

Classification information pack – version 1.2

Government departments are responsible for ensuring that bodies that they help to establish or have an ongoing relationship with are correctly classified and accounted for, and that the relationship between the department and the body in question is managed appropriately. As a result this pack brings together the existing information on the classification of these bodies and clarifies the process to be followed.

The annex includes a questionnaire, which must be filled in by departments. The completed questionnaire will enable ONS to reach a classification decision and, where relevant, for Cabinet Office to advise on the appropriate governance and accountability structures. However, in the first instance departments should seek advice from their normal HMT expenditure contact.

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1. Classification: an overview

There are three parts of Government with a direct role in the classification of bodies. In summary:

The Office for National Statistics is responsible for the classification of entities (and their transactions) in the national accounts.

HMT is responsible for the following:

- Providing assistance to departments on obtaining classification decisions.
- Setting departmental budgets and the basis on which those budgets operate.
- HMT also has a role in terms of accountability and propriety.
- Recording public expenditure on the COINS database

Cabinet Office is responsible for overseeing the structure of Government and for ensuring that proper accountability and governance structures are in place for public bodies sponsored by the UK Government.

Further information on ONS, HMT and Cabinet Office are provided below.

There are two distinct processes detailed in this pack.

- One for existing bodies, yet to be classified, and
- One for proposed bodies.

Where a body is at the policy formulation stage HMT can advise on options. Where a body is pre-existing, but is yet to be classified, it needs to be classified in its existing form.

Departments should note that retrospective classifications may introduce risks for the overall fiscal position and the parent department. They have the potential to lead to pressure on departmental budgets and / or require a change in the governance arrangements that are in place.

It is important therefore that, at the policy development stage, the **sponsor department** has carefully assessed the proposed structure of any given body and the potential sector classification with the assistance of their usual Treasury spending contact (and through them, the Treasury's Classification Branch), and the Agencies and Public Bodies Team in Cabinet Office.

The classification process map is at annex 1 and the classification questionnaire is at annex 2.

2. Classification: some background

2.1 *The Office for National Statistics (ONS)*

The **Office for National Statistics (ONS)** is a Non-Ministerial Department that produce the UK's National Accounts to international standards free from political interference. **It is for the ONS to decide whether a given body is public or private sector.**

The ONS produce the National Accounts. National Accounts are an internationally comparable set of accounts that describe the activity in a national economy, including the transactions that take place between sectors of that economy. The relevant international manuals are the European System of Accounts 1995 (ESA95) and the System of National Accounts 1993 (SNA93).

Broadly, the national accounts divide the economy into the public sector, the private sector and the rest of the world (anything outside of the UK's own economic territory). The public and private sector are further divided into the market and non-market sectors.

The non-market sub-sector of the public sector is termed *General Government*, and is itself further divided into the *Central Government* and *Local Government* sectors. Public sector market bodies are termed *Public Corporations*. The public sector therefore comprises:

- *Central Government*: Government Departments and their Agencies; the devolved administrations in Scotland, Wales and Northern Ireland; Non-Departmental Public Bodies, and any other non-market bodies controlled and mainly financed by them;
- *Local Government*: those non-market public administrations that only cover a locality and any bodies controlled and mainly financed by them with similar characteristics; and
- *Public Corporations*: market bodies controlled by either Central Government or Local Government. This includes government-owned companies, trading funds, and other market bodies.

It should be noted that public sector bodies classified within *General Government* include regulators and other independent entities such as the National Audit Office.

Departments are asked to note that the ONS operates as an independent statistical agency and is not directly involved in policy formulation. As such departments should not approach the ONS directly for decisions on sector classification. Rather they should speak to their normal Treasury contact in the first instance and then use the process detailed in the annex.

