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**FROM: Jeff McGuinness cc:** *Copy distribution list below*

**DATE: 3 November 2022**

## TO: Finance Directors

**CLASSIFICATION OF BODIES**

The Office for National Statistics (ONS) had been in contact about reports in the press where their role in the classification of NI Executive bodies has been misrepresented. I therefore thought it would be beneficial to all departments to set out the classification process in Northern Ireland to ensure that in future the role of ONS is not misrepresented.

Where a department is considering establishing a new public body, or where the circumstances of an existing body change, for example investment in a subsidiary entity, early consideration of the classification of that body is required. Early consultation with the Department of Finance (DoF) should form part of that consideration. Guidance is available to departments and referenced within this letter, links to all documents, guidance and the classification questionnaire are contained in Annex A.

The process for establishing the classification of any new public body in Northern Ireland is carried out in two distinct stages:

1. The **sector** classification in terms of whether the body is public or private sector and whether the body is a market or non-market body. This consideration is carried out in line with **ONS** guidance and with reference to the European System of Accounts (ESA).
2. For those bodies that have been classified to the public sector, there then follows a process to determine their **administrative** classification. This second stage is considered by DoF with reference to the guidance available including that produced by the Cabinet Office.

**Questionnaire**

The first step in any classification process is for departments to complete the classification questionnaire and provide that, along with accompanying documents, to their relevant Supply Officer in DoF.

**First Stage of Classification – Relevant Sector**

DoF will scrutinise the documents provided to ensure that all relevant information is provided and to make an initial assessment of the classification of the body in terms of the sector to which it is likely to be classified. Consideration of this is made with reference to the controls detailed in ESA 2010 and the Manual on Government Deficit and Debt 2016 (MGDD).

This consideration will result in one of the following outcomes:

1. Where the documentation provided by a department clearly indicates that the body will be a public sector body that will fall within the central government sector DoF will make that indicative classification decision. This indicative decision and all documents will be provided to HM Treasury (HMT), who in turn will pass this to ONS as final arbiter of sector classification issues.
2. Where a potential public sector classification is not clear cut, or where the initial DoF assessment indicates either a private sector classification or a public sector market body (a public corporation) all papers are sent to HMT. In all these cases HMT will assess the documentation provided and may seek further information or ask questions about the case. DoF will pass those questions to the department for answer.

Where HMT, having assessed the information provided, feel able to provide an indicative classification they will inform DoF of this, who will in turn engage with the department. HMT will then pass all papers to ONS with their indicative sector classification. As the final arbiter of all sector classification issues, ONS may review and reassess any decision either DoF or HMT take in terms of the sector into which a body falls.

1. In the circumstances where HMT cannot make a determination on the classification of a body all documents will be forwarded by them to ONS for a sector classification decision.

**Second Stage of Classification – Administrative**

Once the sector into which a body will be classified has been determined, either by DoF, HMT or ONS, the administrative classification will be determined by DoF. **ONS do not** determine the administrative classification of the body.

All classification decisions will be advised to departments in writing and will highlight whether the indicative sector classification is being provided by DoF or HMT. The letter will also take the opportunity to remind departments that such indicative sector decisions will be forwarded to ONS and that as final arbiter, the classification may be reviewed by them. It is important, in light of the recent press reports that the role of both ONS and HMT is understood and not misrepresented.

It is equally important that the consequences of that decision are correctly and proportionately applied by departments when putting in place the appropriate recording arrangements. Departments should be mindful that such arrangements, and any governance structures put in place with the body, should be proportionate to the nature of the administrative classification of the body and the materiality of the transactions being recorded. The Consolidated Budgeting Guidance provides more information on recording ALBs in budgets.

**Circumstances for changes to a classification**

Changes to the classification of a body may happen as a result of an ONS led review. Where this is the case, ONS have a protocol in place to advise devolved administrations of that change. Where this occurs, DoF will contact the department concerned and will advise not only that ONS have reclassified the body but also of any action that is required.

Where a department is aware of a change in circumstances in an existing body, the department should instigate a review of the existing classification by completing a new version of the classification questionnaire. Further, if a department is aware of an existing body or subsidiary that has not been classified, they should make DoF aware of that issue and arrange for a classification questionnaire to be completed as a matter of urgency.

Where a department is planning to create or acquire a body the classification implications must be considered and early engagement with DoF is advised.

**Contact**

I hope this helps clarify the position but if you have any questions on the contents of this letter please contact Kerri Smyth in CED on 02890 816844 in the first instance.



**JEFF McGUINNESS**

**Copy Distribution List**

**Joanne McBurney**

**PSD G5s, G7s & DPs**

**Principals in Finance Branches**

**Annex A**

European System of Accounts 2010

<https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-02-13-269>

Manual on Government Deficit and Debt 2016

<https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-16-001>

ONS – Classification Process

<https://www.ons.gov.uk/methodology/classificationsandstandards/economicstatisticsclassifications/ukeconomicstatisticssectorandtransactionclassificationstheclassificationprocess>

Cabinet Office Guidance – Classification of Public Bodies

<https://www.gov.uk/government/publications/classification-of-public-bodies-information-and-guidance>

Consolidated Budgeting Guidance 2022-23

[CBG\_2022-23.pdf (publishing.service.gov.uk)](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1061788/CBG_2022-23.pdf)

Classification Questionnaire:

