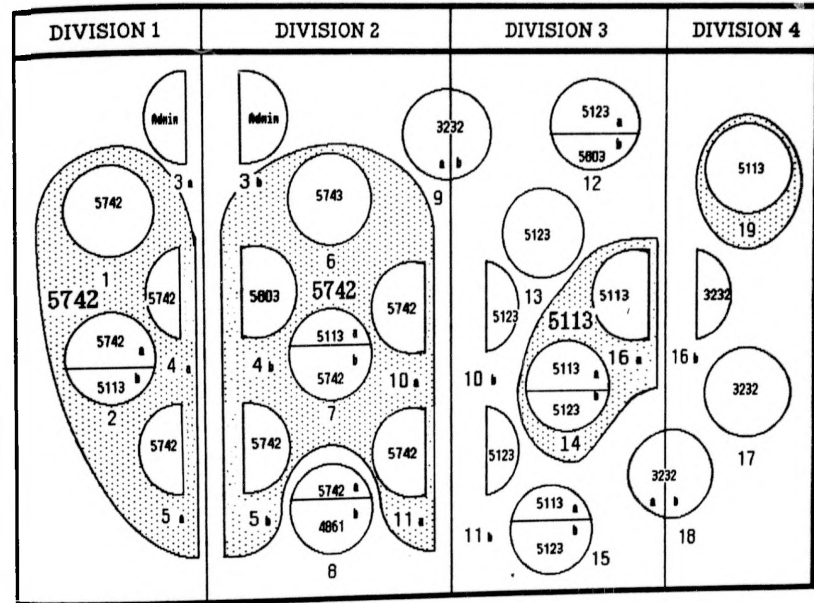
DIAGRAM 1: SITUATION BEFORE APPLICATION OF SPECIAL RULES



**EI INDUSTRIES:** 5113 (Short distance road freight), 5742 (Freight forwarding (except road))

**SL INDUSTRIES:** 3232 (Motor vehicle body manufacture), 4861 (Motor vehicle repair), 5123 (Taxi and other road passenger transport), 5743 (Customs agency services), 5803 (Storage nec).

DIAGRAM 2: SITUATION AFTER APPLICATION OF THE RULES



**ESTABLISHMENTS CREATED:**

Freight forwarding (except road) establishments (5742) (EI)

- i ..locations 1 + 2 (a + b) + 4 (a) + 5 (a)
- ii ..locations 4 (b) + 5 (b) + 6 + 7 (a + b) + 10 (a) + 11 (a)

Short distance road freight establishments (5113) (EI)

- i ..locations 14 (a + b) + 16 (a)
- ii ..location 19

Taxi etc establishments (5123) (SL)

- i ..location 10 (b)
- ii ..location 11 (b)
- iii ..location 12 (a + b)
- iv ..location 13
- v ..location 15 (a + b)

Motor vehicle repair establishment (4861) (SL)  
location 8 (a + b)

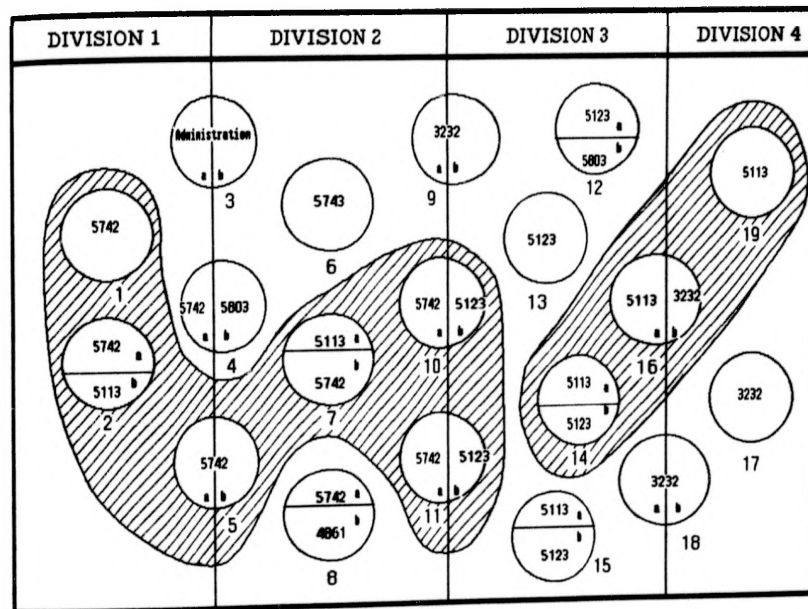
Motor vehicle body mfg establishments (3232) (SL)

- i ..location 9 (a + b)
- ii ..location 16 (b)
- iii ..location 17
- iv ..location 18 (a + b)

[Ancillary units (administration) (SL)

- i ..location 3 (a)
- ii ..location 3 (b)]

DIAGRAM 3: SITUATION USING LOCATION-BASED ESTABLISHMENT RULES



LOCATION-BASED ESTABLISHMENTS:

Freight forwarding (except road) establishment (5742) (EI)

- locations 1 + 2 (a + b) +
- 5 (a + b) + 7 (a + b) +
- 10 (a + b) + 11 (a + b)

Short distance road freight establishment (5113) (EI)

- location 14 (a + b) +
- 16 (a + b) + 19

Taxi etc establishments (5123) (SL)

- i ..location 12 (a + b)
- ii ..location 13
- iii ..location 15 (a + b)

Customs agency establishment (5743) (SL)  
location 6

Storage nec establishment (5803) (SL)  
location 4 (a + b)

Motor vehicle repair establishment (4861) (SL)  
location 8 (a + b)

Motor vehicle body mfg establishments (3232) (SL)  
i ..location 9 (a + b)  
ii ..location 17  
iii ..location 18 (a + b)

[Ancillary unit (administration) (SL)  
location 3 (a + b)]