Further information on sector classification in the national accounts is provided as follows:

- Classification paper CLASS (2000)¹ provides guidance on whether a body should be classified to the public or private sectors.
<http://www.wga.gov.uk/pages/classification.html>
- Sector Classification Guide – ONS' statistical classifications for the National Accounts
http://www.statistics.gov.uk/downloads/theme_economy/MA23.xls
- About the National Accounts Classification Committee
http://www.statistics.gov.uk/about/methodology_by_theme/IFFIM/downloads/About_NACC.pdf

2.2. HM Treasury

HM Treasury has responsibility for the control framework used to ensure that the Government successfully pursues its fiscal and monetary policy objectives, and is concerned with the correct and proper use of public funds with regard to propriety and regularity.

Treasury can provide a decision on classification in straightforward cases. In more complex or high profile cases, Treasury is responsible for liaising with the ONS. The process is as follows:

- Department agrees policy with its HMT normal spending contact as appropriate
- HM Treasury approaches the ONS with details
- ONS provides a view to HMT

More information on this process is given later in this pack. It should be noted that ONS can only classify bodies that are extant, or, where the body's structure has been finalised.

Treasury also advises on the budgetary treatment of a given body or transaction. The Treasury's budgeting framework has two aims

- To protect the overall fiscal position
- To encourage best practice and VFM in public expenditure

For more information see the Consolidated Budgeting Guidance < http://www.hm-treasury.gov.uk/documents/public_spending_and_services/consolidated_budgeting_guidance_for_2006-07.cfm >.

HMT is responsible for recording the activity of the CG sector - departments and their agencies, NDPBs - and also some aspects of their PC's activity on the COINS database (capital spending).

Additionally HM Treasury is responsible for some aspects of Parliamentary propriety and regularity in the way public bodies use and account for public funds.

Finally, Treasury is responsible for compiling Whole of Government Accounts.

2.3. Cabinet Office

Cabinet Office is responsible for overseeing the structure of Government and for ensuring that proper accountability and governance structures are in place for public bodies sponsored by the UK Government. This includes providing advice on, for example, long and short term advisory bodies without their own separate accounting or budgeting systems that HM Treasury and ONS do not need to classify.

Further information is provided in the Cabinet Office publication “Classification of Public Bodies - guidance for departments” published in August 2005:

http://www.civilservice.gov.uk/other/agencies/publications/pdf/classification_guidance_aug05.pdf

2.4. The impacts of classification to the public sector

Public sector classification will have an impact, in terms of budgets and governance, on the parent department. Once part of the public sector the parent department will be required to budget for and manage that body in an appropriate manner.

2.4.1 National Accounts

Because the UK Government bases its fiscal policy framework on the National Accounts, each separate institutional unit must be classified for the purposes of the National Accounts¹. Classification to the public sector means that the assets, liabilities and transactions of the body will impact on the overall fiscal position.

2.4.2 Budgets and accounts

Departmental budgets

Departments are required to budget for public sector entities for which they are responsible. The Treasury’s consolidated budgeting guidance provides details. See <http://www.hm-treasury.gsi.gov.uk/psd/pfos/msfd0524a.doc>

¹ Certain bodies - long- and short-term advisory bodies, and tribunals without their own accounting or budgeting systems – are not generally classified by the ONS, but are designated by the Cabinet Office if appropriate.

Accounting

Central Government bodies (with the exception of NHS and Foundation Trusts (and a few other specific bodies) and Trading Funds should follow the Government Financial Reporting Manual (FReM) < <http://www.financial-reporting.gov.uk/> >. PCs (other than Trading Funds) are not required to follow the FReM, and departments should agree on what basis the PC will compile its accounts.

Broadly, all bodies covered by the FReM (departments, agencies, executive NDPBs, etc) are treated the same. However, if the body is a registered charity or a registered company, there will be alternative and/or additional requirements which are set out in the relevant sections of the FReM. For more general information about NDPBs, see FReM 1.2.7 to 1.2.9.

NDPBs that are also charities (Museums and Galleries for example), their CEO, Boards and Trustees will have separate legal requirements under the Charities Acts. But we consider that these are complementary to, and should not conflict with, the rules in GA or the FReM.

