

# Statistical classification to the public sector

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.

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# 1 . Overview of the classification process

Many of the economic statistics we produce at the Office for National Statistics (ONS) are based on sectors of the UK economy. These sectors are defined in the international statistical guidance, notably the United Nations' [System of National Accounts \(SNA\) 2008](#), and Eurostat's [European system of accounts \(ESA\) 2010](#) and [Manual on Government Deficit and Debt \(MGDD\) 2022](#).

Economic statistics classification is the process we use to allocate institutional units, or entities, to sectors and sub-sectors of the economy, and uses the same international statistical guidance. Every month we publish new or updated classification decisions, together with a summary of the rationale for these decisions, in our [Public sector classification guide and forward work plan](#). We also classify transactions that take place between the various units in the economy, such as taxes, levies, or transfers.

Often the classification process is focused on whether an entity should be recorded as being in the public sector or the private sector. This enables us to establish the boundary of the public sector in the UK's National Accounts and public sector finances, in a way that is consistent with statistics produced by other countries.

This article explains why an entity would be classified to the public sector for economic statistical purposes, using the concept of "public sector control". It also discusses the statistical meaning of public sector control, how we assess whether such control exists, and how interventions in the day-to-day business of an entity are not necessary for control to exist.

## 2 . The statistical sectors of the UK economy

We classify entities to one of the economic statistical sectors, as defined in Figure 4.1 of the United Nations' [System of National Accounts \(SNA\) 2008](#) and Table 2.1 of Eurostat's [European system of accounts \(ESA\) 2010](#).

The public sector consists of entities classified to the following subsectors:

- central government subsector
- local government subsector
- public financial corporations subsector [note 1]
- public non-financial corporations subsector

The private sector consists of entities classified to the following sectors and subsectors:

- private financial corporations subsector [note 1]
- private non-financial corporations subsector
- non-profit institutions serving households sector
- households sector

Notes on The statistical sectors of the UK economy

1. Classifications for both public financial corporations and private financial corporations also take account of the function of an entity, such as whether it provides insurance or is a pension fund, for example.

### 3 . Why an entity would be classified to the public sector

There are two reasons why an entity would be classified to the public sector:

1. The entity does not have sufficient decision-making autonomy in respect of its principal function to be a separate economic institutional unit, and it is controlled by another institutional unit that has been classified to the public sector.
2. The entity has sufficient decision-making autonomy to be an institutional unit, but the public sector has the ability to control that entity's general policy or programme.

### 4 . Institutional units

Institutional units are the building blocks for defining economies in geographic terms, and for grouping units into sectors. For more information, see Section 2.01 of Eurostat's [European system of accounts \(ESA\) 2010](#).

If an entity meets the criteria to be recognised as an institutional unit, it will be given its own sector classification. If not, the entity is classified as a part of the institutional unit that controls it. For more information, see Section 2.13(c) of the ESA 2010, and Section 1.2.3.2, 31 of Eurostat's [Manual on Government Deficit and Debt \(MGDD\) 2022](#).

#### How we assess if an entity is an institutional unit

An institutional unit is characterised by decision-making autonomy in respect of its principal function, which is demonstrated by being capable, in its own right, of all of the following:

- owning goods and assets, and exchanging these with other units
- incurring liabilities and entering into contracts
- taking economic decisions, and engaging in economic activities for which it is responsible and accountable in law
- compiling a complete set of accounts

More information is available in Section 4.2 of the United Nations' [System of National Accounts \(SNA\) 2008](#) and Section 2.12 of the ESA 2010.

An element of judgement is needed to determine if an entity has sufficient autonomy from other entities, and further clarification is provided in the statistical guidance.

For instance, if one entity sets the purpose of another so narrowly that all decision-making autonomy is effectively surrendered, the second entity would not be regarded as an institutional unit. Further, the narrower the purpose of an entity, the narrower the degree of interference that can be carried out while still allowing that entity to be an institutional unit. For more information, see Section 1.2.2, 10 of the MGDD 2022.

