

CHAPTER 3 : THE UNITS TO BE CLASSIFIED

INTRODUCTION

The units concepts, definitions and rules described in this Chapter, particularly as they relate to establishments and ancillary units, apply only to units which consist of one or more physical locations (as defined in paragraphs 13 and 14 below).

2. At the time of publication of this 1978 edition of the Classification all establishments and ancillary units in the integrated statistical system of the ABS (i.e. as recorded on the 'integrated register' of the ABS) are composed of such 'location based' units.
3. However, units concepts, definitions and rules may be subject to some change, during the currency of this edition of the Classification, where:
 - (a) the integration of statistics is to be extended to fields not yet covered by integrated economic censuses (e.g. work is currently proceeding on the development of integrated transport statistics), and
 - (b) further development work is being undertaken (or may be undertaken in the future) to improve integrated statistics generally - in this context there is a review currently proceeding concerning Public Sector units concepts and definitions generally.
4. On the other hand, it is very unlikely that those units concepts, definitions and rules (particularly as they relate to Public Sector units) which are now applicable in industries already covered by integrated economic censuses can be changed fundamentally without requiring a simultaneous revision of the Classification.
5. Because, as adverted to above, units concepts in certain areas of the ASIC may need to be changed during the currency of this edition of the Classification to enable progress to be made in the integration of statistics, the ABS intends to prepare a separate statistical standards document specifically for units concepts, definitions and rules which can be updated more frequently than the ASIC, if necessary.
6. Accordingly, the material in this Chapter should be read with this qualification in mind.

RELEVANCE OF UNITS IN AN INDUSTRY CLASSIFICATION

7. For statistical purposes an 'industry' is composed of units of some specified type mainly engaged in a specified range of activities i.e. the primary activities of the industry as specified in the detailed

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Classification. Thus when statistics are classified by industry, the information shown under each industry heading represents totals for those units which comprise that industry. An understanding of the specifications of the units utilised in classifying statistics by industry is therefore important to a clear understanding of such statistics. As indicated in Chapter 2, the ASIC is designed as a classification of establishments, with the provision that it may also be used in classifying other types of units, such as enterprises. The notion of the establishment is intended to relate, in general, to a physical unit (such as a factory), whereas in the case of the enterprise and related concepts, there is greater emphasis on legal considerations such as the separate legal entity or relationships between such entities. The following paragraphs outline the basic concepts and definitions of the units being utilised in the integrated system of statistics in which the ASIC is mainly applied.

ESTABLISHMENT UNITS: BASIC CONCEPTS

8. The basic concept of the establishment, as adopted by the ABS, is that of a unit covering all the operations carried on under the ownership of one enterprise at a single physical location. The two fundamental aims of adopting this establishment concept are:

- (a) to minimise, to the fullest extent practicable, the splitting of real operating units to form artificial statistical units (the purposes here are to adopt a realistic statistical concept relating to units which actually exist in the economy; to reduce the practical difficulties of data collection; and to improve the reliability of data reported), and
- (b) to standardise the definition so that statistics covering operations in different fields of economic activity can be added together, without gaps or overlapping.

The adopted concept of the establishment, designed to meet these objectives, has also brought Australian practice much more closely into line with internationally accepted concepts.

9. The significance of the establishment in economic statistics is that it is the unit used in the compilation of detailed 'structural' statistics. These statistics relate to particulars such as value added, capital expenditure, or 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:

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

Other selected items of income (e.g. repair revenue, commission)

Stocks

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

Other selected expenses (e.g. repairs, delivery charges, commission)

Capital expenditure

Employment, wages and salaries

Other items of data such as those relating to appropriations of income, or to borrowing and lending transactions, are generally more appropriate to enterprise units.

