

7.1 This Chapter sets out what public corporations are, recent developments affecting them, how they are controlled, and how they are scored in public expenditure. A list of the main public corporations is in appendix D. The appendix shows which bodies are Self-Financing Public Corporations (SFPCs) and Trading Funds.

7.2 Data in this chapter do not fall within the scope of National Statistics.

Definition of public corporations

7.3 Public corporation is a term from national accounts – the European System of Accounts (ESA95). So it is the Office for National Statistics (ONS) that determines which bodies are public corporations. The characteristics of public corporations are:

- they are mainly trading bodies, largely recovering their costs from fees charged to customers. Some charge for regulatory activities, where these provide a significant benefit to the person paying the fee, for example through quality testing;
- they are owned or controlled by central government, local authorities or other public corporations; and
- they have substantial day to day operating independence so that they should be seen as institutional units separate from their parent departments.

Recent developments

7.4 On 2 July 2003, the ONS announced a provisional decision that NHS foundation hospitals would be classified to the central government sector and a firm decision that the existing NHS trusts would be reclassified from the public corporation sector to the central government sector. The ONS also indicated a provisional view that once the new system of paying for hospital services through “national tariffs” had been introduced over the period 2004–05 to 2007–08 then English NHS trusts and NHS foundation hospital trusts would be regarded as public corporations for the national accounts. The reclassification to the central government sector is to be effected in the national accounts Blue Book in Summer 2004 and has therefore not been reflected in the figures in this Chapter for English, Welsh and Northern Irish bodies. Scottish NHS Trusts are treated as central government bodies with effect from 2003–04 in PESA 2004, as they have been re-absorbed back into health boards.

7.5 The ONS announced on 27 February 2004 that Network Rail would be regarded as a public corporation until 31 March 2003 rather than until 16 August 2002 as previously stated. From 1 April 2003 Network Rail is a private sector non-financial corporation. The extension of the time that Network Rail was in the public sector before it became a private sector body will be effected in the national accounts in Summer 2004, and has therefore not been reflected in the figures in this Chapter.

7.6 Driver and Vehicle Licensing Agency (DVLA) became a trading fund on 1 April 2004. The ONS will continue to classify it to the central government sector for national accounts. DVLA figures are therefore not included in this chapter, and in PESA DVLA scores as part of central government.

The corporate control framework

7.7 The controls on public corporations operate at a number of levels:

- **Strategic objectives** are agreed with each individual corporation and provide the framework within which the financial controls and the body's control procedures are set. Corporations' corporate plans are discussed with sponsor departments.
- **Financial targets and performance aims.** Financial targets should be set, often for periods of three to five years. They vary in form, according to the circumstances of the body. Backing up the financial targets are a series of performance aims, again often for three to five years ahead, which may relate to costs and, where appropriate, standards of service.
- **Investment appraisal and pricing principles.** Public corporations are required to aim at a suitable rate of return on their assets. This requirement is intended to ensure that resources are used effectively, that consumers experience appropriate prices, and that markets are not distorted. The required rate may vary between corporations and is set individually by the sponsoring department with, where appropriate, the agreement of the Treasury.
- **Monitoring** plays an important role in controlling public corporations' performance in the interests of the taxpayer and the consumer. Sponsor Ministers, departments and the Shareholder Executive continuously monitor bodies' performance against all aspects of the controls described.

Self-financing public corporations

7.8 The Treasury has designated some public corporations SFPCs. To be classified as an SFPC, the public corporation must normally trade mainly with non-government customers and not perform regulatory functions. In other words, its income must be from selling goods and services into a competitive market rather than from regulatory fees. It must trade profitably and not require subsidies or other financial support from its parent department.

7.9 SFPCs normally score in Departmental AME rather than in DEL – though any subsidies and grants exceptionally paid to them would score in DEL. They also have greater and more individually tailored financial flexibilities. Some SFPCs are also trading funds.

Trading funds

7.10 Where activities of a government department generate income from the supply of goods and services those activities may be designated trading funds by Parliament on the application of the Government. Trading funds may keep unspent funds from one year to the next without having to surrender surpluses to the Exchequer at the end of each year.

7.11 Most trading funds are classified by ONS as public corporations in the national accounts. DVLA is the only trading fund that is treated as a central government body.

