



CabinetOffice

Review of the Administrative Classification of Public Bodies within the United Kingdom

Discussion Paper

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1. Introduction

1. This project will review the current system of administrative classification of public bodies within the UK (i.e. those classified to the Central Government sector by ONS for National Account purposes), to determine if it is fit for purpose. The project team will gather and analyse evidence to identify if there are: any underlying problems; areas of best practice; and areas that could be changed or improved. The focus of this review is on identifying practical recommendations.
2. This document sets out the aims and objectives of the project. It goes on to explain the various systems of classifying public bodies in the UK and gives the strategic context, including details about the reforms undertaken since 2010. Finally it tells individuals and organisations how they can respond to this discussion paper. **Annex A** sets out the project team's initial lines of enquiry and **Annex B** lists specific questions which we would like addressed in responses.

2. The Administrative Classifications Review Project

Project aims

3. This project aims to review comprehensively the current system of administrative classification of public bodies, specifically looking at whether or not the framework and process (for classifying individual public bodies) are fit for purpose. The system of National Accounts Classification (as detailed in section 3 below) is out of scope of this project except insofar as there is overlap with the administrative classification system.
4. Where potential improvements to the current system are identified based on the evidence provided, the project will explore implementation options and make recommendations.

Project outline

5. To achieve the review's aims, the project team will carry out the following:
 - (i.) Gather sufficient evidence on the current administrative classification system to make an assessment of the extent to which the current system is, or is not, fit for purpose.
 - (ii.) Analyse the evidence, identifying if there are areas where reform or modification would deliver practical benefits.
 - (iii.) Make recommendations on implementing identified improvements. Some improvements may be implemented relatively quickly and easily. Given the size and complexity of the public bodies landscape, it is likely that other proposed improvements may form the basis of further detailed policy development and a longer term programme of reform.
 - (iv.) Establish a cross-Whitehall group to advise on existing and future policy areas that have links to administrative classification, to ensure a joined-up approach and avoid duplication of effort.

Overarching themes and initial lines of enquiry

6. The project team has identified certain overarching themes that are likely to impact upon administrative classification. These include:
 - effectiveness;
 - accountability and governance;
 - control and independence;
 - funding; and
 - staffing.
7. Where the project team receives evidence on these themes, it will only address them where they relate to the system of administrative classification. The cross-Whitehall group may be used to sign-post wider issues relating to these themes where appropriate.
8. In addition to these themes, the project team has identified the following lines of enquiry:
 - responsiveness to new developments and innovation;
 - multiple classifications;
 - unclassified bodies;
 - awareness and understanding of the classification system; and
 - cost and efficiency of the classification system.
9. These initial lines of enquiry are likely to evolve during the project. This list does not preclude additional concerns from being raised by stakeholders or addressed by the project team. Each of the initial lines of enquiry are developed further in **Annex A** to this document.

3. The Classification of Public Bodies in the UK

Administrative classification of public bodies

10. The public bodies landscape has evolved over many years, without a single cohesive strategy covering the wider framework, let alone the process of categorising the remaining 600 plus committees, tribunals, agencies, authorities, corporations, offices and other forms of entity that are not government departments, but provide the sort of services in the sort of manner that place them within the public sector. Over the years they have been given various titles including: quasi-autonomous non-governmental organisations ('quangos'), arm's length bodies, or just 'public bodies', which will be the term used in this document.
11. As the landscape has evolved, an administrative system of classifying public bodies has developed as a tool for ensuring a level of consistency in the way bodies are set up, funded, managed and overseen by their sponsoring departments. It is this system on which the classification review project will focus.

Framework

12. The main categories of public body that currently exist include:
 - executive agencies;
 - non ministerial departments;
 - non departmental public bodies;
 - advisory bodies; and
 - some forms of public corporation (however, most are likely to be out of scope of this project).
13. Within each of the main categories there are various sub-categories. In addition there are also several smaller separate categories, such as statutory office holders and parliamentary bodies, and a final grouping of 'unclassified' public bodies. Altogether these categories form the current **framework** of administrative classification.