10. The basic concept of the establishment, as adopted hitherto in the integrated statistical system, is fairly straightforward. Essentially it is determined by constraints on ownership and location, i.e. it relates to operations carried out under one ownership at a single physical location. These are the main determinants but in certain circumstances, set out in the Section on 'splitting' below, an additional constraint relating to activity is also applied. The constraint on location is itself relaxed in defining establishments which are mainly engaged in certain types of operations, such as electricity or gas production or distribution, where the activities of one operating unit may be spread over a wide geographical area. Apart from these three constraints, the question of the general availability of accounting records relating to the data items specified in the preceding paragraph also has a bearing on the definition of the establishment. This question is discussed more fully later on in this Chapter.

11. Although the concept of the establishment is clear enough, and can be readily applied in practice to the great majority of operating units actually encountered, there are nevertheless a large number of cases where the situation is more complex, and the boundaries of establishments, in the sense of individual operating units, are more difficult to discern. There are, in fact, a wide variety of different situations and, for the purpose of delineating the boundaries of establishments in a consistent fashion, it is necessary to supplement the concept of the establishment (as defined hitherto) with a set of more detailed specifications. Paragraphs 12 to 17 of this Chapter explain more fully what is meant by the concepts of single ownership, separate location, and single activity, and subsequent paragraphs explain the application of these criteria in more detail.

Single Ownership

12. This term denotes the whole of the operations carried on by one enterprise, in the sense in which the term enterprise is defined below (thus it will in some circumstances differ from the notion of separate legal entity). Where more than one enterprise operates at one location, the operations of each such enterprise at that location are treated as if they were carried on at a separate location. This

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concept of ownership of operations is distinct from the concept of ownership of real estate. Thus if operations at a location are carried out by one enterprise which leases that location from a second enterprise, it is the fact that the operations are carried out at the location by the first enterprise that is taken into account in defining the establishment; the fact that the location itself is owned by the second enterprise is not relevant. (Only if the second enterprise were to carry out operations at that location, in addition to leasing part of that location to the first enterprise, would it also have an establishment at that location.)

Separate Location

13. As mentioned above, in certain circumstances the location constraint is relaxed; this is discussed more fully in paragraph 20 in this Chapter. Apart from those circumstances, in the majority of cases the concept of a separate location is clear-cut, i.e. it relates to a single factory or shop, etc. operating under one ownership at one address. However, the term is not completely self-defining. In the case of manufacturing, for example, there might be two factories which are physically separate and under separate management but which are operated under one ownership at contiguous addresses; here each factory is regarded as a separate location. More generally, in reporting particulars of separate locations at which they operate, respondents are asked to report separately each individual office, retail shop, factory, plant, mine, depot, farm, etc. Some problems in interpretation of the term 'separate location' also arise in the case of operations carried out by a mobile work force, such as travelling sales representatives, timber getters, construction workers, etc. Here the notion of a separate location relates to a relatively permanent base of operations of such a work force. Where individual employees operate from private homes but are controlled from some other location, the homes are not treated as separate locations. However, where individuals work at home (or use their homes as operating bases) on their own account, the home address is regarded as a separate location.

14. Although the concept of a separate physical location is used as a basis for defining establishments, a number of modifications are necessary to the approach of treating each separate location as a separate establishment. Thus, for statistical purposes, some types of separate physical locations, such as storehouses, are considered in certain circumstances to be 'ancillary units' rather than establishments. These are discussed more fully in paragraphs 40 to 49 in this Chapter. Apart from this consideration, there are a variety of practical situations where some modification is necessary - for example, it sometimes happens that some relatively minor operations of a factory may be carried on at a separate location for such reasons as shortage of space at the main location, but the operations at the minor location obviously form an integral part of the operations at the main location. The specific definition of the establishment has to take account of such situations, and in order to ensure a consistent basis of definitions, it is necessary to specify the circumstances in which separate physical locations are not treated as separate establishments. These are outlined in paragraph 20 in this Chapter.

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Single Activity

15. 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 made primary to one ASIC class. The classes have themselves been determined so as to accommodate, as far as practicable, the ranges of activities which are commonly carried on at separate physical locations, as ascertained by means of empirical investigations or on the basis of experience in statistical collections.