If an entity is subject to constraints, such as the exact specification or explicit approval of individual measures, tasks or activities, that entity would not have sufficient decision-making autonomy. The assessment might be different if the constraints were limited to unique or exceptional issues. For more information, see Section 1.2.3.1, 24 of the MGDD 2022.

Decision-making autonomy does not have to include the ability to make overarching, strategic business decisions, like the sale and purchase of company divisions, or the closure of undertakings. Such decisions relate to control, a concept discussed later, and can be taken by a parent entity without removing decision-making autonomy from a unit. For more information, see Section 1.2.2, 9 of the MGDD 2022.

## Case study: Historical Institutional Abuse Redress Board

In 2023, we assessed the classification of the Historical Institutional Abuse Redress Board (HIARB). The HIARB is responsible for receiving and processing applications for compensation from those who experienced abuse in residential institutions in Northern Ireland between 1922 and 1995.

The HIARB is a body corporate under Paragraph 1(1) of Schedule 1 of the [Historical Institutional Abuse \(Northern Ireland\) Act 2019](#), and operates independently from The Executive Office (TEO) and the Department of Justice (DoJ).

We concluded that the HIARB was not an institutional unit, because it did not have the ability to produce its own accounts, and its assets were owned by either TEO or the DoJ.

For the above reasons, the HIARB was not classified to a sector of the economy itself, but for statistical purposes, was classified as part of the unit that controls it (see Section 2.13 of the ESA 2010). This unit was TEO, a part of the Northern Ireland Executive with which the HIARB has a partnership agreement, and which is responsible for naming a Northern Ireland department to carry out the administrative functions of the HIARB.

## Case study: The Royal Parks

In 2021, we assessed the classification of The Royal Parks Ltd, a charitable company that manages, protects, and improves the eight royal parks.

The Royal Parks Ltd is the parent of a group of companies and, at the point of classification, had two trading subsidiaries. While the parent met the requirements of being an institutional unit, its trading subsidiaries did not, because they had insufficient autonomy in terms of decision-making and engagement in economic activities. Therefore, the subsidiaries were not institutional units, and for statistical purposes were classified as part of their parent.

This shows how we approach the classification of groups of companies. We assess each legal entity against the guidance to identify the lowest level of the group at which the requirements of an institutional unit are met. That is the level at which a classification can be given.

This example also shows that while charities are often classified to the non-profit institutions serving households (NPISH) sector, this is not always the case. Despite being a charity, The Royal Parks Ltd was classified to the public sector, not the NPISH sector. This shows that the legal form of an entity does not determine its economic statistical classification.

## 5 . Public sector control

An entity that is an institutional unit would be classified to the public sector if it is controlled by the public sector. If such public sector control does not exist, the unit would be classified to the private sector.

The term "control" means that the public sector can determine the general policy or programme of another unit, whether or not that power is actually used. Control does not require interventions in the day-to-day business of the entity. For more information, see Eurostat's guidance: Section 20.18 of the [European system of accounts \(ESA\) 2010](#) and Section 1.2.3.1, 24 of the [Manual on Government Deficit and Debt \(MGDD\) 2022](#). The public sector will often set a framework within which another entity must operate. For this reason, there is usually no need for the public sector to intervene in the day-to-day operations of the second entity. For more information, see Section 1.2.3.1, 25 of the MGDD 2022.

The general policy or programme of an entity is usually linked to the main financial and operational policies of the concerned entity; for more information, see Section 1.2.3.1, 24 of the MGDD 2022. This may include policies such as the remuneration of senior staff, pay, and business strategy; for more information, see Section 20.309c of the ESA 2010.

## How the existence of public sector control is assessed

To identify if the public sector can determine the general policy or programme of an entity, the statistical guidance identifies indicators of control. While not exhaustive, they represent the most important factors to consider.

Separate indicators of control are provided for corporations and for non-profit institutions (NPIs), which apply the same core principles to entities that operate for different purposes.

