HM Treasury

# Class (2013) 1:

## Sector classification

August 2013

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# 1 Introduction

## Purpose of this document

1.1 This note provides guidance on whether a body should be classified to the public or private sectors within National Accounts. The note does so in the context of:

- the establishment of a new body, especially when government, an Arms Length Bodies (ALBs) or a public corporation is involved in setting it up;
- determining the classification of entities that have been in existence but have never been classified by the ONS;
- privatisation or nationalisation; and
- joint ventures, partnerships and stakeholder relationships between one or more public sector bodies and private sector bodies where the new body being formed is a separate institutional unit in its own right.

## Background

### Who decides

1.2 The independent Office for National Statistics (ONS) makes decisions on which sector or sub-sector an actual or proposed body should be in. The ONS should only be approached via HM Treasury – Departments should contact their Spending Team with their classification queries. HM Treasury may settle more straightforward cases without reference to ONS.

1.3 Decisions are currently made in accordance with international guidelines set out for European Community member states in the European System of Accounts (ESA95), published by Eurostat. ESA95 is legally binding in the European Union.

1.4 A new set of National Accounts rules set out in the European System of Accounts 2010 (ESA10) are expected to replace the ESA95 rules from 2014. Entity classification rules in ESA10 are largely expected to remain very similar to the existing ESA95 rules.

### Status of the note

1.5 This is a publicly available document. The content has been agreed with the ONS. It does not represent any fundamental change in where the boundary between the public and private sectors is drawn. It supersedes all previous versions of this paper.

1.6 This document contains technical guidance regarding how bodies are classified in National Accounts. It is intended to inform departments when planning the public finances consequences (if any) of setting up a body.

1.7 This guidance should not be considered as containing an exhaustive detail of all the issues that need to be taken into account when considering the classification of entities, nor should it be seen as a substitute for the rules set out in ESA95 and its accompanying manuals.

1.8 The document should also not be seen as providing advice on how to set up or restructure a body, nor should anything in it be taken as a recommendation of the 'best' structure or governance.

1.9 Departments should always pursue value for money and seek to minimise the risk to when setting up or restructuring new bodies.

## 'Public sector in other contexts'

1.10 This note describes the definition of public sector used in ONS's National Accounts, Whole of Government Accounts (WGA) and for public expenditure control. The phrase may have different meanings in other contexts, such as tax legislation.

1.11 The classification referred to in this paper is separate from Cabinet Office classifications. Cabinet Office lead on NDPB policy and the structure of government, but it should not be assumed that any classification by Cabinet Office will lead to a particular National Accounts classification. The reverse of this is also true.

1.12 It also does not affect the legal status of the body in any way. Government are able therefore to set up bodies which have charitable status, but for National Accounts purposes will be classified to the public sector rather than the non-profit sector.

## Further guidance

1.13 Departments should contact in the first instance their normal Treasury Spending Team contact. The Spending Team will address further questions on classification to the Classification Branch, Andrew Evans (020 7270 4623), Alex Cole (020 7270 4743) or Lesley Neill (020 7270 5338) in the General Financial Reporting (GFR) team.

1.14 The Office for National Statistics publishes lists of bodies classified to the public sector for the National Accounts in its Public Sector Classification Guide. The ONS also put out regular monthly publication, which provides details of the latest classification decisions and changes made to the ONS Public Sector Classification Guide.

# 2 Delineation of the public sector

## The public sector

2.1 Within the public sector there are a number of different sub-sectors to which a body could be attributed to. In the National Accounts the following categories are used:

| | **Characteristics** | **Examples** |
|---|---|---|
| Central government | Public sector controlled<br><br>Non market<br><br>UK-wide remit or over devolved countries<br><br>Majority board members appointed by central government<br><br>Majority funding from central government<br><br>Separate institutional unit | Government department and their agencies, the devolved administrations, most non-departmental public bodies and arms length bodies (ALBs) |
| Local government | Public sector controlled<br><br>Non market<br><br>Local remit<br><br>Majority board members appointed by local government<br><br>Majority funding from local government<br><br>Separate institutional unit | Local authorities, bodies owned and controlled by local authorities |
| Public corporations | Public sector controlled<br><br>Market producer<br><br>Separate institutional unit | Government owned companies, nationalised industries, most trading funds |

2.2 Central government plus local government is defined as general government in National Accounts.

2.3 See Annex A for examples of bodies which fit into each of these sectors.

## Key questions for sector attribution

2.4 As the table above demonstrates classification within National Accounts is dependent on the definitions of 'market body', 'geographical remit', 'funding' and 'control'. Also to be classified in National Accounts at all a body must be deemed a 'separate institutional unit' rather than being part of a larger body. These definitions are based on the standards in ESA95, which are expected to remain the same in ESA10 and the application of these standards is a matter for the ONS. The ONS are guided in application of the standards by a case history of previous classification decisions and any new guidance provided by the European Commission such as the annually published Manual of Government Deficit and Debt (MGDD).

2.5 Below is a brief guide for departments on how these standards are applied – be aware that these are guidelines only and the final decision will always rest with the ONS.

## Separate institutional unit

2.6 For an entity to be classified in its own right, a body must be a separate institutional unit. It needs to have its own legal form and be able to lead a separate existence. So, for example, it needs to be able to:

- make decisions in an autonomous way;
- enter into contracts;
- own assets in its own right and also be allowed to dispose of them;
- incur liabilities;
- employ staff;
- make payments from its own bank account; and
- draw up its own financial accounts or be able to do so if required.

2.7 If an entity is not a separate institutional unit then it is classified as an integral part of the parent body to which it belongs to or is controlled by and so all transactions should score to the sector of the parent body.

2.8 Generally an institutional unit is classified to one sector. If an institutional unit performs activities typical of more than one sector then it is first necessary to ask whether the unit can be split into two or more separate institutional units. For example, this might be true for a government agency that is split into two divisions: one performing policy advice and regulatory work; and the other selling services. If separate accounts are kept for the two divisions then it might be reasonable to view the agency as being two separate institutional units.

## Market bodies

2.9 Public corporations are defined as government-controlled market bodies (i.e. the entity's principal function it to produce goods and/or services whose major output is market output). Public corporations can be non-financial or financial.

### Non-financial public corporation

2.10 A non-financial public corporation is one which produces goods and services for sale, and at least 50 per cent of its production costs covered by these sales. The 50 per cent criterion should be applied by looking over a range of years to avoid frequent reclassifications through minor fluctuations in one year, which are not repeated or expected to be repeated in the future.

2.11 Production costs include pay, procurement of goods and services, payments to contractors, utilities, rent, and tax, which are incurred in the direct provision of the service. They include notional costs, such as imputed insurance premia where applicable, depreciation and a cost of capital set at the appropriate rate – either at the standard rate of 3.5 per cent real, or the risk adjusted market rate where applicable. These costs also include a share of overheads and the costs of a parent government department only insofar as the parent department provides services to the selling body. Senior management or corporate policy time on the delivery, or management, of the good or service is an allowable cost, but note that the costs of policy work in general are excluded.

2.12 Allowable costs do not include capital expenditure as it is made; rather the cost of consuming capital in the production of the good or service should be recovered through the price (through depreciation and a reasonable rate on capital employed). Allowable costs do not include a provision for creating a return beyond the normal return to capital found in a comparable business, assumed to be 3.5 per cent for most statutory services.

2.13 Sales are defined as payments for goods and services at economically significant prices. Such prices are economically significant in the sense that they influence the amounts demanded and supplied.

2.14 A difficult issue is determining whether payments made by a government unit to another public unit in respect of work done should be classified as sales or as grants. In general the payments would be classified as sales if they are related to specific volumes or values of output under arms-length contracts and are not paid if that output is not delivered. Payments made by government bodies for general running costs or to cover an overall deficit are treated as grants. Bodies funded mainly by grants are non-market bodies and so will be either part of general government or a private not-for-profit institution.