16. Even when single activity is understood in this sense, combinations of single activities at one location are common, and it would be neither desirable nor practicable to split every location which engaged in more than one single activity under one ownership. If the establishment were to be defined in terms of that part of a location engaged in activities primary to one industry heading, this would imply an artificial concept of the establishment, departing completely from the idea of a separate physical operating entity. Adoption of an artificial concept of the establishment of this nature would, moreover, reduce the relevance of the empirical basis of the industry headings (i.e. each heading relating to a range of activities commonly carried on in separate locations); it would be difficult to find a sound alternative basis for determining a level of activity which would be appropriate for defining industries. Apart from those conceptual considerations there is also the practical consideration that it is extremely difficult to obtain data for the range of items for which establishment statistics are compiled, in respect of 'splits' of locations, and if splitting were done on a large scale the reliability of the resulting statistics could be seriously affected. For these reasons the application of a constraint based on single activity is restricted to a relatively small number of cases where it appears realistic to regard a part of the operations at a location as a separate operating entity. The circumstances in which this is done are specified more fully in paragraphs 21 to 34 in this Chapter.

CONCLUSIONS

17. Thus the basic concept of the establishment is that of a unit consisting of all the operations carried on under the ownership of one enterprise at a single physical location, with the provisos that in some circumstances locations are treated as ancillary units rather than establishments, that in some circumstances separate locations are combined to form one establishment, and that in some circumstances a single physical location engaged in more than one activity (i.e. engaged in activities primary to more than one class) is split to form more than one establishment.

18. As mentioned at the beginning of this Chapter the concept of the establishment in the Public Sector is to be reviewed. In that review great emphasis will be placed on the need to meet the fundamental aims specified in paragraph 8.

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ESTABLISHMENT UNITS : APPLICATION OF BASIC CONCEPTS

19. As explained in paragraph 17, the basic concept of the establishment is varied in certain circumstances in its practical application. These circumstances are of two kinds:

- (a) where establishments are formed in accordance with general rules for combining or splitting locations, and
- (b) where establishments are formed by combining locations in a consistent way for particular areas of the ASIC, based largely on considerations of general data availability and needs for small area statistics.

Variations of type (a) are discussed in the paragraphs immediately following, whereas variations of type (b) are outlined in paragraphs 35 to 38.

General Rules for Combining Locations

20. Leaving aside the question of ancillary units which is discussed separately, there are some specific circumstances in which separate locations are combined to form establishments. This treatment applies to two kinds of situation:

- (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' - e.g. 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, have been classified to (or are classifiable to) the same industry class and their operations are 'inextricably mixed' e.g. they have common employees and combined accounts, which make it obvious that the two are operated as one entity. For example in Class 4862, Used motor vehicle dealers, in Subdivision 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.

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For cases of both kinds, locations are combined to form one establishment only when the locations are within the same local government area. Otherwise statistics for local government areas would be affected.

(This rule is modified where two locations are extremely close, e.g. on opposite sides of a street, and happen to be separated by a local government authority 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.

21. The general splitting rules in this part of the Chapter apply to Private and Public Sector establishments consisting of one or more locations. They are not normally appropriate to other kinds of units such as establishments based on the concept of the 'kind of activity unit' (as defined in ISIC) - pure kind of activity units (not utilised in the ASIC) are, by definition, not subject to splitting in the sense in which establishments, consisting of locations, are.

General Rules for Splitting Locations in Integrated Economic Censuses

22. Although the concept of a separate physical location has been used as one of the basic criteria for defining establishments in integrated economic statistics a number of modifications have, as already mentioned, been found necessary to the approach of treating each separate location as a separate establishment. One of these modifications involves splitting of locations into two or more establishments.