For Trading Funds, see FReM 1.2.10. Note that, very rarely, a Trading Fund might be classified as CG.

Government Accounting

There is a general requirement for bodies that are part of the Central Government sector (Government Departments, Executive Agencies, Trading Funds and NDPBs) to follow Government Accounting (<http://www.government-accounting.gov.uk/current/frames.htm>). This applies regardless of how they are financed - directly from Estimates, through grant-in-aid, through income from the provision of services or charitable donations. Chapters 8 and 9 cover the requirement for an NDPB. For a trading body, Chapter 7 may be relevant. And an Executive Agency will need to have regard to Chapter 6.

Under Government Accounting rules, the Departmental Accounting Officer would either have to take personal responsibility for all aspects of expenditure in the body, or appoint an accounting officer within the body. The Departmental Accounting Officer retains personal responsibility for ensuring that there are financial and other management controls in place (in the Agency or Trading Fund) to safeguard public funds

PCs are not required to follow GA, although departments should ensure that the PC operates within the spirit of GA, i.e. acting transparently and with due regard to its public sector status.

Audit

It is Government policy that the Comptroller & Auditor General (i.e. the NAO) should be the statutory auditor of central government bodies (Central Government Departments, Trading Funds and Executive Agencies). His office audits all under provisions in the Government Resources and Accounts Act 2000 (GRAA).

The C&AG is also the statutory auditor of the majority of Executive NDPBs. Provision is usually included in the establishing legislation for each NDPB, or there is an Affirmative Order process under provisions in the GRAA, to enable the C&AG to have statutory audit responsibility for these bodies. Although the C&AG is not currently eligible to audit NDPBs that are companies, he will be able to do so once the Company Law Reform Bill is passed.

Departments should discuss statutory requirements for C&AG audit of NDPBs with their Treasury Spending Team.

WGA

The body will appear on the Whole of Government Accounts (WGA) list. See www.wga.gov.uk

Pay and conditions

The body may fall under the Treasury Pay Remit process operated by the Workforce Pay & Pensions (WPP) team: they use the WGA list to determine which bodies require Treasury approval of pay budgeting envelopes. WPP is responsible for submitting recommendations on pay remits (including changes in remuneration packages and terms and conditions) to Treasury Ministers, Departments should discuss the impacts and processes with their spending team.

Fees and Charges

If a Public Body is charging for a service, then they may be subject to the Treasury Fees and Charges Guide: Departments should discuss with their departmental Fees and Charges Coordinator or with their spending team.

2.4.3 Cabinet Office Governance and Accountability Requirements

As stated earlier, in the National Accounts the public sector comprises of the General Government Sector and Public Corporations. For the purposes of subsequent designation by the Agencies and Public Bodies Team (APBT) in the Cabinet Office, the sectors of interest are Public Corporations and the central government sub sector of General Government. Public bodies classified by the ONS to the Central Government sector will in the majority of

cases be classified by the APBT as Executive NDPBs. Only Public corporations sponsored by central government will be designated as public corporations by the Cabinet Office.

The Cabinet Office guidance 'Non Departmental Public Bodies: A Guide for Departments' provides detailed advice on the policy, governance and accountability requirements for public bodies. Sponsor Departments are also required to record the details of their public bodies in the annual Cabinet Office directory 'Public Bodies'. This publication (in existence since 1980) provides details of UK Government sponsored bodies, including taskforces, ad hoc advisory groups and reviews, in operation as at 31st March each year. The information provided about these bodies includes terms of reference, membership and expenditure.

For further information please contact the Agencies and Public Team on 020 7276 2040/0269 or e-mail: apbt@cabinet-office.x.gsi.gov.uk.

2.4.4 Further guidance on the implications of public sector classification

Where department's have specific questions on the impact of a particular classification on a body or the department's relationship with it then they should address their query to their usual Treasury expenditure contact.

Potentially, there will be times when the implications of a classification are viewed as undesirable by the department or body concerned. In particular, many bodies feel that a public sector classification gives the impression that they will not be able to operate with a degree of operational independence. However, there are innumerable examples of operationally independent public sector bodies, which enjoy self-governance, retain freedom and act with impartiality within the remit for which they were created.

The ONS compile the National Accounts in line with international manuals. The fact that ONS do so independently is valued, as the National Accounts form a key part of the Framework for Fiscal Stability. For these reasons neither Treasury nor Cabinet Office will lobby the ONS regarding their sector classification decision, nor seek to overturn it.

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Classification process map

Existing bodies

The process that a department should follow is set out in one of the two flow diagrams contained in the annexes 1b and 1c.

For both new and existing bodies, the process is similar in that HMT and Cabinet Office need to be apprised of all the facts. It is critical that where bodies already exist but they are yet to be classified by the ONS, the facts will need to be gathered quickly so that ONS can be approached for a decision. As noted above, once made there will be little scope to alter a classification decision, unless further relevant information about the existing body comes to light that ONS consider sufficient to alter the body's national accounts status. The decision as to whether there is sufficient information for the ONS to review the body is one for the Treasury in the first instance.

The department's spending team contact in Treasury will then write to the department setting out the ONS decision and the impacts, if any, on the department's budget. Governance requirements must be applied as soon as practicable after the classification decision has been made. As above, Cabinet Office will liaise with the department to discuss the implications of the classification decision and agree a way forward.

HMT and Cabinet Office are happy to discuss proposed changes to the body's constitution or governance that might lead to a different classification in the future, but this will NOT be retrospective for the purposes of National Accounts.

Proposed bodies

Annex 1c sets out the three-phase process for classifying a proposed new body. Although the process map shows a linear process within each of the three key phases, in practice there will be a degree of flexibility and iteration in the process.

Phase 1a: The Department should liaise with their Treasury spending team and discuss the policy that is being formulated, their proposed delivery strategy and the broad economic and financial impacts of the policy / any particular delivery route. It is essential that as well as seeking to understand the classification of any given proposed body the underlying policy justifications are sound and that they have been discussed with the department's spending team and that any proposed way forward offers maximum value for money.

Phases 1b to 1d. Treasury reviews paperwork, to ensure that it is clear and complete. This ensures that, when required, the ONS are presented with a

complete and comprehensive set of papers which will, as far as possible, enable a decision to be reached without the ONS asking supplementary questions. The questionnaire should also enable the Cabinet Office to take a view on the body's likely NDPB designation.

Phase 1e to 1g. Where a body has not yet been set up, it is possible for the Treasury to advise on the potential National Accounts sector classification of the body and advise on what changes might be made to alter the likely outcome. Once the policy is formulated and the details clear HMT will approach the ONS for an official ONS decision. Departments must note that the ONS are not to be involved in HMG's formulation of policy, so only once a policy is finalised can HMT approach the ONS.

Phase 2. Treasury writes to the ONS to request a classification decision. The ONS may request further information if clarification or additional information is required.

Note that where it is clear that the body will not be a separate institutional unit (Advisory, Tribunal or Independent Monitoring Board NDPBs and short term advisory bodies) HMT will not need to involve ONS.

Phase 3 – Once ONS respond, the department's spending team will then write to the Department to convey the decision and set out the impact on budgets and what next steps are necessary, copying the letter to the Cabinet Office.

Note that the ONS will not reconsider their decision, unless there is:

- a material change to the structure of the body; or
- additional information is provided that Treasury consider sufficient to alter the body's National Accounts status.

In such cases, Treasury will approach the ONS with the new facts.

Timings – within two weeks of the decision being announced, Treasury will send the letter setting out both decision and impacts and setting out the timetable for implementation on the Public Expenditure database, which in turn will feed into the National Accounts. In the event that the body is classified to either the Central Government or Public Corporation sector by the ONS, Cabinet Office will subsequently liaise with the department to discuss the implications.