2.15 A further issue unique to the public sector is determining what income should be treated as sales of a service and what should be treated as a tax. This issue is particularly relevant to bodies charging the private sector for regulatory services or licenses to allow trade. As these bodies are rarely functioning as part of a competitive market it is usually the case that this kind of income is classified as a tax. Tax income is non-market, so this distinction can determine whether a body is part of central government or a public corporation.

2.16 In addition if an entity is relying on a legislation introduced by government to compel consumers to pay fees where the link between the fee payable and the perceived benefit that the payer of the fee is getting is not a direct one then a careful consideration should be undertaken to determine whether the fee is a genuine sale or imputed taxation.

2.17 For further detail over what income can be classified as sales, as opposed to grant or tax, departments should refer to CLASS(2013)2: Classification of Receipts.

### Financial public corporation

2.18 The public sector can also set up a financial public corporation. To achieve this classification financial intermediation needs to be the primary function of the entity. Financial intermediation is an activity in which an entity acquires financial assets and liabilities on its own account by engaging in financial transactions in the market.

2.19 It is necessary that the entity places itself at risk when incurring liabilities to achieve a financial public corporation status. Further, the intermediation needs to be with the general public or relatively subsets of the general public rather than small groups.

## Sub-sector classification within the general government sector – local vs. central government

2.20 General government is split between national bodies whose remit extends to the UK or the devolved countries and those bodies whose competence extends to only a local part of the UK.

2.21 ONS look at a number of factors when determining whether an entity should be within the local government or central government boundary. Primarily they look to the geographic area of responsibility of the body – if this area is restricted to local authority boundaries (or across a small number of local authority boundaries) then the body will be classified to the local government sub-sector. Otherwise the entity will belong to the central government sub-sector.

2.22 Funding source and control over the appointment of Board members are also equally important factors that need to be looked into. Bodies controlled and mainly financed by other local government bodies will be included in the local government sector, even if their remit extends nationally. This most commonly applies to a single body which carries out the same function for multiple local authorities, for example the Local Government Association.

2.23 In the UK the devolved regions are seen as above the local government boundary and as such the devolved governments are considered as central government bodies. This will also apply to any body whose competence extends to the boundary of the devolved governments.

### SPVs

2.24 Special Purpose Vehicles (SPVs) form a common part of complex transactions in both the public and the private sector. Typically these bodies are constructed for a sole purpose, often to hold assets or to issue financial instruments.

2.25 These bodies may or may not fulfil the criteria as listed above to be considered separate institutional units. But because of their nature they are often close to the borderline for classification purposes and a further test may be applied:

- if a vehicle company is created solely for the purpose of holding securities it will normally be considered a 'Trust', and will not be regarded as a separate institutional unit within National Accounts; or
- if the vehicle exists to issue financial instruments then it is considered to be a separate institutional unit and will likely be classified as part of the Financial Intermediary subsector in National Accounts.

2.26 The National Accounts process attempts to achieve a reasonable decision that reflects the economic reality.

### Quasi-corporations

2.27 Quasi corporations are constructions in National Accounts to handle government bodies that have significant sales of goods and/or services but are not separate institutional units. They are constructed when the income and expenditure of the market activity can be measured separately from the rest of the body. This activity is treated as a quasi corporation and classified to the public corporations sector. This treatment need not concern departments since it is a device used in National Accounts to put all significant market activity in the corporations sector; there are no actual consequences for how departments operate. Also there are only minor consequences for fiscal aggregates and balances since these are recorded at the public sector level, rather than at the general government level.

### Control

2.28 A body will be classified as a public body if the public sector has the ability to control general corporate policy. This control may come from any number of different sources and is often contentious. Chapter 3 is devoted to this issue.

# 3 Control

3.1 If a body is controlled by general government (central or local government) or a public corporation, then it will be in the public sector. If not, then it will be in the private sector. References in this guidance note to control by government or Ministers include control by NDPBs, ALBs and public corporations. So the key question that needs to be addressed is to determine whether a body is in the public sector or the private sector is "who controls the body?"