23. The rationale for splitting locations into two or more establishments has its origin in the desire to have statistical units which are relatively homogeneous in terms of activity. This desire is based, in turn, on the more fundamental aim to have statistical industries which are as homogeneous as possible in terms of activity and which, at the same time, represent, as realistically as possible, the industries as they are actually organised and structured. These two aims (i.e. to have both homogeneous and realistic industries in our statistical framework) tend to conflict with each other.

24. The approach taken by the ABS on this issue has been to give most weight to the aim of having statistical industries (as incorporated in the ASIC, especially at the class level) which represent realistic and recognisable segments of Australian industry so that data classified according to the ASIC are as relevant and as reliable as possible for analytical purposes (e.g. so that statistics of Australian industry used in decision making are relevant to industries as they exist). In order to achieve this aim the basic principle used in devising classes of the ASIC is that they should reflect as realistically as possible the way in which activities are actually organised within establishments. This reinforces the consideration that establishments defined for statistical purposes should represent, as far as possible, real rather than artificial producing units in the economy.

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25. On the other hand the economic world is not sufficiently tidy to be represented systematically in any kind of classification (or wider statistical framework) without the need to introduce some degree of artificiality.

26. In recognition of the foregoing, the ABS in its integrated economic statistical system has attempted to minimise the degree of artificiality in defining industries, units, etc, consistent with the needs for standardised and integrated statistics.

27. Accordingly the incidence of splitting of whole physical locations into two or more establishments has been kept low in an overall sense and is generally restricted to the kinds of situation described in the following paragraphs.

28. The situation in which locations are split to form more than one establishment relates to cases where locations engage on a large scale in activities primary to more than one industry class. More specifically, this is intended to relate to locations operating on a scale such that the activities at the location which are primary to each industry class could be expected to be more commonly organised as separate operating entities at separate locations. For example, a location engaged both in large-scale production of womens skirts (primary to Class 2453) and large-scale production of mens trousers (primary to Class 2451) might be regarded as an exceptional case and split to form two establishments, since each of these activities, if engaged in on a large scale, would more commonly be carried on at a separate location. 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, splitting of locations has the effects already mentioned in paragraphs 24 to 27 above. Secondly, in a considerable proportion of cases, it is extremely difficult to obtain reliable data, in respect of the activities primary to each industry class, covering the range of items for which it is desired to compile establishment statistics. For this reason it has been necessary to keep to manageable proportions the incidence of cases which are split, by determining a size limit which is relatively high. The size limit set out in the following paragraphs has been assessed, on the basis of past experience, with these considerations in mind.

29 It is considered that splitting of locations is most appropriate where the combination of activities engaged in at a location 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 the location to form more than one establishment is considered less appropriate in some divisions than in others.

30. In accordance with this approach the following splitting criteria have been determined for application in integrated economic censuses:

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- Splitting Within Divisions

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 subdivision), and the relatively specialised nature of some other establishments within this Division (e.g. in the case of forestry), it has been determined that no single or multi-location establishments be split into two or more establishments within Division A.

ii DIVISION B: In view of the very specialised nature of most mines in Australia (in terms of intra Division B activities) it has been determined that no single or multi-location establishments be split within Division B.

iii DIVISION C: Prima facie, a manufacturing (i.e. Division C) establishment should be 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 single location manufacturing establishment for splitting purposes, gross receipts from its secondary manufacturing (i.e. Division C) activities should be linked to the ASIC classes to which they are primary and should then be 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, to be 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, to be split into three establishments, etc. However, in certain situations, establishments within Division C are not to be 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. In the case of multi-location manufacturing establishments the following applies: A multi-location establishment should only be split if a secondary activity at any one of the component locations equals or exceeds the splitting limit. In assessing the size of the secondary activity the method specified above should be followed. Further, only the location which might qualify for splitting should normally be split - not any others of the same multi-location establishment, even if some other locations of that establishment were to undertake, as a secondary activity, the activity which equalled or exceeded the splitting limit at the first mentioned location. Unless this procedure is followed multi-location establishments will be split into kind of activity units, thereby varying the basic concept of the establishment.

iv DIVISION D: In view of the fact that hardly any establishments within this Division engage in significant intra divisional secondary activities, no single or multi-location establishments are to be split within this Division.