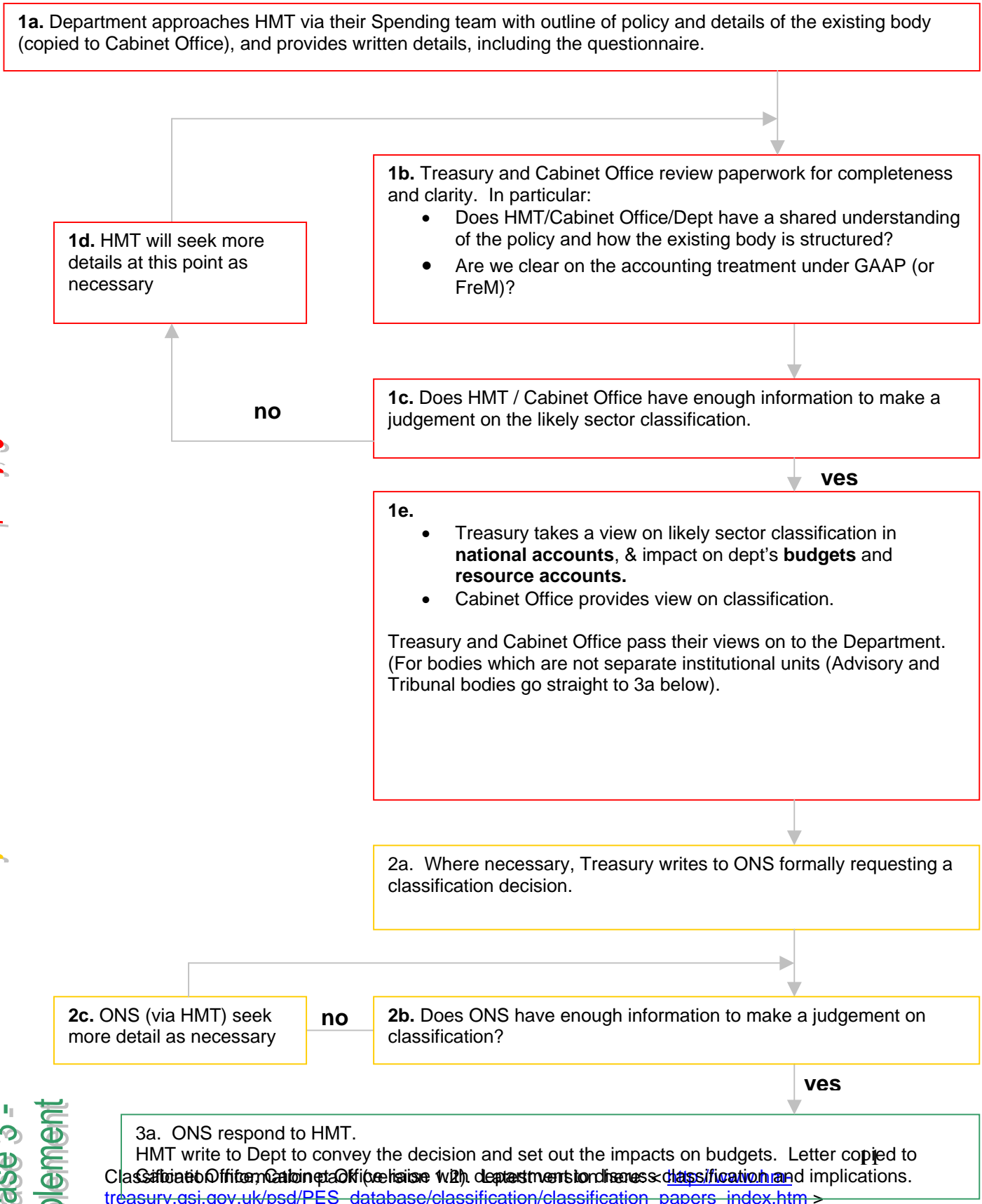
Annex 1b

Classification process map for existing bodies that are yet to be classified

Phase 1 - formulate policy, gather evidence

Phase 2 - ONS classify

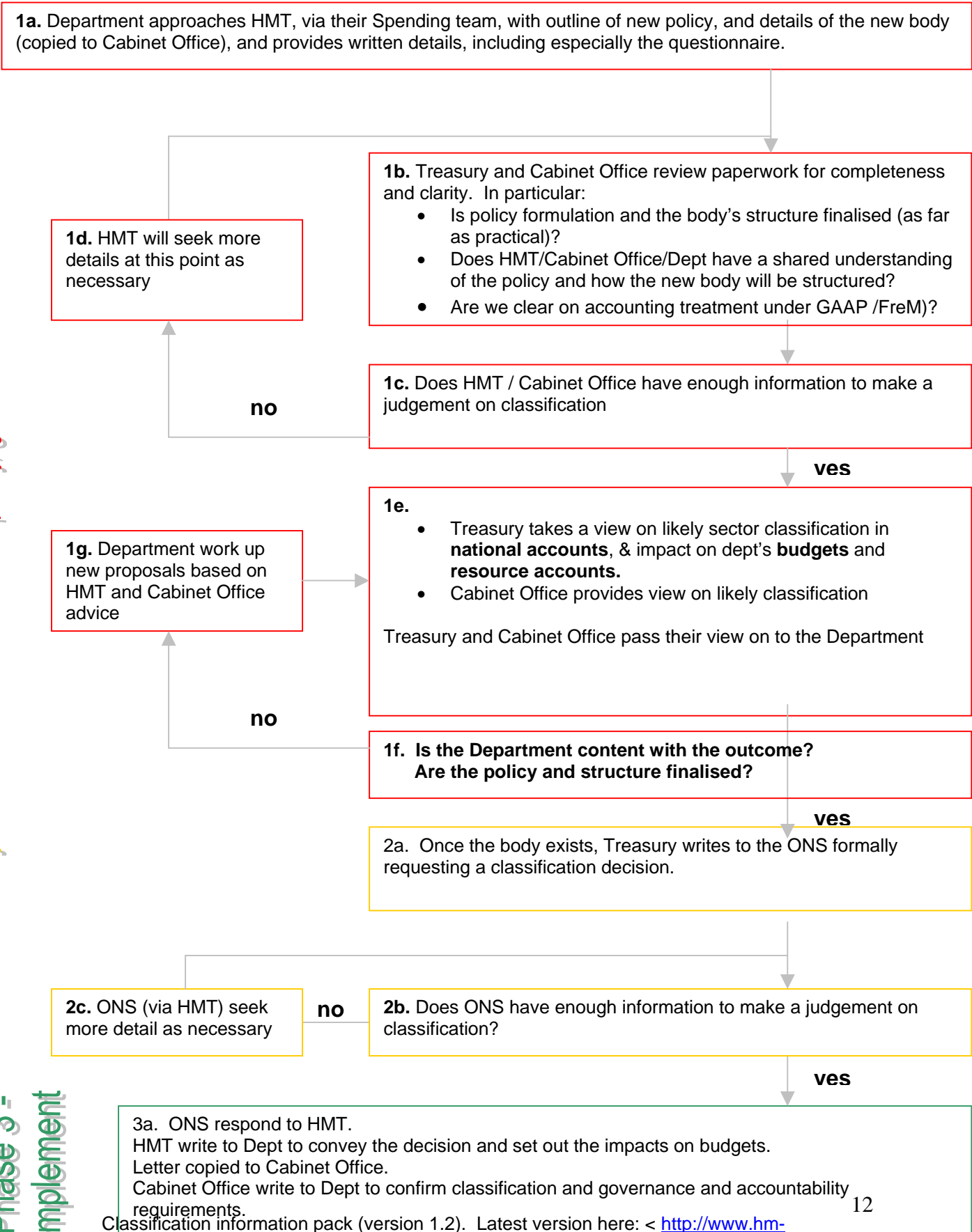
Phase 3 - Implement



3a. ONS respond to HMT. HMT write to Dept to convey the decision and set out the impacts on budgets. Letter copied to Cabinet Office, Cabinet Office advise HMT, Dept mention in press classification and implications. treasury.gsi.gov.uk/psd/PES_database/classification/classification_papers_index.htm