3.2 ESA 95 defines control as the ability to determine general corporate policy by choosing appropriate directors if necessary. It goes on to say that control exists through ownership of more than half the voting shares or, in the case of government, through special legislation or regulation empowering the government to determine corporate policy.

3.3 The ability to appoint the majority of directors or ownership of the majority of the voting rights is referred as primary indicators of control. If one or both of these control indicators are present an entity will automatically be classified to the public sector.

3.4 However, aside from appointing directors or owning the equity of the body, there are a number of ways in which government may gain some degree of control over the actions of a body. These are referred as secondary indicators of control.

3.5 The following section provides details of some of the most common controls held by departments over otherwise independent bodies, it is not intended as an exhaustive list.

## Common controls

3.6 The following section is a list of some common controls used when bodies are set up. The list should not be seen as exhaustive. Some of the controls below would be seen as highly important in classification while others less so; when considering the classification of a body ONS will look at all controls, major and minor, and decide whether they add up to control.

3.7 See Annex A for a list of the fourteen different control indicators the ONS look at when assessing the classification of entities.

### Primary control indicators

#### Appointment rights

3.8 Control may be evidenced by the ability to appoint all or a majority of the directors, or the key directors who determine the policy of the organisation. A right to be consulted over appointments, or a veto over appointments, does not give direct control however ONS view this as very similar to the right to appoint itself, and is therefore considered as an important indirect control.

3.9 If a department helps to set up a body intended to be private sector, a private sector partner or 3rd party in the private sector should make a majority of appointments to the board to avoid a public sector classification.

3.10 In cases where a central government department wishes to get an existing entity reclassified from the public to the private sector, the make-up of the newly structured Board needs to be thought through carefully. For example, if the majority of the board members still remain as directors in the newly restructured organisation or get reappointed then the entity will remain in the public sector until such time as new members are reappointed.

### Multiple sponsorship

3.11 Where a body is owned or controlled by a number of public sector bodies it is the overall weight of the public sector that counts. So for example, if four public sector bodies have a right each to appoint one director, and there are seven directors, the body will be in the public sector. This is irrespective of whether there is a private sector partner who appoints the other three members and has more influence than any of the public sector bodies in isolation.

### Ownership

3.12 Ownership is an important criterion partly in its own right and partly because ownership can give control.

3.13 Where the public sector owns more than 50 per cent of the voting shares or in cases of companies limited by guarantee if the majority of the members are from the public sector, it will have control. This rule applies when decisions are made on a one-share, one-vote basis. However, if some of the votes of public sector appointees have more weight than that of the private sector appointees a more careful consideration will be necessary. Also if the shares the public sector owns are non-voting shares then further analysis is required.

3.14 Ownership can also be defined in the public sector, for entities that are not companies, by reference to the existence of a participating interest. As noted earlier, this is defined as an interest:

- conferring any right to share in the profits or the liability to contribute to the losses of the undertaking; or
- giving rise to an obligation to contribute to the debts or expenses of the undertaking in the event of a winding up.

3.15 However, situations may arise where a body will not be controlled, even though government has a participating interest, because government does not have the ability to appoint the majority of the directors or actually exercise dominant influence. In order to demonstrate that government is actually exercising dominant influence over a body, the extent of the influence from government will need to be stronger than is typically seen in an arms-length relationship.

### Special shares/ reserve powers

3.16 In order to protect the public interest government may choose to retain special shares in bodies or hold reserve powers. These may give the public sector the right to control certain actions or, more commonly, require that consent is sought to carry out such actions. These often arise in new bodies or newly privatised bodies. Examples of this include powers to:

- prevent changes in ownership;
- prevent the disposal of assets; and
- approve the appointment of directors in companies with national defence or other strategic importance.

- seize control of the company in the event of poor performance
- replace the directors in the event of poor performance

All of the above powers are signs of control in a body to differing degrees.

3.17 It is necessary to consider whether such controls are active or passive in the sense of setting out the purpose and operational guidelines for the body when it is set up (passive control); or defining circumstances in which government could intervene and make decisions affecting how the organisation is run (active control).