This article focuses on the indicators for corporations. For more information, see Section 4.80 of the United Nations' [System of National Accounts \(SNA\) 2008](#), and Section 2.38/20.309 of the ESA 2010. Similar considerations would also be applied to NPIs; see Section 4.92 of the SNA 2008 and Section 20.15 of the ESA 2010.

The main distinction between corporations and NPIs is whether the entity can be a source of income. NPIs cannot distribute profits or surpluses to other institutional units, including their owners, but corporations can. For more information, see Section 3.31 of the ESA 2010, and Section 1.2.3.1, 21 of the MGDD 2022.

The control indicators to be considered when assessing if an entity is subject to public sector control are:

- rights to appoint, remove, or veto a majority of officers or directors to the entity's board, or other governing entity
- rights to appoint, veto or remove a majority of appointments for main committees of the entity
- ownership of a majority of the voting interest in an entity
- right to appoint, veto, approve, or remove important personnel
- rights under special shares and options, or golden shares
- contractual arrangements that prevent an entity engaging with non-public sector customers
- rights to control from agreements and permission to borrow
- control via excessive regulation
- other indicators

### **Rights to appoint, remove, or veto a majority of officers or directors to the entity's board, or other governing body**

Control of an entity usually involves control over the people who take decisions for that entity; see Section 1.2.3.2, 34 of the MGDD 2022. As such, one of the clearer forms of public sector control is having the right to appoint, remove or veto a majority of an entity's board or governing body – the group of people responsible for an entity's important decisions. For more information, see Section 20.309(a) of the ESA 2010.

Having the right to remove appointees is important, because it indicates that if the appointees do not behave in the way that the public sector wants them to, then they may be removed or not reappointed. For more information, see Section 1.2.3.1, 28 of the MGDD 2022.

The assessment is carried out in aggregate, taking account of the combined rights that all bodies classified to the public sector have over an entity.

## **Case study: Independent Monitoring Authority for the Citizens' Rights Agreements**

The Independent Monitoring Authority for the Citizens' Rights Agreements (IMA) protects the rights of EU and EEA EFTA (European Economic Area – European Free Trade Association) citizens, and their family members, living in the UK and Gibraltar following the departure of the UK from the EU. The IMA is independent of government, and monitors UK public bodies to make sure they adequately and effectively implement the rights in the citizens' rights agreements.

In 2023, we concluded that for economic statistical purposes the IMA was under public sector control. This is because of the government's rights to appoint and terminate board members, specifically:

- the appointment of IMA board members by the Secretary of State for Justice, in accordance with the Code of Practice for Ministerial Appointments in Public Bodies
- the early termination of a non-executive board member's appointment is at the discretion of the Secretary of State for Justice

## **Rights to appoint, veto or remove a majority of appointments for main committees of the entity**

Sometimes an entity's most important decisions may be taken by committees of the board, not by its board or governing body. In these instances, it is appropriate to also consider the appointment and veto rights over these committees. For more information, see Section 1.2.3.1, 28 of the MGDD 2022.

The general policy or programme of an entity is usually linked with matters like the remuneration of staff, pay, and business strategy. In these cases, the committees of interest in a classification assessment might include the remuneration, nominations, and finance committees, for example.

## **Ownership of a majority of the voting interest in an entity**

Control can be given by owning a voting interest in an entity. The assessment should be carried out in aggregate, taking account of the combined interests of all bodies classified to the public sector. For more information, see Section 1.2.3.1, 28 of the MGDD 2022.

The general rule is that for public sector control to exist, the public sector must hold a mathematical majority of voting rights. However, it is possible for control to exist at a lower threshold. Ownership of shares may be widely diffused among many shareholders, or large numbers of shareholders may not regularly vote, for example. Such pragmatic assessments may show that the public sector effectively has control, even without holding a mathematical majority of the total voting rights.

Minority shareholdings, particularly those above 25%, can also give one entity significant influence over another. At this level, a shareholder can block special resolutions, such as adopting new articles of association.

