

Article

# Defining the boundary between the general government sector and public non-financial corporations in economic statistics

Explains how an entity under public sector control is classified as either a market or non-market producer.

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# 1 . Overview of the classification process for an entity classified to the public sector

Economic statistics classification is the process we at the Office for National Statistics (ONS) use to allocate institutional units, or entities, to sectors and subsectors of the economy. This process adheres to international statistical guidance, notably the [United Nations System of National Accounts 2008 \(2008 SNA\)](#), the [European System of Accounts 2010 \(ESA 2010\)](#) and the accompanying [Manual on Government Deficit and Debt 2022 \(MGDD 2022\)](#). The guidance defines the features of each sector and subsector and provides criteria to help determine the appropriate allocation of entities to those categories.

In July 2024, we published our [Statistical classification to the public sector article](#). This explains how entities are classified within the public sector, and how the notion of being under public sector control differs from the everyday notion of independence from direct control by government ministers.

Our [Taxes and fees for sales of service: how they differ and why it is important article](#), published in May 2019, explains the definition of price-takers and the importance of economically significant prices.

This article explains the process for defining the boundary between the general government sector (specifically the central government or local government subsectors) and the public non-financial corporations subsector. Referencing the statistical guidance, this article explores the quantitative and qualitative market tests used to identify whether an entity is engaged in market or non-market production, and how this determines its subsector classification.

This article does not describe the classification process for entities under public sector control that engage primarily in financial activities. The criteria for classifying such entities are different and will be explained in a separate article.

## 2 . Defining government entities and public non-financial corporations

The classification of publicly controlled entities into the general government sector or public non-financial corporations subsector depends on whether they are market or non-market producers. It is not determined by the entity's legal status.

We differentiate market and non-market production by assessing whether the output of the entity is sold at economically significant prices. This analysis, often referred to as a "market test", has both qualitative and quantitative elements.

The application of the market test to entities (other than financial corporations) under public sector control leads to one of three classification outcomes.

- Central government subsector - a non-market producer with a geographic remit spanning England, Wales, Scotland, Northern Ireland, or the entire UK
- Local government subsector - a non-market producer with a local geographic remit, such as that corresponding to a county or a small group of counties (or equivalent administrative areas)
- Public non-financial corporations subsector - a market producer under public sector control, regardless of its geographic remit

The statistical notion of public corporations is distinct from similar legal and administrative terms. Not all corporations established by statute or Royal Charter are treated as public corporations in statistics.

For example, the British Broadcasting Corporation (BBC) was created by [Royal Charter \(PDF, 581 KB\)](#) and is a statutory corporation in a legal sense. Yet most parts of the BBC Group are not considered to be market producers or "corporations" in statistics. Such public entities, which are engaged predominantly in non-market activities, are treated as part of the general government sector, regardless of their form of incorporation.

The statistical concepts of public and private corporations are also distinct from public limited companies (PLCs) and private limited companies (LTDs), respectively. In these terms, "public" and "private" relate to the ability to offer equity (shares) to the public, rather than to belonging to the public or private sector of the economy. In both instances, government may still be the sole or majority owner, or have other means of control over the corporate policy.

In summary, the statistical classification is unaffected by the legal structure of incorporation. Instead, the classification process considers the existence of public sector control and whether the entity is engaged in market production.

### **3 . Deciding whether a public entity is a market producer**

In economic statistics, classifying a public entity as either a public non-financial corporation or as part of the general government sector relies on establishing whether the entity is a market or a non-market producer.

An important question is whether the output (the goods and services produced) is provided to others free of charge or at prices that are not economically significant. A price is said to be economically significant when it has a substantial influence on:

- the amount of products that the purchasers wish to acquire
- the amount of products the producers are willing to supply

Although many public entities charge fees, it cannot be assumed that they always sell their output at economically significant prices. Although price elasticity (the sensitivity of the quantity demanded to a change in price) varies across goods and services, most charges affect the demand to some degree.

However, should the price be considerably below the cost of providing the service, the price may have limited influence on the amounts supplied. Instead, government funding decisions may determine the amounts supplied. Such output would generally be deemed non-market.

In practice, a quantitative threshold is useful as part of the classification process. An entity is conventionally considered to be a market producer if it can cover more than 50% of its production costs from sales of goods or services at economically significant prices. This would be assessed over a sustained multi-year period (usually at least three years to ensure statistical consistency), and subject to the entity meeting a set of qualitative conditions.

The numerical threshold for being considered a market producer does not require an entity to cover all its production costs (only more than 50%) or to generate profits over time.

As explained in [Section 5: Quantitative market test](#), not all sources of revenue qualify as sales, as most forms of government support are excluded. Charges deemed to be taxes for statistical purposes, such as some regulatory charges, are also excluded. More information relating to the definition of economically significant prices is included in our [Taxes and fees for sales of service: how they differ and why it is important article](#).