3.18 The first three bullets above are examples of passive controls. Whilst these all imply a certain degree of control by the public sector none of them would be expected individually to cause the reclassification of a body.

3.19 Step-in rights, such as the last two bullets above, are examples of active controls. Where government has the right to step-in and take direct control of a body (or certain corporate actions of a body) it will normally lead to a public sector classification.

3.20 For government to take active controls and the body remain in the private sector it must be clear that the controls could not lead to the public sector taking control, except in very specific circumstances. Private sector bodies can exists therefore, where government retains the power to step in if certain trigger points are reached – for example the body is in financial distress. To be effective in restricting government's controls these trigger points must be objectively measurable.

3.21 At the time such a trigger point was activated, the body would be reclassified to the public sector.

### Second tier controls

3.22 Aside from majority Board members appointment or ownership discussed above, the government could secure powers to control a body by influencing the management of an entity. Where government can influence the behaviour of the board or the body's shareholders then it will be taken to be a sign of control. For example, this is commonly evidenced in the public sector retaining controls over directors' pay or over the level of dividends.

### Special terms in the body's constitution

3.23 A body's Memorandum and Articles of Association may have terms that require government consent for certain actions, or before the memorandum and articles may be changed. Where such restrictions are time limited – say up to five years – and are intended to give an initial period of stability to a new body, then they need not amount to overall control. Permanent restrictions over important parts of the body's work would normally amount to control. The same logic as above applies to active and passive controls.

### Indemnities

3.24 Of themselves, government indemnities do not necessarily mean that a body is public sector – especially if they are time-limited, narrow and unlikely to be called. However, wide-ranging indemnities will suggest that the government sees the function as a state function. In the case of an NPI, wide ranging indemnities suggest that the department would see the NPI as closely linked to government. In the case of a business, government guarantees of its borrowing would be viewed as akin to government equity if the government guarantees would be called before the equity of the private investors.

3.25 In addition, propriety may require the Secretary of State to exercise a measure of control in order to protect the departments vote against the risk that the indemnity is called; that control may be enough to put the body in the public sector.

### Funding/grant funding

3.26 There is no contradiction in a body which is 100 per cent funded by government but which is classified to the private sector. As long as the body is clearly controlled by the private sector then a private classification will follow.

3.27 When providing funding to a body, for example in the form of a grant, it is good practice for a department to include enough conditions on the use of the funding to ensure that it is spent as intended. These conditions often come in the form of a grant funding agreement.

3.28 If, however, the conditions on the funding stream are restrictive to allow the public sector control over the wider policy of the body then this would be a form of control. One common control is to give the public sector sign off over the grant recipient's business plan. This is seen as a powerful control as it allows the public sector to influence the course of the general policy of the body or potentially how the entity decides to deliver its services or outputs.

## Weight of secondary indicator of controls

3.29 In determining who controls a body, ONS considering the overall reasonableness of the decision, for example by considering whether viewed in the round, it is credible that the body should be seen as being in the private sector or public sector. So a classification decision it is often not as simple as looking for a single clause that controls the body, instead the ONS look at the body as a whole and the total influence government holds over the actions of that body.

3.30 In the above section some of the controls mentioned could be considered as major and would in themselves lead to the classification of a body to the public sector. However, some of the controls are minor and in themselves would not be enough to cause an otherwise private body to be classified to the public sector. However, the National Accounts classification would depend on all of these secondary controls being taken together, which could add up to overall control of the body.

## Abstaining from control

3.31 Control is evidenced by the ability to control, not by the action of controlling. Where a department has a continuing right to exercise overall control but chooses not to do so, that still amounts to control.

## Accounting standards

3.32 UK accounting standards also rely on control to determine whether a body should be considered as part of a group and include a set of tests designed to determine whether control exists. These tests are broadly consistent with the ESA95 principles stated above, but provide additional guidance on how the principles can be interpreted, and have been adapted for defining the public sector. For further information refer to the FReM.

# 4 Specific issues in sector classification

## Privatisation and nationalisation

4.1 A privatisation occurs when the government sells its majority equity stake in a corporation; nationalisation is the opposite of this, when the government acquires a majority equity stake in a body that was previously in private hands. This transfer of ownership clearly impacts the sector classification of a body; however it is important to draw a distinction between the act of privatisation and the reclassification of a body.

### Privatisation

4.2 The essence of privatisation is that government sells ownership of a body to the private sector. It is a policy question whether government is able and willing to sell all or part or none of a body. In some privatisations, a government business could be sold and simply left to operate as one enterprise in a competitive market. In others it will often be necessary to consider whether to restructure an existing public sector body so that any part over which government plans to retain control remains in the public sector while the rest is privatised.

4.3 For flotation's, privatisation takes effect on the day that dealings in shares open on the Stock Exchange. For trade sales it is when contracts are completed.

4.4 Transferring the majority equity holding of a body to the private sector means government has lost many of its controls over the body. This normally leads to the body being reclassified from public to private sector.

4.5 However, government may decide that, for policy reasons, some control should be retained over the privatised body. If government retains sufficient controls that they are deemed to have control over general corporate policy then the body will remain in the public sector for the purposes of National Accounts, even though in terms of government's economic interest it has been privatised.

4.6 Inevitably, appointments made to a public sector body before privatisation were made by the public sector and this is no barrier to privatisation, assuming that the length and other terms of appointment are normal (note that as discussed above the continuation of serving Board members could cause an issue if a restructuring is envisaged to achieve a reclassification decision).

### Nationalisation

4.7 To some extent, nationalisation involves the reverse of the guidance on privatisation. Nationalisation is normally viewed as government acquiring the equity (or a majority of the equity) of a corporate body.

4.8 This transfer of majority ownership will lead to the body being classified to the public sector, most commonly as a public corporation. See the section on ownership above. However, as seen in privatisation, it is possible for government to be in control of bodies that they do not own through controls over a body's corporate policies. Therefore where a body is already classified to the public sector, nationalisation will not lead to a reclassification.

4.9 This is of particular relevance to bodies which are nationalised as a result of financial distress. Government may transact with bodies in financial distress to protect the industry or to protect the public, where this happens government commonly takes and interest of some sort in the company either through acquiring a minority shareholding or through lending to the body etc. These interests usually come with conditions or controls attached to protect the public sectors interest, and if the weight of these controls is such that government can be seen as having overall control then the body will be reclassified to the public sector. For example, this was evident in the interventions that the government made during the most recent financial crisis.

4.10 It is therefore important to note that whilst nationalisation will bring a private sector body into the public sector, there may be timing differences between the event of nationalisation and the reclassification due to additional controls held by government.

## Other types of body

### Joint ventures

4.11 A joint venture is when two or more partners form a formal consortium to progress some activity. One model would be when the partners set up a company and take shares in it.

4.12 The criteria for control of a joint venture are the same as for control of a company, the guidance in Chapter 3 should be applied when considering if the body is public or private sector.

4.13 Where a joint venture is controlled by the public sector, the whole of it will be classified to the public sector, and all of its borrowing will score in public sector net debt. The opposite is true if the body is controlled by the private sector.

4.14 Joint ventures are commonly set up as a 50/50 deadlock between the public and private sector partners. Where the public and private sector are judged to be in deadlock the body will be classified to the private sector by default. It should be noted that deadlock here is taken to mean that control, as viewed by the ONS, is exactly 50/50. It is worth noting that when ESA10 is implemented the ONS is expected to reflect the 50 per cent of the public sectors holding on the government’s balance sheet from the time the deadlock joint venture was created.

4.15 In joint ventures the public sector often takes additional controls or rights above the private sector partner, even though the votes on the board of the body may be in deadlock. In these cases the body is likely to be classified to the public sector.

4.16 Joint ventures often involve partnership agreements setting out the control rights of each partner. The rights given to a government partner in a joint venture can appear to be significant in terms of the issues discussed in this paper. However, such rights should not necessarily mean that the body has to be classified to the public sector provided that the rights are similar to those enjoyed by the private sector partner. Government rights giving control over the joint venture in order to further government policies (such as locating an operation in a particular part of the country) or to avoid political problems (such as big pay increases for directors) could be enough to tip the balance in favour of classification to the public sector.