Process

14. The **process** of administrative classification is concerned with establishing how a public body should be categorised or fit into the above framework. This process involves examining key characteristics that include: independence from, and control by, government departments; oversight and governance; funding; staffing; and the nature of the service or product provided. Each category of public body is made up of certain key characteristics or 'badges', some of which have greater weight in the classification process than others.
15. For more detailed information on the classification framework and process please refer to the Cabinet Office guide 'Categories of public bodies: a guide for departments'.¹

Other systems of classification

16. Sitting separately to the administrative classification of public bodies are other systems of classification. These are distinct in their nature and the way they impact on public bodies.
17. **It is important to note that these other systems are excluded from the scope of this project, except insofar as there are areas of overlap with the administrative system of classification, in which case the review will reflect any relevant evidence in its recommendations.**
18. These other systems include the following:

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80075/Categories_of_public_bodies_Dec12.pdf

Office of National Statistics ('ONS') National Accounts Classification

19. The production and dissemination of National Accounts data by EU Member States is a requirement under EU law. In the UK these are produced by the ONS. The National Accounts measure the whole economy and individual entities are classified to economic sectors within the economy.²
20. The first assessment is whether a unit is public sector or private sector; a unit is public sector if it is subject to government control (assessed according to indicators outlined in the European System of Accounts 2010). The public sector category is further segmented into 'Central / Local Government' and 'Public Corporations'. The determining factor between these two categories is generally the proportion of costs covered by income the body generates from selling goods / services on the open market (as opposed to public funding) at 'economically significant prices', with public corporations covering at least 50% of their costs with proceeds from trading.
21. The UK Government has chosen to use the National Accounts public sector boundary to measure its own fiscal performance. A number of other consequences also flow from this classification, for example the extent to which the public sector spending controls regime applies to the body.
22. The ONS accounts classification sits above administrative and other types of classification. Only bodies classified as Central Government by ONS are subject to the administrative classification system being considered in this review

HM Treasury ('HMT') Trading Fund status

23. There is a separate HMT-led process, which can give a public body 'Trading Fund' status. This is a statutory legal process that provides the public body access to sources of revenue or funding that are outside of the usual funding processes available. This allows for a more commercial and business-like approach to managing some of the financial activities of those public bodies including: greater flexibility in matching income and expenditure and financing minor capital expenditure; the ability to retain trading income to meet expenditure; the ability to take certain loans; and the possible use of accumulated cash resources.
24. Trading Fund status sits separately to the National Accounts and administrative classifications of public bodies. It only applies to a small number of Central Government bodies, usually executive agencies, though also some non ministerial departments. No new Trading Funds have been created for several years and it is unlikely that many more will be created in the near future as other easier to establish models of public body are developed.

Ad hoc department-specific classifications for public bodies

25. Additionally, departments give some bodies their own specific classifications as they do not fit readily into any of the main administrative categories, for example some NHS entities.

² More information on the UK National Accounts and Public Finances sector and transaction classification can be found at the ONS website here: <http://www.ons.gov.uk/ons/guide-method/classifications/na-classifications/the-ons-classification-process/index.html>

Classification by the Charities Commission

26. Some public bodies within the UK are eligible to qualify as charities under the system of registration operated by the Charity Commission. These range from organisations that only engage in charitable activities, through to public bodies that are fully involved in the process of government as well as carrying out charitable functions.

4. Strategic context for the review

Background to the Public Bodies Reform Programme

27. The Public Bodies Reform Programme ('the Reform Programme') was one of the present Government's priority programmes when it came to office in 2010. Detailed information about the Reform Programme is set out on the Public Bodies Reform page on GOV.UK³ and in the Public Bodies 2013 report⁴ (the 2014 report is due to be published shortly).
28. Public bodies are entities that play a role within the processes of government, but are not ministerial departments, and which accordingly operate to a lesser or greater extent at arm's length from the government. There are many different types of public body, performing many different functions, but it is the differences in their form that impacts on the way they are classified.
29. The main focus of the Reform Programme has been on reducing the number and cost of public bodies, improving accountability, and eliminating duplication and waste. It has involved the review of UK Government-sponsored public bodies, to establish whether the functions these bodies delivered were still necessary, and, if so, whether they still needed to be delivered at arm's length from government. This was established where a public body met one of three key tests, being that: it performs a technical function; its activities require political impartiality; and / or it needs to act independently to establish facts.
30. Of the 900 plus public bodies reviewed, over 200 were identified as no longer needing to be an arm's length public body, and a further 170 bodies were reduced through merger to fewer than 70. The remaining bodies were retained, but in many cases substantially reformed to improve aspects of their transparency, accountability, efficiency and cost.

