

Summary of UK SIC26 GSS Consultation Proposals at the Class Level whereby the UK will be different from NACE

Advice Paper

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UPDATED PAPER FOR NSCASE SECRETARIAT –
WITH ANNEX WITH DETAIL OF CLASSES IMPACTED

In 2024, NSCASE gave advice on the UK's next [Standard Industrial Classification \(SIC\)](#), with members emphasising the importance of maintaining comparability with the European Statistical Classification of Economic Activities in the European Community Activities ([NACE](#)) and global International Standard Industrial Classification of All Economic Activities ([ISIC](#)) frameworks, while concluding that any proposed differences between the new UK SIC and NACE at the 4-digit class level should be based on substantial consultation, with clarity on the user need and logic as to why the need can only be met that way.

Following this advice, the NACE framework served as the starting point for creating the new UK SIC categories and stakeholders have now submitted their proposals¹. ONS are in the process of assessing every proposal but have prioritised and completed the assessment of proposals that would result in differences occurring between NACE and SIC at a 4-digit class level.

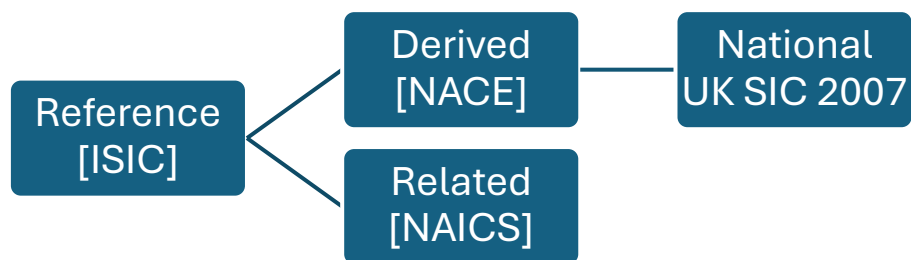
NSCASE also asked to be provided a list of the 4-digit classes that differ from NACE. Therefore, the paper explains the user need and logic behind these proposals before providing a comprehensive list of the accepted proposals in an annex.

Before that, the paper explains what ONS has done to fulfil NSCASE's request that SIC is internationally comparable. A useful way to begin doing so is to summarise the global rules established to ensure national classifications like SIC align with other frameworks like NACE and ISIC.

The international taxonomy of classifications

Internationally, classifications are defined according to a hierarchy:

¹ The consultation is available on [the ONS website](#), including a link to the proposed SIC framework at the time of the consultation and guidance to coordinators for submitting revisions. Please note; this information is superseded by this paper, but provides the basis for understanding the background to this work.



Reference classifications are a product of international agreements approved mainly by the United Nations Statistical Commission. Thus, reference classifications have achieved broad acceptance and official agreement and are approved and recommended as guidelines for the preparation of other types of classification. ISIC is the reference classification of economic activities.

Derived classifications are based on reference classifications. They may be prepared either by adopting the reference classification structure and categories and then providing additional detail beyond that provided by the reference classification, or by rearranging or aggregating items from one or more reference classifications. Derived classifications are often tailored to use at a national or regional level. NACE is a derived classification of ISIC for use in the European Statistical System (ESS). As an aside, related classifications are based on reference classifications but are not directly comparable - the North American classification (NAICS) is a good example of this.

The NACE guidance explains that it has been created to ensure international comparability with ISIC while obtaining a classification more suited to the structures of European economies. As such, categories at all levels of NACE are defined either to be identical to, or to form subsets of, single ISIC categories. NACE groups and classes can always be aggregated into the groups and classes of ISIC from which they were derived.

The same rules NACE has followed in the ISIC guidance apply to national classifications like SIC. Some key rules are that,

- When adapting ISIC to national circumstances, its categories may be further detailed to better reflect the structure of the national economy of the country. If a particular economic sector is economically of great importance or has developed important specialisations that are not separately identified in ISIC, the relevant part of the classification can be further disaggregated.
- While further disaggregation can happen, in order to make a national activity classification convertible to ISIC, the categories at the most detailed level of classification in the national scheme should on the whole coincide with, or be subdivisions of, the individual classes of ISIC.

- Categories in the ISIC structure may be disaggregated by subdividing the relevant classes into subclasses. Alternatively, the existing classes may be replaced with a greater number of more detailed categories, though in order to preserve comparability the more detailed classes should be delineated so that they may be aggregated to classes.