Collectively, the analysis used to determine whether an entity is a market or non-market producer is often referred to as the "market test". Sections 4 to 7 explain the qualitative and quantitative elements of the market test in further detail.

## 4 . Qualitative market test

The qualitative market test examines whether the goods and services produced by an entity are sold at economically significant prices. On its own, the qualitative test cannot establish a market classification for an entity. The entity's ability to cover over 50% of production costs with revenue from sales over a sustained multi-year period must still be tested. This test is described in [Section 5: Quantitative market test](#).

While some criteria apply to the entire entity, others focus on individual types of output (or even individual transactions). An entity could fail to meet the qualitative criteria for a minority share of its output and still be considered a market producer, provided it is able to cover over 50% of the total costs of production, with revenue that meets the qualitative criteria.

For example, a public sector supplier of military products to government (which potentially falls under one of the qualitative criteria explained in this section) may be able to generate sufficient sales revenue from its commercial private sector contracts to pass the market test.

The qualitative market test is conducted by assessing three criteria. Each of these criteria is discussed, along with a case study, in the following subsections.

### Criterion 1

"Is the producer a dedicated provider of ancillary services?"

In economic statistics, ancillary services are supporting activities undertaken within an entity to enable the main functions of another unit. They are undertaken on behalf of other entities within the same group. Examples include:

- purchasing
- sales
- marketing
- accounting
- data processing
- transportation
- storage
- maintenance
- cleaning
- security services

An entity only providing these types of services to other entities within the same group (or across government when a particular support function is centralised) is not considered to be an institutional unit (an entity in its own right) and is classified as part of its controlling unit within the same subsector classification.

### **Case study: Glasgow Security Services Community Interest Company**

We concluded that Glasgow Security Services Community Interest Company should be consolidated with its controlling unit, Community Safety Glasgow, a subsidiary company of Glasgow City Council. This was because all its revenue came from providing security services (a type of ancillary service) solely to Glasgow City Council's departments and arm's-length organisations. As such, it was a dedicated provider of ancillary services only to Glasgow City Council classified to the local government subsector.

## **Criterion 2**

"Is the producer the only supplier of goods and services to government, or, where that producer is, does it have competitors?"

To determine the answer to this question, it is important to assess whether the producer is able to sell its output to a range of consumers (which may include corporations, households and non-resident entities) and not solely to government. If more than 50% of the entity's output is sold to the private sector or non-UK units, and does not fall under other criteria listed in this section, the entity is considered to be a market producer.

If more than 50% of an entity's output is sold to government units, but government purchases the goods and services under fully commercial terms and under the same conditions as private sector units, then government is deemed to be acting as a "price taker", and the selling unit is still treated as a market producer. The existence of an open and fair tendering process attracting multiple bidders is a common example of when the supplier is a market entity (subject to also passing the quantitative market test and the other qualitative tests), even if the government contract subsequently accounts for the majority of the entity's output.

In the absence of an open and fair tendering procedure for the initial selection on commercial terms, the supplier would normally be a non-market producer. The competition in which the entity is engaged does not only include different firms on the market but must also demonstrate a degree of openness of the market to new producers. This is to evidence that the entity has competed against other suppliers to produce market output. However, there are some specific circumstances where the absence of open tendering does not mean that the supplier is a non-market producer.

### **Case Study: Atomic Weapons Establishment**

The Atomic Weapons Establishment (AWE) manufactures, maintains and develops warheads, and deploys its unique skills and expertise to support nuclear threat reduction. Following a classification review in 2021, we concluded that AWE is a government-owned entity that supplies only to government, following a non-competitive selection process. Therefore, AWE was considered to be a non-market producer.

## Case Study: Sheffield Forgemasters group

In August 2021, the Ministry of Defence (MOD) wholly acquired the Sheffield Forgemasters group. Their primary activities include the manufacture and sale of bespoke steel castings, forgings and ingots, as well as additional services including testing, research and development, and project management. This private sector company group came under public sector control from that time.

Sheffield Forgemasters supplies bespoke components to private sector companies, which in turn produce goods for the MOD. The components are partly supplied through single-source contracts. The contracts are awarded without competition, which is common for the defence sector because of the specialised nature of the outputs being sold.

Single source contracts are priced in accordance with [The Single Source Contract Regulations \(SSCRs\) 2014](#). This is usually because of either a single or limited source of provider for the required goods. The SSCRs ensure that these purchases by the MOD are cost effective, and the supplier is paid a fair and reasonable price, benchmarked against comparable industry and economic data.