Classification process map for new bodies

Phase 1 - formulate policy, gather evidence
Phase 2 - ONS classify
Phase 3 - Implement



Classification of Public Bodies: ONS/Cabinet Office/ Treasury questionnaire

The Office for National Statistics, Cabinet Office and Treasury all have a role and an interest in the classification of bodies as set out in this Classification information pack. This questionnaire enables each department to gather information on new and proposed bodies, or those not currently listed in either the Cabinet Office's 'Public Bodies' directory or the ONS' list of bodies for National Accounts < [Sector Classification Guide](#) >, or Treasury's Whole of Government Accounts list. The information will be used to decide how a body should be classified and governed.

We are interested in bodies that the public sector has an ongoing or significant relationship with, specifically (but not exclusively) bodies that:

- are set up by ministers or with ministerial approval, or in the case of non ministerial departments by their chairs or boards, AND
- might fall within the public sector as defined by HM Treasury guidance: see http://www.hm-treasury.gsi.gov.uk/psd/PES_database/classification/class1.htm .
- may be bodies that operate in a local area, but which the Department has rights of appointment, rights of control, or responsibility for aspects of its running.
- Cabinet Office (alone) will also need to classify public bodies that are not institutional units for Treasury and ONS purposes. For example, long and short term advisory bodies without their own accounting or budgeting systems.

If in doubt, please provide information on the body.

Please give as much detail as possible. Extra information may be provided on attached sheets if necessary.

Please answer all the questions, making it clear where a question is not applicable or where the information is not available for the body.

Please complete a separate form for each body. All boxes will expand as much as you require to provide a comprehensive answer.

Name of sponsoring department, Sponsor Team Details, and the name of someone who could provide further information or clarification of answers if required	
Name of body	
Structure and remit of the body	
<p>1. Does the body exist yet?²</p> <p>If so, treat the following questions as referring to the existing situation. If imminent changes are proposed, please give details of how these changes will alter the existing situation.)</p>	
<p>2. Website address of the body</p>	
<p>3. Approximate time it has been in existence and date of inception (or proposed date for future body)</p>	

² When considering new bodies Departments should speak to Treasury and Cabinet Office. Even where a body does not yet exist, the Treasury can still advise on how the ONS might classify the body in the National Accounts and the Cabinet Office can say how they might treat it in their own framework.

<p>4. Is the body a separate institutional unit?</p> <p>To be classified in its own right, a body must:</p> <ul style="list-style-type: none"> a) be entitled to own goods or assets in its own right b) be able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable by law; c) be able to incur liabilities on its own behalf, to take on other obligations or further commitments and to enter into contracts. d) either keep a complete set of accounts or be able, from both an economic and legal viewpoint, to compile a complete set of accounts if they were required. (see footnote for explanation). <p>In practice, separate institutional units might have its own legal form; be able to lead a separate existence by: making decisions in an autonomous way; entering into contracts; owning assets and disposing of them; employing staff; making payments from its own bank account;</p> <p>Please say in what ways the body meets the criteria listed above.</p>	
<p>5. Is it on-going or time limited</p>	
<p>6. How is the body (to be) set up (eg administrative action, Royal Charter, under legislation, companies act etc)?</p> <p>65a. If the body is (to be) set up under specific legislation, please name the legislation and provide a URL to the Act/current draft Bill.</p>	
<p>7. What is the purpose of the body?</p>	
<p>8. What are the body's terms of reference?</p>	