7.12 Trading funds are not subject to central government administration costs controls. The budgeting treatment of trading funds that are public corporations is normally the same as that of other public corporations.

Public expenditure measurement and control

7.13 The following transactions with and in respect of public corporations accountable to Ministers are normally included in departmental budgets. The list corresponds with the scoring and concepts in resource accounts:

- subsidies and capital grants paid to the public corporation by the Department (in resource DEL, except for capital grants financed by the Capital Modernisation Fund which are in capital DEL);
- interest and dividends received from the public corporation, and equity withdrawals (resource DEL, or resource AME if an SFPC);
- loans and public dividend capital (PDC) invested in the public corporation (capital DEL, or capital AME if an SFPC); and
- a capital charge on the department's investments (loans and PDC) in the public corporation (in resource DEL, or resource AME if an SFPC). This is the same figure as is recorded in the department's resource accounts.

7.14 **Forest Enterprise** and **NHS Trusts** in England, Wales and Northern Ireland have a different budgeting treatment:

- resource DEL includes: subsidies given to the public corporation; the public corporation's profit(-)/loss(+); and a capital charge on the public corporation's net assets;
- capital DEL (AME in the case of NHS foundation hospitals) includes the public corporation's capital expenditure and any loans given by the public corporation to the private sector, or any shares that the public corporation buys in a private sector company.

7.15 The **Crown Estate** is an SFPC. Uniquely the routine subsidy that is paid to it to cover administration costs is in AME rather than DEL, and the dividends that the Treasury receives from it are recorded outside budgets.

7.16 Some **trading funds** are government departments in their own right. A capital charge will be shown in the budgets of their 'parent' department (for budgeting, not accounting). Where the funds borrow directly from the National Loans Fund, the amount of the capital charge is in effect abated by the interest they pay on their borrowing.

7.17 **Public corporations controlled by local authorities** include the businesses reporting to Transport for London and local authority airports such as Manchester. DEL and departmental AME include central government support to local authorities, some of which may be used by them to support public corporations. The expenditure of these public corporations is not within DEL or departmental AME. The whole of their capital expenditure is included in the public corporations' own-financed capital expenditure line in AME. They are included in the bottom line of **Tables 7.1** and **7.3** which show the total contribution of all public corporations' own expenditure to Total Managed Expenditure (TME). The largest of them are identified separately in **Table 7.3**.

7.18 **Table 7.1** shows the impact on departmental budgets – DEL and Departmental AME – of public corporations accountable to Ministers. It also shows a reconciliation to the impact of all public corporations, including those accountable to local authorities, on TME. The table covers outturn and plan years.

7.19 Table 7.2 shows the contributions of public corporations accountable to Ministers to resource budget DELs, by department, for outturn and plan years.

Public corporations in Total Managed Expenditure

7.20 TME measures the current and capital expenditure of the public sector as a whole. It is taken from national accounts compiled by the ONS. TME includes:

- subsidies paid to public corporations;
- the capital expenditure of public corporations, net of sales of assets;
- changes in public corporations' capital stocks; and
- interest and dividends paid by public corporations to the private sector and abroad.

7.21 TME is a consolidated measure. So capital grants and net lending to public corporations, and interest and dividend flows between general government and public corporations are consolidated out. Payments of subsidies to public corporations (like general government's purchases of goods and services from them) are not consolidated out. Instead, these flows contribute to public corporations' gross trading surplus, an income item in the public sector's accounts.

7.22 Grants and subsidies given by public corporations to the private sector and overseas are imputed to general government expenditure in national accounts, as grant-giving is not held to be a normal function of a commercial body.

7.23 Note that the impact of public corporations on departmental budgets differs from their impact on TME. Accounting adjustments are used to move from DEL *plus* Departmental AME *plus* Own-financed capital expenditure (Other AME) to TME (see Appendix B for a full explanation of the accounting adjustments).

7.24 Table 7.3 shows the capital expenditure of each major public corporation sponsored by a central government department and of the biggest public corporations accountable to local authorities. It does not identify separately small public corporations controlled by central government departments and most public corporations under local authority control. It also gives for each department the sum of capital expenditure of the public corporations listed. The total figure for the table includes all public corporations. Capital expenditure is recorded net of any asset sales. In this table, apart from the total line, it includes any capital grants paid by a public corporation net of any received from the private sector or abroad. The table gives figures for outturn and plan years.

Further information

7.25 More information is available in the departmental reports of government departments and in the annual reports and accounts of individual public corporations.

Table 7.1 Public corporations' contribution to budgets⁽¹⁾ and TME 1998–99 to 2005–06

	£ million							
	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
	outturn	outturn	outturn	outturn	outturn	estimated outturn	plans	plans
Within resource budget:								
<i>Resource Budget DELs:</i>								
CG dividends from PCs(-)	-33	31	233	-16	-13	-65	-49	-64
CG interest from PCs(-)	-3	-78	-127	-129	-68	-314	-145	-160
Subsidies to PCs	503	610	653	610	611	1,577	687	685
CG investment grants to PCs	1,056	1,336	457	746	982	304	210	193
Cost of capital charge	844	903	920	1,007	941	1,098	1,185	1,304
Profit(-)/loss(+) of NHS Trusts and FE ⁽²⁾	-1,278	-1,276	-1,582	-1,340	-1,370	-778	-863	-862
Total resource DEL	1,089	1,525	554	878	1,082	1,822	1,026	1,097
<i>Resource Budget AME:</i>								
CG dividends from SFPCs(-)	-8	-50	-68	-42	-34	-20	-33	-33
CG interest from SFPCs(-)	—	—	—	—	-5	-3	-5	-1
Subsidies to SFPCs ⁽³⁾	2	2	2	2	2	2	2	2
Cost of capital charge	5	103	104	145	131	120	118	117
Total resource AME	-1	55	38	105	93	99	82	85
Total public corporations' contribution to resource budget⁽¹⁾	1,088	1,579	592	983	1,176	1,922	1,108	1,182
Within Capital Budget:								
<i>Capital Budget DELs:</i>								
Capital Expenditure by NHS trusts and Forest Enterprise ⁽²⁾⁽⁴⁾	1,270	1,299	1,588	1,453	1,572	2,205	2,857	1,621
CG investment grants to PCs ⁽⁵⁾	—	—	104	—	—	—	—	—
Net lending to PCs	-36	178	218	228	146	113	92	74
Total capital budget DEL	1,234	1,477	1,909	1,682	1,718	2,318	2,948	1,695
<i>Capital Budget AME:</i>								
Capital expenditure by NHS foundation trusts ⁽²⁾	—	—	—	—	—	—	350	—
Net lending to SFPCs	—	—	—	-50	-50	700	472	-15
Total capital budget AME	—	—	—	-50	-50	700	822	-15
Total public corporations' contribution to capital budget	1,234	1,477	1,909	1,632	1,668	3,018	3,770	1,680
Other AME:								
PC own financed capital expenditure ⁽⁶⁾	1,437	1,392	971	1,540	1,970	2,471	2,645	2,474
Accounting adjustments	824	-141	1,774	1,122	-446	-2,146	-1,000	-500
Public corporations' expenditure in TME	4,583	4,307	5,246	5,277	4,368	5,265	6,600	4,800
<i>of which:</i>								
PC current expenditure in TME	39	43	75	121	115	95	200	200
PC gross investment in TME	4,544	4,264	5,171	5,156	4,253	5,170	6,400	4,600

(1) Data in this table differ from those shown for public corporations in Table 1.14. Central government subsidies to public corporations are classified as central government own spending in National Accounts, and are shown as such in Table 1.14. In Table 7.1 subsidies are shown as part of public corporations' contribution to resource budget. Subsidies are removed in the accounting adjustments and do not form part of public corporations' expenditure in TME.

(2) NHS Trusts and Forest Enterprise have different budgeting rules such that the profit/loss scores in resource DEL and capital expenditure scores in capital DEL (capital AME for NHS foundation trusts).

(3) The only subsidies in AME are those to the Crown Estate which has a special budgeting regime.

(4) Department of Health capital budget allocation between central government and NHS trusts for 2005–06 has not been finalised. For the full amount of Department of Health capital DEL, see Table 1.8.

(5) Capital budget includes central government investment grants to public corporations that are financed from the Capital Modernisation Fund.

(6) Includes capital expenditure by local authority public corporations.