When assessing the market test for Sheffield Forgemasters, it was considered that the prices charged were economically significant, albeit within a market with few participants. This is similar to other private sector market producers who are in industries with very limited competition. It was concluded that both companies in the Sheffield Forgemasters group, continued to be market producers, so were classified as public non-financial corporations.

### Criterion 3

"Does the producer have an incentive to adjust supply to undertake a viable profit-making activity, to be able to operate in market conditions and to meet its financial obligations?"

It follows from the application of the quantitative market test (as discussed in [Section 5: Quantitative market test](#)) that the entity does not need to generate sustained profits to be considered a market producer. However, we consider whether the entity behaves broadly like a commercial enterprise in setting its prices and output levels.

In practice, most public sector entities are not entirely free to react to market forces. For instance, they may be legally restricted to operate within a specific industry, or face constraints over the acquisition or disposal of assets. As such, they may behave differently to private businesses, while still being considered market producers. Provided the entity has sufficient autonomy from government in respect of its principal function, we focus our analysis on the activities within the entity's established remit. That means accepting that some high-level restrictions on the types and quantity of output may apply.

As such, we consider the wider economic context to determine the existence of economically significant prices. An entity created to operate in an industry where it would face competition from other market producers would be more likely to be considered a market producer than one established to fill a gap in the market provision of goods and services. This is because the existence of economically significant prices can be presumed for an entity in an industry with competitors, but not for an entity established to fill a gap in the market.

In turn, this would require us to form a judgement about what should be considered as the entity's output and, by extension, industry. It is common for public entities to employ specific technologies that may be uncommon among private sector market producers. For example, certain types of energy generators or modes of transport may require a higher level of capital investment, making them relatively rare among private sector market providers. However, if the ultimate product faces competition from, or cannot be meaningfully differentiated from, equivalent products offered by the private sector market producers, we can still assume that economically significant prices exist.

## Case Study: Medicines and Healthcare products Regulatory Agency

The Medicines and Healthcare products Regulatory Agency (MHRA) is the government agency responsible for approving market authorisations for medicines and medical devices in the UK. It also acts as a market regulatory body, as the revenue it receives primarily comes from carrying out quality checks, inspections, licensing and medical device assessments for private sector pharmaceutical companies. These are considered fees for regulatory services, set to cover the full cost of delivering these services.

The MHRA provides specific services that the pharmaceutical industry needs to enable the sale of its products. However, it is the only provider of these types of services, as it is the appointed government regulator. The fees it charges are therefore not considered to be economically significant. Consequently, the MHRA failed the qualitative market test criteria and was considered a non-market producer, and classified to the central government subsector, as the majority of its revenue comes from fees for non-market output.

## 5 . Quantitative market test

The quantitative market test is applied only where an entity meets the qualitative criteria. If a unit does not meet all the qualitative criteria, it is considered to be a non-market producer.

To be a market producer, the entity is required to cover at least 50% of its production costs with revenue from sales over a sustained multi-year period.

This 50% threshold ensures a standardised approach to distinguishing between market and non-market producers across different industries and contexts. Not all forms of revenue and expenditure are included in this statistical test. Accordingly, an entity may fail the quantitative market test without necessarily being loss-making in an accounting sense. This section explains the types of revenue and expenditure considered in the test.

For the purposes of the quantitative market test, the international statistical guidance considers "sales" to include only market output and specifically receipts from selling goods or services. For example, "sales" for a train operating company would include revenue from sold tickets, refreshments sold on the train and the renting of station space.

The following are not considered sales for the purpose of this test:

- lump-sum government grants and some types of subsidies
- own-account production (such as output produced and used by the unit itself)
- dividends
- revenue classified as taxes for statistical purposes

Sales also include certain government support payments that are directly linked to the volume or value of output.

Subsidies received from government could be considered sales if they are:

- granted to other producers undertaking the same activity
- paid with reference to the quantity of output

If these two conditions are fulfilled, they are classified as subsidies on products in economic statistics and included as sales for the quantitative market test.

Subsidies paid on production (rather than on products), such as those intended to cover operating losses, are excluded from sales. This also applies to subsidies paid on inputs, even if calculated with reference to volume. For example, a hypothetical fuel subsidy would be excluded from the "sales" of a public transport company.

Where a subsidy is calculated using a complex formula that considers both the units of input and output, we would consider the relative importance of the various determinants to decide whether the payment should be included in sales revenue.

Similar to the relationship between sales and total revenue, the notion of "production costs" is narrower than the total accounting cost. Production cost is the sum of several components. These are:

- intermediate consumption - the cost of goods and services used up in the production process, such as utility costs and payments for raw materials
- compensation of employees - most types of labour costs, such as wages and salaries and employer's social contributions
- consumption of fixed capital - a statistical equivalent of depreciation (which reflects the decline in the value of an asset) and amortisation of assets used in production
- other taxes on production - taxes on land, fixed assets, or labour employed in the production process, as well as taxes on certain transactions (payable irrespective of the volume of output)
- net interest charge - interest payable minus interest receivable.