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v DIVISION E: A construction establishment classified to one of the classes in SUBDIVISION 41 should be split if the size of its secondary construction activities equals or exceeds the designated splitting limit. In assessing the size of secondary construction activities of a single location Subdivision 41 establishment for splitting purposes, gross receipts from its secondary construction (i.e. Division E) activities should be linked to the ASIC classes to which they are primary and should be summed to class totals. If one of these 'secondary activity class totals' of the establishment (including any in Subdivision 42) equals or exceeds the splitting limit, the establishment should be split into two establishments, etc. However, a construction establishment classified to one of the classes in SUBDIVISION 42 should only be split if the size of its secondary Subdivision 41 construction activities equals or exceeds the designated splitting limit. Splitting of multi-location construction establishments should follow the same criteria as for multi-location manufacturing establishments.

vi DIVISION F: No single or multi-location establishments are to be split within this Division. This follows past practice.

vii DIVISION G: The circumstances in which transport establishments are to be split into two or more transport establishments (if at all) are left open, subject to results from later investigations.

viii DIVISIONS H TO M: No single or multi-location establishments are to be split within any of these divisions.

- Splitting Across Divisions

ix If an establishment classified to a class in one ASIC division has secondary activities which are primary to another ASIC division then the establishment should generally be split if the size of the secondary activities in the other division equal or exceed the designated splitting limit. In assessing, in the case of single location establishments the size of the secondary activities in the other division for splitting purposes, gross receipts from these secondary activities should be linked to the ASIC classes in the other division to which they are primary and should then be 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 should normally be split into two or more establishments. In view of the practical difficulties involved in identifying and valuing captive production, especially in computerised procedures, captive production (such as occurs in vertically integrated processes) 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 to be split only one establishment should be split off

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covering all the secondary activities in that division - provided, of course, that the original establishment qualifies for splitting under the rules specified earlier in this paragraph.

x In the case of multi-location establishments which have activities which cross ASIC divisions, the following applies: A multi-location establishment should only be split if a secondary activity at any one of the component locations, in a division other than the one to which the establishment has been classified, equals or exceeds the splitting limit. In assessing the size of secondary activity the method specified above applies. Further, only the location which qualifies for splitting should normally be split - not any of the others of the same multi-location establishment - even if some other location were to undertake, as a secondary activity, the activity which equalled or exceeded the splitting limit at the first location.

31. Although it has been determined that no establishments classified to ASIC Divisions A, B, D, F, H, I, J, K, L and M should be split within these Divisions in integrated economic censuses, isolated instances may exist or emerge in the future in which it may be advisable to split single or multi-location establishments within some of these Divisions. To provide for such eventualities, any proposal to split an establishment within any one of these Divisions should be referred, in the first instance, to the Classification Section of the ABS. In addition, other situations may emerge in which establishments, if left unsplit, would be classified to industries which, on the basis of a consensus of qualitative assessments, would be considered inappropriate. Proposals to split establishments on such grounds should likewise be referred to the Classification Section of the ABS.

32. The 'splitting limit', referred to in the foregoing paragraphs, is a value limit, set at \$2.4 million for 1977-78, and will be adjusted from year to year in accordance with the movement in the general level of prices. It replaces the various different value splitting limits specified in the 1969 edition of the Classification (in fact, it is an indexed current value of the \$1 million splitting limit, set in the 1969 edition of the ASIC for the 1968-69 census year).

33. For purposes of determining whether a secondary activity, as specified in the foregoing paragraphs, equals or exceeds the splitting limit gross receipts data are to be used as reported on economic census forms. The detailed splitting procedures (which also can provide for the application of resistance factors to inhibit changes to split establishments in response to minor and temporary shifts in activities to minimise the reporting burden of businesses) are

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contained in census specific procedural documentation which also specify how establishments, which qualify for splitting, are to be split.