As such, the international guidance seems to suggest that there are advantages to creating a more granular classification to better describe a national economy while still retaining comparability. And just as NACE does this in a way to better describe European economies without losing comparability with ISIC, the aim is for SIC to do this in a way to better describe the UK economy without losing compatibility with NACE and ISIC.

SIC proposals

Having established the principle that more granular frameworks better describe national economies without losing comparability, the guidance is less clear on why splitting classes may be preferred over creating subclasses. In reviewing the proposals, five scenarios have been identified where the UK SIC 25 will differ from NACE at the 4-digit class level – although they all retain comparability with NACE. These are:

1. The avoidance of creating a 6-digit level
2. Preference for adopting ISIC over NACE
3. Only a finite number of subclasses can be created under a class
4. Statistical Balance
5. Maintaining current detail already in the existing UK classification

1. Avoidance of 6-digit categories

In general, this category covers activities which are more important in the UK and as a result are not defined in enough detail in the international classifications. In order to cater for additional levels of detail, it would logically require a new additional level of detail (6-digit – below subclass). By convention, national classifications are only coded to the subclass level – as a result, the structure needs promoting to maintain integrity.

Example:

NACE has one 4-digit class for sound recording and music publishing activities, however there is an established need for further granularity in ONS statistics. The Department for Business and Trade's Industrial Strategy and the Department for Culture, Media and Sports' Creative Industries Sector Plan were developed by consulting across government and with industry to better understand what economic activities need to be measured more accurately.

The analytical need is to better understand how sound recording activities, and music publishing activities contribute to the UK economy. And within each of those categories there is an analytical need to understand the importance of podcasting activities.

One option would be to create 5-digit subclasses for all these categories underneath the sole NACE category. However, doing so might create an unrepresentative classification of the unit. Let's say most of the unit's activity relates to music publishing activities (split between podcasting and non-podcasting) and a minority relates to sound recording (non-podcasting only). As the activities for music publishing are split between two categories and the activities for sound recording aren't split, the unit could be classified to sound recording, even though most of what it does is music publishing.

If the framework categorises first by sound recording/music publishing and then by podcasting/non-podcasting, it eliminates the chance that a unit would be classified to a category which actually relates to a minority of its activity.

However, if a split was created under the NACE class by sound recording/music publishing, an additional split further down the hierarchy couldn't be created as we can only code to 5 digits, not 6 digits. This necessitates creating more than one class rather than just creating subclasses.

2. Requirement for statistical balance

According to the [United Nations Best Practice Guidelines for Developing International Statistical Classifications](#), best practice requires that statistical balance is considered when creating a classification framework.

A statistical classification should not have categories at the same level in its hierarchy that are too disparate in their population size (by number of units or economic importance), and statistical balance allows a classification to be used more effectively by users.

While NACE has been structured having taken into account the structure of European Statistical System (ESS) economies, that doesn't mean that a statistically-balanced framework for the UK would look exactly the same as its ESS equivalent.

Taking the example above, it could be argued that the NACE class for sound recording and music publishing is large enough so that if it was split, the two categories created from the split were large enough to be considered classes in their own right.

There are other examples that are much more clear cut. Both ISIC and NACE have a division, group and class that are exactly the same for the construction of residential and non-residential buildings. The current version of SIC splits this by construction of domestic buildings and construction of commercial buildings at a subclass level.

However, creating subclasses for each of those categories would seem very unbalanced as they are vast compared to most other subclasses. The DBT and others in the construction industry or involved in the compilation of construction statistics

previously consulted on this would therefore like to see the NACE/ISIC class split into two classes.

ONS's flagship publications relating to SIC prioritise publishing the larger categories in terms of economic importance down to a 4-digit level. Therefore not including the construction categories as classes and publishing data on them is against the user need for these statistics, according to DBT.

3. ISIC categories are sometimes preferred to NACE categories

Another reason not to mirror NACE categories would be if the ISIC categories are seen as better. During the ISIC revision process the UK successfully advocated for more granularity in some key categories. However, as the UK is no longer part of the NACE revision process the granularity isn't reflected in NACE.

As a consequence, the Bank of England and the ONS think the more granular financial categories in ISIC are more suited to the UK than the NACE categories. By way of example, ISIC has classes for international trade financing activities, securitisation activities, and factoring activities whereas NACE doesn't. And ISIC has a class for each of money market funds and non-money market investment funds, whereas NACE has one class for both.