Table 7.2 Public corporations' contribution to Resource DEL, 1998–99 to 2005–06

	£ million							
	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
	outturn	outturn	outturn	outturn	outturn	estimated outturn	plans	plans
Public corporations' contribution to resource budget DEL								
Health	-408	-335	-548	-423	-394	45	60	165
Transport	458	912	283	479	774	900	8	7
Office of the Deputy Prime Minister	404	319	295	109	114	107	61	35
Home Office	—	—	—	-1	-3	-1	-1	-1
Defence	—	-2	-8	18	14	10	12	6
Foreign and Commonwealth Office	15	14	25	17	—	31	31	31
Trade and Industry	6	-4	-4	-5	-1	-29	-28	-38
Environment, Food and Rural Affairs	55	73	84	87	67	104	78	81
Culture, Media and Sport	75	75	75	77	80	85	92	92
Work and Pensions	94	96	101	148	119	126	97	97
Scotland	-4	-94	-104	1	13	121	112	115
Wales	207	278	173	133	27	71	173	173
Northern Ireland Executive	187	192	181	237	270	253	332	333
Chancellor's departments	—	—	-1	—	—	-1	—	—
Cabinet Office	—	—	—	1	1	—	—	—
Total public corporations' contribution to resource budget DEL	1,089	1,525	554	878	1,082	1,822	1,026	1,097

Table 7.3 Public corporations' capital expenditure 1998–99 to 2005–06

	£ million							
	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
	outturn	outturn	outturn	outturn	outturn	estimated outturn	plans	plans
Health								
NHS Estates	—	—	—	1	—	—	—	—
NHS Foundation Trusts	—	—	—	—	—	—	350	—
NHS Trusts*	1,043	970	1,293	1,177	1,203	1,956	2,676	1,424
Total Health	1,043	970	1,293	1,178	1,203	1,956	3,026	1,424
Transport								
British Railways Board ⁽¹⁾	—	3	3	—	—	—	—	—
Civil Aviation Authority	—	1	1	1	1	—	1	1
Docklands Light Railway	46	18	3	—	—	—	—	—
Driving Standards Agency (Trading Fund)	8	2	2	3	6	5	2	2
London Regional Transport ⁽²⁾	430	816	315	—	—	—	—	—
London Underground/Jubilee Line extension	—	—	—	483	772	681	884	926
National Air Traffic Services ⁽³⁾	52	46	77	25	—	—	—	—
Vehicle and Operator Services Agency	7	7	8	30	11	15	15	15
Total Transport	543	893	409	542	790	701	902	944
Office of the Deputy Prime Minister								
Audit Commission	—	—	1	1	—	—	—	—
Commission for the New Towns ⁽⁴⁾	50	30	–5	—	—	—	—	—
Fire Service College	—	1	1	4	2	5	2	2
HATs – Housing Action Trusts ⁽⁵⁾	82	70	103	87	82	59	93	93
QEII Conference Centre	1	—	1	1	—	1	1	1
Urban Regeneration Agency ⁽⁴⁾	419	270	221	—	—	—	—	—
Total Office of the Deputy Prime Minister	552	371	322	93	84	64	96	96
Home Office								
Forensic Science Service	—	—	—	11	10	9	9	9
Total Home Office	—	—	—	11	10	9	9	9
Constitutional Affairs								
HM Land Registry	21	20	26	26	20	47	40	18
Total Constitutional Affairs	21	20	26	26	20	47	40	18
Defence								
Defence Aviation Repair Agency	—	—	—	6	7	8	12	3
Defence Evaluation Research Agency ⁽⁶⁾	—	73	50	—	—	—	—	—
Defence Scientific and Technology Laboratories	—	—	—	10	10	9	12	12
Hydrographic Office	—	5	2	5	4	7	7	12
Meteorological Office	—	25	14	48	49	31	21	23
Navy, Army, Airforce Institute (NAAFI).	—	—	—	1	4	3	3	3
QinetiQ ⁽⁵⁾	—	—	—	36	67	*	*	*
Total Defence	—	103	66	105	141	*	*	*
Foreign and Commonwealth Office								
BBC World Service	15	14	25	17	30	31	31	31
Total Foreign and Commonwealth Office	15	14	25	17	30	31	31	31
Trade and Industry								
British Nuclear Fuels Ltd (BNFL) ⁽⁵⁾	466	492	518	546	447	*	*	*
Companies House	—	4	1	1	10	6	6	6
Patent Office	—	—	—	—	1	1	1	1
Royal Mail Holdings Ltd ⁽⁵⁾	—	708	607	155	163	*	*	*
Total Trade and Industry	466	1,204	1,126	702	621	*	*	*
Environment, Food and Rural Affairs								
British Waterways Board	–1	6	39	2	18	5	5	5
Total Environment, Food and Rural Affairs	–1	6	39	2	18	5	5	5