General Rules for Splitting Locations outside Integrated Economic Censuses

34. Splitting of locations outside the integrated economic censuses is expected to relate, in most cases, to the splitting of Public Sector locations. At the time of writing, Public Sector units concepts are still subject to review. Following the conclusion of this review, Public Sector units concepts and definitions, including general rules for splitting locations outside integrated economic censuses, will be included in the ABS statistical standards document of units concepts and rules, mentioned in paragraph 5.

Establishment Definitions Used in Different Areas of the Classification

35. Subject to the general rules for combining and splitting locations, the basic concept of the establishment, i.e. that of 'a unit consisting of all the operations carried on under the one ownership of one enterprise at a single physical location', has been generally adopted for the following areas of the Classification:

- DIVISION A: Agriculture, forestry, fishing and hunting.
- DIVISION B: Mining. (However, in the case of own account mineral exploration activities, carried out on non-producing leases, the establishment is regarded as covering all such locations (i.e. all non-producing leases) of the enterprise within the one State.)
- DIVISION C: Manufacturing.
- SUBDIVISION 37: Water, sewerage and drainage.
- DIVISION E: Construction. (Here the concept of the single physical location is represented by the base of construction operations.)
- DIVISION F: Wholesale and retail trade.
- DIVISION G: Transport and storage.
- DIVISION H: Communication.
- SUBDIVISION 63: Property and business services.
- DIVISION J: Public administration and defence.
- DIVISION K: Community services.
- DIVISION L: Recreation, personal and other services.

36. However, in the following cases a wider definition of the establishment has been adopted:

- SUBDIVISION 36: Electricity and gas. Here the establishment relates, in general, to all locations of the one enterprise in

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the one State, which are mainly engaged in activities primary to either Class 3610, Electricity, or Class 3620, Gas.

SUBDIVISION 61: Finance and investment. Here the establishment relates, in general, to all locations of the one enterprise in the one State which are mainly engaged in activities primary to classes within this subdivision.

SUBDIVISION 62: Insurance and services to insurance. Here the establishment relates, in general, to all locations of the one enterprise in the one State, which are mainly engaged in activities primary to classes within this subdivision.

37. As mentioned in paragraph 13, the concept of the 'single physical location' encompasses the concept of the 'base of operations' which is relevant to situations where operations are carried out by a mobile workforce. Accordingly, in industries in which mobile workforces exist, such as in fishing, construction and transport, single physical location means base of operations.

38. As mentioned in the introductory paragraphs of this Chapter, establishment definitions listed above may be subject to modification during the currency of this present edition of the Classification.

LOCATIONS NOT YET IN OPERATION

39. Where an enterprise has incurred capital expenditure (beyond the mere purchase of land) for a location at which it intends to operate, that location is treated either as an ancillary unit or as an establishment for statistical purposes even though it has not commenced operations. Locations not yet in operation which are establishments are classified to industry on the basis of their intended main activity.

ADMINISTRATIVE OFFICES AND ANCILLARY UNITS

40. The concept of the ancillary unit is 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

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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 applied only to locations mainly engaged in providing services other than administrative services. However, for the purposes of simplifying the exposition in this Chapter, the term 'ancillary unit' has sometimes been used in those paragraphs as a convenient shorthand way of referring to both concepts (i.e. to administrative offices as well as to ancillary units properly speaking). Likewise the term 'ancillary activity category' has been used in those paragraphs to relate to administrative services as well as to other types of services. Substantially, 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 such as those listed in paragraph 44 in this Chapter, where the results of the activities do not actually form part of the 'end product' of the enterprise nor do they stand side by side with the other activities as 'end products' in their own right. These administrative and service activities owe their whole existence to the other activities of the enterprise.

41. 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 these 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 is necessary to devise some special rules for dealing with these supporting locations in the ASIC.