There's an obvious point that it would be more sensible for the UK to adopt the financial categories it advocated for. However, as SIC needs to be comparable to both NACE and ISIC it also seems sensible to use ISIC as a starting point rather than creating subclasses under NACE categories, which would then be out of sync with ISIC.

4. Only a finite number of subclasses can be created under a class

The Bank of England and ONS have also prioritised being able to match SIC subclasses to the different types of fund specified in the new System of National Accounts 2025 (SNA25). However, there are 16 categories of fund subclass in SNA25 which is too many to fit under one class because of the numbering system. As such, the SIC proposal splits the money market fund class into a class for open-ended funds and closed-ended funds to allow for the granularity required.

5. User need to retain old detail

In other instances, the UK doesn't agree with the reduced granularity in the international guidance but neither NACE nor ISIC provide a useful alternative. By way of example, the old SIC has three retail classes with one of those classes having two subclasses,

47.41 Retail sale of computers, peripheral units and software in specialised stores

47.42 Retail sale of telecommunications equipment in specialised stores

47.42/1 Retail sale of mobile telephones in specialised stores

*47.42/9 Retail sale of telecommunications equipment (other than mobile telephones)
n.e.c., in specialised stores*

47.43 Retail sale of audio and video equipment in specialised stores

The new NACE and ISIC has merged the three classes into just one class meaning they've lost a lot of detail that ONS would like to retain. A solution to this would be to keep the structure ONS had in the previous iteration of SIC. Doing so would retain the statistical balance appropriate for the UK and would avoid the classification issues referred to above in the sound recording example. However, this has been listed under a separate category because keeping the same structure also ensures continuity and comparability across different time periods.

Conclusions

In conclusion, the new SIC framework has been designed in a way that follows suggested practice when it comes to international comparability, while also allowing for the UK economy to be more effectively described.

All instances where SIC 4-digit classes don't mirror NACE classes have been based on clear user need and logic through extensive consultation. A large majority of the updates to SIC will be made by adding 5-digit subclasses, and it's only been in limited circumstances where there are clear advantages to doing so that a deviation from NACE at the 4-digit class level has been approved. It is worth noting that the proposed SIC is still consistent with the international classifications (in that the UK components can be summed to generate NACE and ISIC). The annex later in this paper lists all categories where this applies.

Annex

Accepted Proposals affecting Class Level

SIC Group Affected	Change Category	Classes
29.1 Manufacture of motor vehicles	Avoid 6-digit	3
30.3 Manufacture of air and spacecraft and related machinery	Statistical Balance	3
35.1 Electric power generation, transmission and distribution	No change - update explanatory notes	4
35.2 Manufacture of gas, and distribution of gaseous fuels through mains	No change - update explanatory notes	1
41.0 Construction of residential and non-residential buildings	Statistical Balance	2
46.7 Wholesale of motor vehicles, motorcycles and related parts and accessories	Avoid 6-digit	3
	Re-number due to new classes	2
47.4 Retail sale of information and communication equipment	Maintaining existing breakdown in SIC07	3
47.8 Retail sale of motor vehicles, motorcycles and related parts and accessories	Avoid 6-digit	3
	Re-number due to new classes	2
52.2 Support activities for transportation	No change - change description	1
59.2 Sound recording and music publishing activities	Avoid 6-digit	2
60.3 News agency and other content distribution activities	No change - change description to align with ISIC	1
	Avoid 6-digit	4 ²
62.1 Computer programming activities	Avoid 6-digit	4 ²
62.2 Computer consultancy and computer facilities management activities	No change - change description	1
64.2 Activities of holding companies and financing conduits	No change - update explanatory notes	2
	Align to ISIC	2
64.3 Activities of trusts, funds and similar financial entities	Align to ISIC and finite limit of subclasses	2
	Align to ISIC	6
64.9 Other financial service activities, except insurance and pension funding	Align to ISIC	6
65 Insurance, reinsurance and pension funding, except compulsory social security	No change - update explanatory notes	1
68.3 Real estate activities on a fee or contract basis	Explanatory Notes	2
87.2 Residential care activities for persons living with or having a diagnosis of a learning disability, mental illness or substance abuse.	No change - change description	1
93.2 Amusement and Recreation Activities	Explanatory Notes	1
95.3 Repair and maintenance of motorcycles	Explanatory Notes	1

² This is currently in discussion with DCMS and DBT, it is possible ONS rejects this amendment, or it is otherwise changed, but if accepted it will be to avoid 6 digit.