Table 7.3 Public corporations' capital expenditure 1998–99 to 2005–06 (continued)

	£ million							
	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
	outturn	outturn	outturn	outturn	outturn	estimated	plans	plans
						outturn		
Culture, Media and Sport								
BBC ⁽⁵⁾	163	114	124	84	105	*	*	*
Channel Four Television ⁽⁵⁾	7	11	11	16	4	*	*	*
Historic Royal Palaces Trust	4	2	4	1	1	—	—	—
Tote – Horserace Totalisator Board ⁽⁵⁾	8	33	16	15	20	*	*	*
Welsh Fourth Channel Authority	1	1	1	1	—	—	—	—
Total Culture, Media and Sport	184	161	156	115	130	*	*	*
Work and Pensions								
Remploy	6	5	1	2	6	5	5	5
Total Work and Pensions	6	5	1	2	6	5	5	5
Crown Estate								
Crown Estate ⁽⁵⁾	—	–23	18	30	32	*	*	*
Total Crown Estate	—	–23	18	30	32	55	60	20
Forestry Commission								
Forest Enterprise	—	–7	4	5	13	3	–1	–1
Total Forestry Commission	—	–7	4	5	13	3	–1	–1
HM Treasury								
OGC Buying Solutions	—	—	—	—	—	—	—	—
Royal Mint ⁽⁵⁾	13	6	4	6	4	*	*	*
Total HM Treasury	13	6	4	6	4	*	*	*
Scottish Executive								
NHS Trusts (Scotland) ⁽⁷⁾	64	152	152	205	172	—	—	—
Water Supply and Sewerage	—	371	421	474	359	480	559	580
Total Scottish Executive	64	523	573	679	531	480	559	580
National Assembly for Wales								
Forest Enterprise	—	—	—	—	1	1	–3	–3
NHS Trusts (Wales)	102	118	69	—	116	68	113	113
Welsh Development Agency ⁽⁸⁾	89	—	—	—	—	—	—	—
Total National Assembly for Wales	191	118	69	—	117	69	111	111
Northern Ireland Executive								
HSS Trusts	59	63	69	65	66	168	58	75
Laganside ⁽⁹⁾	1	2	—	—	—	—	—	—
Northern Ireland Housing Executive	73	59	33	42	31	41	41	41
Northern Ireland Public Trust Port Authorities	10	10	—	—	—	—	—	—
Northern Ireland Transport Holding Company	—	—	30	40	39	55	123	64
Total Northern Ireland Executive	143	135	132	147	136	264	223	180
Accounting Adjustment	1,304	–236	907	1,495	366	–415	—	–500
Total public corporations' capital expenditure	4,544	4,264	5,171	5,156	4,253	5,170	6,400	4,600

* See footnote (4) to table 7.1.

(1) British Railways Board was wound up 31 December 2000.

(2) London Regional Transport has been wound up.

(3) NATS – privatised in 2001.

(4) Commission for New Towns and Urban Regeneration Agency ceased to be separate public corporations when they were subsumed within English Partnerships in May 1999, although PESA continues to show separate data series up to 2000–01. English Partnerships is now a central government body.

(5) HATs are central government bodies in national accounts and are treated as public corporations in PESA.

(6) DERA ceased to exist in 2002.

(7) NHS Trusts (Scotland) are central government bodies from 2003–04.

(8) Includes Development Board for Rural Wales and Land Authority for Wales, which have been wound up and included in the Welsh Development Agency (WDA). WDA was re-classified to central government from April 2001 in national accounts, from 1999–2000 in PESA.

(9) Laganside was reclassified in April 2003 as a central government body for national accounts and is treated as a public corporation for PESA.

(S) Self-financing public corporation (SFPC). The estimated outturn and plans for capital expenditure by SFPCs are not shown individually in this table but are included in the overall total.