## **Case Study: Lloyds Banking Group**

The UK government acquired a 43% stake in Lloyds Banking Group (LBG) in 2008 to 2009, as part of its intervention during the financial crisis. This large minority shareholding, coupled with the other requirements imposed by government, indicated public sector control.

As a result, we reclassified LBG from the private financial corporations subsector to the public financial corporations subsector.

The public sector control over LBG was reduced in 2014. This resulted from a reduction of the government's shareholding in the group. Therefore, we reclassified LBG to the private financial corporations subsector.

## **The right to appoint, veto, approve, or remove important personnel**

The process for appointing important personnel forms part of a classification assessment. Control of an entity's general policy may be effectively determined by influential members of the board, such as the chief executive, chairperson, or finance director. Rights to appoint, veto, or remove people from such roles are more important for determining whether public sector control exists in such cases.

## **Case study: Scottish Forestry**

Scottish Forestry is the Scottish Government agency responsible for forestry policy, support, and regulations. We concluded in 2019 that Scottish Forestry was under public sector control. This was because the Scottish Government appointed its chief executive, and the Scottish ministers were responsible for approving the organisation's corporate and business plans, and for setting its budget.

This example shows that it is often the presence of multiple control indicators, taken in combination, that lead to the conclusion that public sector control exists.

## **Rights under special shares and options, or golden shares**

The public sector may hold shares in an entity that convey additional rights or powers – referred to as "special shares" or "golden shares" in the statistical guidance. During the classification assessment, we consider if the powers conveyed by such shares allow the public sector to influence the current general policy of an entity.

If, however, the powers conveyed by such shares cover only specific, contingent events, and are restricted in scope or time, those powers do not result in public sector control until they are used. For more information, see Section 1.2.3.1, 29(5) of the MGDD 2022.

As such, classification assessments are based on the public sector's existing ability to determine the current general policy of an entity under normal conditions, rather than its ability to do so during exceptional circumstances, such as major economic downturns, wars, or natural disasters. For more information, see section 4.80(e) of the SNA 2008.

## **Contractual arrangements that prevent an entity engaging with non-public sector customers**

This is not an indicator that we observe very often, but it is important to assess whether all an entity's sales are to public sector entities, and whether an entity is restricted from dealing with non-public sector customers. Either of these would make it possible that public sector control exists, because of the entity's reliance on the public sector for its revenue.

However, context in such a situation is important. The presence of other customers, or the potential to have other customers, indicates that an entity is not controlled by the public sector because of contractual arrangements alone.

## **Rights to control from agreements and permission to borrow**

Lenders often impose controls as conditions of making loans. An indicator of control is if the public sector imposes controls through lending that are more restrictive than those of a bank.

## **Case study: Train operating companies under emergency measures agreements**

Against the backdrop of economic uncertainty created by the coronavirus (COVID-19) pandemic, many train operating companies (TOCs) entered a support arrangement with the government called an "emergency measures agreement" (EMA) in early 2020. We concluded that the restrictions placed on TOCs by the EMAs meant that they were under public sector control for economic statistical purposes.

One of the reasons for this was that the EMAs prevented TOCs from being able to borrow, or enter into any loan or lending agreement for the purpose of borrowing, from any person. There were other factors that led to the conclusion that public sector control existed, including that:

- almost all the financial risks associated with rail transport were borne by the government, following the introduction of the EMAs
- without the permission of the Secretary of State for Transport, TOCs could not take important decisions relating to their corporate policy, such as increasing their workforce or reducing their workforce by more than 5%, or setting ticket prices lower than they were immediately before the EMAs came into place
- government policy at that time ensured the continuation of these rail services, and some open-access operators not included within the EMA package had suspended services during this period

Again, control by the public sector is often indicated by a collection of factors.

## Control via excessive regulation

Public authorities can have powerful regulatory involvement, particularly in areas like monopolies and privatised utilities where there is a public service element. It is a form of control when regulation is so tight that it effectively dictates the general policy of a body.

However, it is possible for regulatory involvement to exist in important areas, like price setting, without an entity ceding control of general policy.