4.17 For detailed information on setting up joint ventures department can refer to guidance issued by Infrastructure UK.

### Subsidiaries

4.18 Where Nationalised Industries, other public corporations (including NHS Trusts), trading funds, ALBs and NDPBs set up bodies, these will only be in the private sector if they meet the criteria discussed above. References to control by government in this note should include references to control by other public bodies.

4.19 UK subsidiaries of public bodies should be consolidated with the parent body for public sector accounts. Special factors apply to overseas subsidiaries, and HM Treasury should be consulted.

### Regulators

4.20 Regulators occupy a unique position in the economy, in that they are expected to have the ability to control individual bodies in the industry to a degree. This means that, while the same principles apply, the classification of controls held by a regulator will be viewed slightly differently than similar controls held by a sponsoring department. In most cases it can be assumed that the controls held by regulators will not lead to everybody in the industry being classified to the public sector.

4.21 For as long as regulation is over external actions - such as price regulation, and regulation of markets - it is unlikely to amount to overall control.

However, if regulation over an entity is so tight that it effectively dictates the general policy of an organisation then this could amount to control. Also while uncommon it is possible for controls of regulators to make all subject bodies public. This is mainly an issue where regulation extends to internal management – for example setting pay levels, borrowing restrictions, or approval of appointments - then it could be seen as taking control. Control by a regulator appointed by government, however independent it may be, will lead to a public sector classification.

# A Example classifications

This annex provides example bodies which have been classified to the public and private sectors.

## Central government

Most government departments, executive agencies, arms length bodies (ALBs) and non-departmental public bodies (NDPBs) that are not trading funds or other trading body not classified as public corporation; central funds such as the Consolidated Fund, National Loans Fund, National Insurance Fund, and Exchange Equalisation Account (foreign exchange reserves); Devolved administrations of Scotland Wales and Northern Ireland; Office for National Statistics; Health authorities; Intervention Board; Forestry Commission; Academies.

## Local government

Local authorities; police and fire authorities; transport authorities; Maintained schools except City Technology Colleges.

## Public corporations

Royal Mail; Transport for London; most Trading Funds; Royal Mint; Companies House; Land Registry; Forest Enterprise; Patent Office; Royal Bank of Scotland (RBS); Lloyds Banking Group (LBG).

Bank of England, the Central Bank is a public sector body, but it sits in its own sub-sector within the broader sector of Public Corporations.

## Private financial corporations

Private banks; insurance companies and pension funds.

## Private non financial corporations

National Grid; The Stationery Office, Chessington Computer Centre.

## Private sector not-for-profit bodies

Universities, Further Education Colleges, most charities; National Trust.

# B ONS sector classification criteria

This annex provides the criteria the ONS use in deciding whether or not an entity should be classified to the public sector.

## Governance controls – primary indicators of control

Does the public sector:

- have the right to appoint the majority of the board or has veto rights; or
- own the majority of the voting shares of the organisation?

## 14 key areas indicating secondary controls

Can the public sector:

1 determine aspects of how the body delivers its outputs;

2 have a final say in sale/acquisition of fixed assets;

3 take a share of proceeds of asset disposals that goes beyond the repayment of previous government support for capital formation;

4 close the body;

5 prevent the body from ending its relationship with the public sector;

6 veto any takeover (except in the case of an conventional special share);

7 change the constitution of the body, or veto changes to it;

8 decide what sort of financial transactions the body can undertake, or limit them;

9 prevent the body from receiving certain types of income from other sources;

10 exert numerous minor controls over how the body is run;

11 exert financial control (N.B. this is different from funding) as part of a general system of controlling public expenditure;

12 control dividend policy;

13 set pay rates; or

14 approve acquisitions (for non-regulatory reasons)?

**HM Treasury contacts**

This document can be downloaded from www.gov.uk

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