42. Where a location mainly engaged in such 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. 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 (see Chapter 4, paragraph 36).

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43. Where a location, which on the basis outlined above, would be treated as an ancillary unit, serves only one establishment which is in the same local government area, the first location is usually absorbed into that establishment (e.g. if the same employees work at the 'ancillary unit' and the establishment) since both locations would be classified to the one industry and the one local government area.

44. 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 two 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. These categories are:

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

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).

45. In principle, ancillary activity category (i) includes separately located (or split off) administrative offices of Public Sector authorities mainly engaged in administering or managing operations of establishments classified to divisions other than Division J, Public Administration and Defence. In practice, the treatment of Public Sector administrative offices and ancillary units will depend on the concepts to be developed for Public Sector units generally which will be included in the statistical standards document covering units concepts and rules.

46. Locations in categories (ii) to (v) and (vii) are treated as establishments if they have 50 per cent 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 specified in paragraph 49 below.

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47. With respect to category (vi), the term 'producers' sales office' is used in this Classification to relate to sales offices that deal in goods produced by the same enterprise. (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.) Separately located 'producers' sales offices' which deal in goods produced by the same enterprise are treated as establishments in the following circumstances:

- (a) Builders' sales offices. A builders' sales office (e.g. in the case of a speculative builder) should be treated as an establishment if that sales office is mainly engaged in selling (i.e. entering into and completing contracts for the sale of) the output of the builder, e.g. new houses and strata title units, constructed by a separate establishment of the builder.
- (b) Producers' sales offices (except builders' sales offices). Such sales offices if separately located, should be treated as establishments if they are mainly engaged in selling and supplying goods to customers (produced by the same enterprise) from stocks physically held at their premises or from stocks under their control at some other premises.

If the circumstances in (a) or (b) do not apply, e.g. the 'sales offices' are mere order taking offices or display centres, they should be treated as ancillary units.

48. Where services of the types referred to in paragraph 44 in this Chapter 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 at which the ancillary section is located.

49. As mentioned above, an exception to the general approach is 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). These special cases and their treatments are as follows:

- (a) Captive ship repair yards (separate locations)- these will be 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.

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- (d) Bus repair workshop - 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 buses. (The latter activity is covered by "ancillary activity category (v)".)
- (e) Motortruck, etc. 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 trucks, etc. (The latter activity is covered by 'ancillary activity category (v)').

ENTERPRISE AND ENTERPRISE GROUP CONCEPTS

50. As indicated in Chapter 2 the ASIC may be used for classifying enterprise-type units as well as for classifying establishments. In the integrated statistical system two levels of enterprise-type units are recognised - the enterprise group and the enterprise, the broader of these being the enterprise group.

Enterprise

51. The basic concept of the enterprise is that of 'a unit comprising all operations in Australia of a single operating legal entity'. The term 'legal entity' is used to cover, inter alia, an individual person (such as a sole trader), a partnership, a trust (established by trust deed), a society or association (established by or registered under relevant legislation) or a company. The term 'operating' is specified in order to exclude 'non-operating' companies which have no employees and do no business; these are very numerous. In general, for the purposes of defining enterprises, individual non-operating companies are attached to individual related operating companies in the enterprise group.

52. In the Public Sector the enterprise concept approximates that given above, except that the concept of the legal entity has been extended to also refer to an entity created by the Constitution or by other legislative enactments (e.g. Acts of Parliament) or, in the case of those entities recognised as 'Departments of State', by appropriate legislative or executive action (e.g. proclamation) which formalises the creation of these entities by the government in the area (State or Commonwealth) concerned.