Gathering impetus for a review of classification

31. In the course of the development and implementation of the Reform Programme, it has become evident that a comprehensive review of the existing framework and process for the administrative classification of public bodies is now justified. Casework involving classification and governance issues and the experience of the Cabinet Office's Commercial

³ <https://www.gov.uk/public-bodies-reform>

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/286170/Progress_on_Public_Bodies_Reform_December_2013.pdf

Models Team when exploring the potential for alternative delivery models have added weight to the case for such a review, a view echoed by some external commentators.

32. At the end of 2013 the Government agreed the next phase of the Public Bodies Reform strategy. This included a commitment to ensure the classification framework and process are fit for purpose.
33. In February 2014 the Public Administration Select Committee ('PASC') opened an inquiry into the 'Accountability of quangos and public bodies'. PASC said it would like to hear views on: "The complexity of the public bodies landscape: for example, the differing structures and powers of arms-length bodies, non-ministerial departments and executive agencies."⁵
34. On 14 July the Minister for Civil Society ('MCS') gave evidence to the inquiry on behalf of the Cabinet Office, where the issue of continuing complexity in the landscape was the lead topic. MCS suggested that a number of the issues raised by PASC at that oral evidence session could be addressed by the proposed review of classifications.
35. As the first phase of the Reform Programme reaches its conclusion, with administrative spend reductions of at least £2.6 billion by March 2015, and with over 280 successful abolitions and mergers of public bodies, a comprehensive review of classifications is both timely and necessary.

5. Hearing from you

Stakeholder evidence

36. The project team will be gathering and analysing evidence on the current system of administrative classification, covering both the framework and process of classifying individual public bodies in the UK. We would like to hear from individuals and organisations that are affected by the current system, in particular those that have relevant information on whether or not it is fit for purpose, and whether there are potential practical improvements that could be made.

Timetable for gathering evidence

37. **The project team will collect responses from Thursday 6 November 2014 until Friday 19 December 2014.**
38. If you are unable to submit your response by Friday 19 December, please contact us as early as possible to discuss a possible extension. Extensions are not guaranteed, and must be agreed in advance with the project team.

⁵ For more information please visit the following website:
<http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-administration-select-committee/inquiries/parliament-2010/accountability-of-quangos-and-public-bodies/>

How to respond

39. Please read through this document in full, and answer the questions in **Annex B**. Kindly send in your response by either email (in word document, rich text or pdf format), or in hard copy by post to the classification review project team at the address below. If you have any difficulties in emailing or posting your responses please call the telephone number provided.

Email: classificationreview@cabinet-office.gsi.gov.uk

Post: Classification Review, Public Bodies Reform Team, Cabinet Office, 4th Floor, Yellow Zone, 1 Horse Guards Road, London SW1A 2HQ

Phone: 020 7271 8483

40. When responding, please state whether you are doing so as an individual, on behalf of an organisation you belong to or on behalf of others. If you are responding on behalf of others, please make it clear whom you represent and, where applicable, how their views were assembled. The project team will endeavour to acknowledge all responses received.

Freedom of information / Confidentiality

41. All information contained in your response, including personal information, may be subject to publication or disclosure if requested under the Freedom of Information Act 2000. By providing personal information for the purposes of this exercise, it is understood that you consent to its disclosure and publication. If this is not the case, you should limit any personal information provided, or remove it completely. If you want the information in your response be kept confidential, you should explain why as part of your response, although we cannot guarantee to do this.

42. To find out more about the general principles of Freedom of Information and how it is applied within Cabinet Office, please contact:

Email FOI.team@cabinet-office.gsi.gov.uk

Post Freedom of Information Team, Cabinet Office, Admiralty Arch, London, SW1A 2WH

43. The Freedom of Information Team cannot advise on specific projects, but can provide support with Freedom of Information issues. More information about the Freedom of Information Act can be found at:

www.gov.uk/make-a-freedom-of-information-request/the-freedom-of-information-act.