<p>9. Where the following documents exist, can these please be provided electronically? Please indicate if they are in draft or finalised.</p> <ul style="list-style-type: none"> • formal written Financial Memorandum or Grant Funding agreement, • Accounts Direction, • Memorandum of Understanding and Articles of Association, • the Annual Report • Terms of Reference, or: • any other document that sets out the relationship between the body and other entities • any control contract • any other governing instrument • any document setting out the relationship of the body with its members. 	
<p>10. What is the geographic remit of the body, eg regional, England, GB, UK?</p> <p>10a. Are there a number of local bodies that discharge the remits and responsibilities? If so, are these bodies ultimately controlled by the central body (or a national framework), or are they operationally independent?</p>	
<p>11. Is this body a one-off or are there a number replicated throughout the country? If the latter please provide details.</p>	
Lines of Responsibility, board constitution, and staff	
<p>12. To whom is the body accountable?</p>	
<p>13. Is the Minister involved in the body?</p> <p>13a. If YES, what is the Minister's role? eg making, approving or vetoing appointments, approving fees and charges for services, approving or signing off the business plan or any of the documents listed in Question 8</p>	

<p>14. Are the Department's Civil Servants involved in the body? 1334a. If YES, what is the Civil Servants' role? eg making, approving or vetoing appointments, approving fees and charges for services, approving fees and charges for services, approving or signing off the business plan or any of the documents listed in Question 8</p>	
<p>15. How many people are on the Board?</p>	
<p>16. Where is the Board membership to be drawn from? If from a number of sources, please identify the numbers from each source; including identifying how many will be public servants (civil servants, local government employees, NHS employees, members of the armed services and emergency services). Are they personal appointees or unnamed representatives of particular organisations or associations, e.g. trade associations? (ie ex-officio posts).</p>	
<p>17. Who will appoint:</p> <ul style="list-style-type: none"> • the Chair • Board Members • general membership³ <p><i>Note that appointment rights also include a right to approve or veto candidates put forward by others.</i></p> <p>176a. In the case where the current board appoints the new members (including the Chair), who appointed the original Board? Was there a clean break or divestment between that original board, and the current regime⁴?</p>	

³ By "general membership" we are referring to those who the body might serve: sometimes, membership is formal, where an industry body has as its membership a caucus of

<p>18. Will any Board members, ministers or public servants have any special/ additional powers over and above that of any other members? For example, have they special or casting votes or a responsibility to agree the business plan, or must certain members be present to form a quorum?</p>	
<p>19. Has Parliament (via the Treasury) a right to any dividends or share in the profits of the entity in some other way.</p>	
<p>20. Would Government be responsible for any overall liability / have to contribute to the debts or expenses of the body in the event of a winding up?</p>	
<p>21. Does the body recruit and employ its own staff? 21a. If so, are they civil servants?</p>	
Funding	
<p>22. How is the body (to be) funded?</p> <p>Please list each type of source using most recent full year data, giving figures and rough overall percentage of each against the total spend of the body.</p> <p>Examples of sources: Department grant or grant in aid, direct vote from Parliament, charges or fees for services (statutory and otherwise), levies, loan finance, wider market income generation.</p>	

organisations from within the industry. At other times, membership is informal – perhaps where a charitable body serves a certain social group, they are deemed to be members without having formally applied. Rights of Membership are important where they get to vote on the board, or where one of their number can be elected to the board.

⁴ By clean break, we mean a point at which the original board stand down, and do not appoint their successor board.

<p>23. If applicable:</p> <ul style="list-style-type: none"> • who is the auditor of the body? • who appoints the auditor of the body? 	

The completed questionnaire and any supporting information should be sent to your departmental Public Bodies Coordinator where one exists. The coordinator will then pass it on to both the Treasury Spending Team and the Agencies and Public Bodies Team.

The contact details for your departmental Coordinator can be obtained from the Agencies and Public Bodies Team: tel no 020 7276 2040/0269 or e-mail apbt@cabinet-office.x.gsi.gov.uk.