53. The main variations from the concept of the enterprise consisting of an operating legal entity (including associated non-operating companies where they exist) are:

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- (a) Companies which could be regarded as non-operating because they have no employees of their own but which belong in the category 'financial enterprises' in the National Accounts (e.g. hire purchase or other instalment credit companies, companies formed to operate superannuation schemes, investment companies holding shares in companies outside the enterprise group); these are treated as separate enterprises.
- (b) Companies for which no separate records or accounts are maintained (i.e. no separate accounts are kept for management purposes - disregarding minimum accounts kept merely for taxation or company registration purposes); these are generally amalgamated with a related operating company to form one statistical enterprise.
- (c) Holding or property-owning companies which may or may not have employees are treated as separate enterprises.
- (d) Statutory authorities with no permanent employees (e.g. advisory authorities); these are merged with the department or authority which provides secretarial staff to the entity or is responsible to the same minister as the entity.

Enterprise Group

54. The basic concept of the enterprise group is that of a unit comprising all the operations in Australia of a group of legal entities under common ownership or control, e.g. companies which are related in terms of the Companies Acts. The concept also covers a single company which is not related to any other company (such a company would be both an 'enterprise group' and an 'enterprise'). A company owned by two or more other companies (none of which owns more than 50 per cent) is treated as an individual enterprise group separate from either of the companies which own it.

55. Joint ventures not incorporated as separate companies are generally treated as separate enterprise groups except in the case of mining exploration joint ventures; because of the rapidity with which the latter type of joint ventures can be set up, changed in composition or broken up, the activities of such joint ventures are not treated as separate units, the activities being regarded as merely extensions of the activities of the participating enterprises.

56. Where two or more unincorporated businesses are owned by partnerships with some common membership, each separate partnership is treated as a separate enterprise group.

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57. In the case of government authorities in the 'General Government Sector' the concept of the enterprise group does not generally have the same relevance as in the case of private undertakings. Currently in the integrated statistical system each 'enterprise' is considered as a separate enterprise group. This is in line with the tentative suggestion on this point in ISIC, but may be reviewed in the light of further investigation and experience.

AVAILABILITY OF DATA

58. Reference has been made at various points to the question of availability of accounting records for the range of data items which it is desired to compile for establishment statistics. This factor naturally has a considerable bearing on the method of distinguishing separate establishments. In some countries the definition of individual establishment units depends partly on the particular availability of accounting records for various activities within each enterprise. This approach has not been adopted in the ASIC, for a number of reasons.

59. Firstly, investigations carried out in connection with the construction of the ASIC have shown that there is a considerable degree of variation in the accounting practices of different enterprises, and definition of the establishment in terms of the availability of accounting records in the individual cases would lead to similar situations being treated differently solely on account of the differences between individual accounting systems. Secondly, the criterion of availability of accounting records for the specified range of data in the individual cases is by no means clear-cut in practice. For example, it is not uncommon to encounter cases where the precise range of data items desired is not available, but where the information which is available in respect of specific parts of the enterprises could, with a small degree of estimation, be made to serve the purpose - in such circumstances the criterion is open to substantial differences in interpretation. Moreover, the availability of accounting data is to some extent a matter for discussion between the statistical authority and the individual enterprise - in some circumstances an enterprise is prepared to make some modifications to its system of records to meet statistical requirements.

60. Besides these considerations, the question of availability of accounting records has received a good deal of attention in the construction of the ASIC headings themselves. Thus these headings have been designed to take account, as far as practicable, of the way in which different activities are commonly mixed at one location; where potential industries would require a substantial degree of splitting of locations to achieve acceptable specialisation ratios, industry classes have not been set up. Moreover, one of the aims of defining the establishment in terms of combinations of locations in certain specified circumstances, as described above, and of providing that only very large locations would be split, is to minimise the

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incidence of cases in which establishments do not have available the full range of data required for establishment statistics.

61. Thus, in the construction of the ASIC and in the definition of the establishment, considerable weight has been given to the general practices of enterprises in maintaining accounting records relating to separate parts of their operations. However, the Classification and establishment definition are not modified, in their practical application, to suit the accounting practices of individual enterprises (naturally, the accounting practices of individual enterprises will have a bearing on arrangements made for collection of data relating to the establishments, once these have been identified - e.g. where there is a need for imputation of some items).