Two issues need further clarification. Firstly, all components of sales and production costs must meet the statistical definition of transactions. As such, they would normally represent interactions between two or more institutional units by mutual consent. Non-transactional changes in assets and liabilities such as revaluations (gains and losses on assets), impairments, catastrophic losses and most types of write-offs are excluded from both sales and production costs.

Other expenditure components that are not recognised in the statistical framework are those associated with provisions and most types of guarantees.

Secondly, both sales and production costs broadly correspond to the notion of current account transactions. However, the boundary between current and capital accounts in statistics differs from that in accounting and budgetary frameworks. For example, most forms of debt operations (such as debt forgiveness or cancellation) would be recorded in the capital account in statistics and would not affect the outcome of the market test.

### **Case study: Crown Commercial Service**

The Crown Commercial Service (CCS) replaced the Government Procurement service on 1 April 2014. The CCS is majority funded by a levy paid by its customers, who can choose to use the CCS, as there are alternative suppliers. The fees CCS charges were considered to be economically significant, as they can influence the levels of participation from both CCS buyers and suppliers. They were therefore included as sales for the market test. Following the quantitative market test, CCS was classified to the public non-financial corporations subsector.

## 6 . Subsector classification of public sector market and non-market entities

Identifying whether an entity under public sector control is engaged in market or non-market production is a crucial component in determining the appropriate classification for that entity.

Entities deemed to be market producers are classified to the public non-financial corporations subsector. No further sectoral breakdown exists for non-financial corporations. Entities that are deemed to be non-market producers are classified into general government, regardless of their legal form of incorporation.

The general government sector can be divided into two subsectors: central government and local government. An entity is classified to these subsectors based on the geographical remit of its activities.

## 7 . Classification of an entity from inception as a public non-financial corporation

A classification assessment of a newly created entity can be challenging, because no data exist on the financial and operational activities that can be used for the application of the quantitative market test. In this situation, we may base our judgement on additional information, such as its principal function, a business or strategic plan or a forecast. In cases where the new unit is established through a merger of existing entities, the accounts for those entities in the previous periods may be used as an indication of future performance.

In some cases, notably those of bailouts and units entering a special administration regime, the entity itself may not be new, but its business may undergo a substantial transformation. We would typically retain the pre-existing market or non-market classification until any changes start taking place. For example, Bulb Energy remained classified as a corporation (a market body) immediately after it was placed into a special administration regime. This resulted in a public sector classification until its restructure took place.

At the same time, where there is evidence of a fundamental and lasting change in an entity's economic activity, we would not require evidence for multiple years to conduct a quantitative market test.

The entity's business plan may allow us to conduct a provisional, forward-looking quantitative market test. This would be reviewed after a few years to ensure that the entity was passing this test. However, we would still need to review the qualitative criteria, just as we would for an existing unit. For example, we would examine the presence of market competitors operating in the same industry.

### Case Study: TfW Fibre

TfW Fibre is a wholly owned subsidiary of Transport for Wales (classified to the central government subsector). It offers network services to internet service providers and operators, using a fibre network infrastructure that runs alongside the Core Valleys Line rail network. Our assessment recognised that TfW Fibre had recently been incorporated but was not yet fully operational.

The outcome of the assessment was that TfW Fibre would be a market producer. This was based on supporting evidence, including business plans, forecast projections and interested customers of the service they were providing. The expectation was that it would sell its services on a commercial basis at market prices, as it would be competing with others that could provide similar services. As such, TfW Fibre was classified from its inception to the public non-financial corporations subsector. As a new entity, this sector classification will be reviewed when TfW Fibre has been operational for a few years and when audited data are available.

## 8 . Provide feedback

The purpose of this article is to act as a reference point for those who are interested in the classification process for a non-financial entity classified to the public sector. We welcome comments or questions by email at [econstats.classifications@ons.gov.uk](mailto:econstats.classifications@ons.gov.uk).

## 9 . Related links

### [Economic statistics classifications](#)

Methodology | Updated frequently

Major classification decisions taken in recent years, documentation on the classification process, and a list of entities and their classification in the UK National Accounts.

### [Statistical classification to the public sector](#)

Methodology | Last revised: 8 July 2024

Explains why entities are classified to the public sector, and the concept of public sector control and how this differs from the notion of independence.

### [Taxes and fees for sales of service: how they differ and why it is important](#)

Methodology | Released: 31 May 2019

Defines and explains the main characteristics that lead to the classification of a transaction as a tax or a fee in the national accounts and public sector finances, and describes the effect that these classifications can have on economic indicators and the operation of government.

## 10 . Cite this article

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