Choosing to operate within a highly regulated environment may indicate that an entity is not subject to public sector control, though there may be other factors that suggest such control exists. For more information, see Section 4.80(f) of the SNA 2008 and Section 20.309(h) of the ESA 2010.

Classification assessments will also consider the ability of a unit to exit from the regulatory activity, or to diversify its activities. For more information, see Section 1.2.3.1, 29 of the MGDD 2022.

## Other indicators

The indicators described here are not exhaustive, and Section 20.309 of the ESA 2010 introduces an additional category (when compared with the SNA 2008) for "other" indicators of control. These include:

- statutory powers or rights contained in an entity's constitutional documents that limit their activities, objectives, and operating aspects
- a public sector requirement to approve budgets
- the ability of the public sector to prevent an entity from amending its constitution, dissolving itself, allocating profit, taking part in mergers and acquisitions, or terminating its relationship with the public sector
- a reliance on public sector financing, if the controls on that financing are restrictive enough to dictate an entity's general policy
- rights to intervene and take control of the management of an entity if certain conditions arise or events occur

## Case study: Flood Re Limited

Flood Re Limited is a mutual reinsurer. Its purpose is to promote the availability and affordability of flood insurance for eligible homes, and to manage the transition to risk-reflective pricing for household flood insurance.

We concluded that Flood Re Limited was under public sector control in 2021. The reasons for this included that the company administered a scheme that was designed by government in response to public policy objectives, and because the entity could not cease to provide flood reinsurance without consulting government.

This example reinforces the point that the legal status of an entity does not determine its statistical classification. Flood Re Limited is an incorporated UK company engaged in insurance activities, which might suggest that it should be classified as a private financial corporation. However, Flood Re Limited was classified to the public sector for statistical purposes, for the reasons given.

## The importance of the different indicators

ESA 2010 states that three of the indicators described are sufficient by themselves to conclude that an entity is controlled by the public sector. For more information, see Section 20.310 of the ESA 2010. These are:

- rights over officers or directors of the governing body
- rights over appointments to main committees
- majority ownership of voting interest

The other indicators do not automatically result in public sector control, but may indicate that control exists when the full range of indicators is considered. For more information, see Section 1.2.3.1, 29 of the MGDD 2022.

## 6 . Public sector control and entity independence

Public sector control is an economic statistical classification matter. It should not be interpreted as an assessment that an institutional unit is not fully independent. For more information, see Section 1.2.3.1, 29 of Eurostat's [Manual on Government Deficit and Debt \(MGDD\) 2022](#).

The notion of public sector control is different from the everyday notion of independence, which may involve aspects of separation or freedom to make decisions without influence from others.

The classification of the Independent Monitoring Authority for the Citizens' Rights Agreements (IMA) referenced earlier illustrates this point well. The IMA is independent of government and has a role that involves monitoring UK public bodies. The fact that, from a statistical perspective, the IMA is under public sector control does not alter or undermine its independence in any way.

There are many entities, such as the IMA, which are classified to the public sector, but that operate independently from the public sector. For example, the Office for National Statistics (ONS) itself has been classified to the public sector, as the executive office of the UK Statistics Authority. However, we produce statistics independently of the government, and this independence is an important way we maintain impartiality and objectivity in our work.

Other examples might include:

- the Bank of England, which has been classified to the public sector, but has been operationally independent from the government for many years
- the Supreme Court, county courts and crown courts, which have all been classified to the public sector, though individual judges and the judiciary are independent of all external influences

## 7 . Summary of the classification process

Classification is a process used to allocate entities to sectors of the UK economy. The process is undertaken for economic statistical purposes only. Classification to the public sector does not change the ownership or legal status of an entity, nor does it imply that an entity cannot act independently from the public sector in the fulfilment of its objectives.

Classification uses international statistical guidance, which allows us to make robust and internationally comparable decisions. That said, decisions about whether an entity is controlled by the public sector are not a simple matter. There are many reasons for an entity to be classified to the public sector, and many classification decisions need to take account of a range of factors collectively.

## 8 . Cite this methodology

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