Annex A. Initial Lines of Enquiry

Responsiveness to new developments and innovation

44. Some concerns have been raised that, although the number and cost of public bodies has significantly reduced in recent years, the overall landscape still remains relatively complex. This is not least due to the drive to develop the commerciality of public bodies, and the increasing number of innovative arrangements for collaboration between public and private sectors. These bodies often require exemptions and variations from the standard treatment of public bodies in the categories in which they are placed, so their nominal classification may not accurately reflect their functions and practical delivery arrangements.
45. Also, some newly created public bodies have struggled with classification due to difficulties in adhering to or fitting within the categories currently available. These concerns cover whether or not the framework is wide enough to provide a range of categories for public bodies that fulfil a variety of functions, without necessarily straight-jacketing public bodies such that they are unable to deliver the services or products they were created for. A balance needs to be achieved between flexibility and responsiveness on the one hand, and certainty and consistency on the other.

Multiple classifications

46. A small number of public bodies hold multiple classifications. This can present real challenges when seeking to establish which appropriate funding, governance and independence characteristics should apply to a public body that simultaneously inhabits different categories within the framework.
47. An example can be seen where a non ministerial department (a category of public body that is designed to be voted money directly from Parliament and be accountable directly to Parliament for its activities) purports to operate as an executive agency (key features of which are that they are a business unit of a government department, with no separate money from Parliament and directly accountable to the department's minister).

Unclassified bodies

48. There are various instances of public bodies that remain unclassified for different reasons, for example there are a number of 'temporary' bodies. For some short lived public bodies that are established for a specific purpose, and are dissolved or substantially changed once their initial role is completed, having to go through the classification process could result in wasted time and effort. However, the existence of unclassified public bodies within the current framework, may add to the complexity of the overall landscape and could make it more confused.
49. Additionally there are other types of unclassified bodies, that do not easily fit into the current framework; these have either unique characteristics that are absent or conflict with the key characteristics of the available categories. In a few instances public bodies have not been correctly classified due to a lack of understanding of the current framework, which raises its own line of enquiry (as discussed below).

Awareness and understanding of the classification system

50. It is possible that greater awareness and understanding of the classification framework and process could help with the design and development of new public bodies (or the restructuring of existing ones) that could lead to greater efficiencies, clearer governance structures, and more effective delivery of their functions.

Cost and efficiency of the classification system

51. Reducing costs and increasing efficiency of public bodies have been key objectives of the Reform Programme. The project team will assess whether further savings can be identified through the classification process or through any improvements to the process. This will include addressing how public bodies are developed, structured, funded and managed.

Annex B. Specific Questions

Instructions

52. When providing evidence please provide your name and preferred contact details, and answer the five questions listed below. If you cannot provide an answer to a question please move on to the next one.
53. It would be helpful if you could illustrate your comments with actual case studies or real-life examples of how the administrative classification framework and process works well or could be improved.

Questions

- Question 1.** In what capacity are you providing evidence? Are you replying: as an individual (please explain how classification of public bodies relates to you); as an organisation (please state which one); or on behalf of others (please explain who you represent)?
- Question 2.** What is your experience (or the experience of your organisation or those you represent) of the classification framework and process within the scope of this project? How does the current framework and process affect you?
- Question 3.** Based on these experiences, are the classification framework and processes fit for purpose, in whole or in part?
- Question 4.** To the extent that you think they are not fit for purpose, what do you believe is specifically wrong with the classification framework and / or process?
To the extent that you think they are fit for purpose, what aspects of the classification framework and process do you believe work particularly well?
- Question 5.** Whether you believe the framework and process are fit for purpose or not, how (if at all) could they be improved?

Examples of who we are looking to hear from

Individuals with experience of public bodies and / or administrative classification.

54. You may work for a public body, and wish to respond directly and not through the public body itself, or through any sponsoring department. Or you may have experienced issues relating to the classification of public bodies, as someone using the services or products those bodies provided. Or you may have a professional interest in public bodies.

Individuals or organisations representing others.

55. You or your organisation may either formally or informally represent: public bodies, the staff of public bodies, those that interact with public bodies, and / or those with a professional interest in public bodies. You may present each of the responses individually, or provide a collated summary (please indicate which approach has been taken and that those you are acting for have given their consent to their evidence being provided to the project team).

Organisations responding in their own right.

56. Your organisation may be a sponsoring department, it may be a public body, it may interact with public bodies in some way, or it may have some professional interest in public bodies.