



National Audit Office

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**Briefing**

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**Cross-government**

Companies in government

**DECEMBER 2015**

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Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 810 people. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.15 billion in 2014.

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# Summary

**1** This briefing explains how 3,038 companies relate to each of the 17 central government departments;<sup>1</sup> and shows how the number of companies has increased since 2010. It is based on five publicly available sources of information on companies in government as at 31 March 2014. It explains the basis for each source and how the results differ.

**2** This factual briefing does not seek to evaluate any company, nor to reach any conclusions about value for money. The facts presented in this report may however raise issues relating to transparency, accountability, governance and review. It makes reference to the accountability and governance themes which have been examined in previous reports concerning the Cabinet Office's *Progress on public bodies reform*,<sup>2</sup> and *The Shareholder Executive and Public Sector Businesses*.<sup>3</sup> It is also a companion for our recent report concerning the financial institutions landscape, which contains descriptions and financial information about a number of large companies and the implications for the government's balance sheet.<sup>4</sup>

## Scope

**3** This briefing is structured in five parts:

- **Part One** introduces some important definitions and concepts which are applied throughout the report.
- **Part Two** identifies five public sources about companies, compares the lists derived using each and explains why the contents differ. It also summarises the sixth source – a full departmental mapping – that we have created for the purpose of this briefing, and which is published in Part Five.
- **Part Three** describes the process of creating arm's-length public bodies and the circumstances in which they may be incorporated as companies, Royal Charters or statutory corporations. It also describes the public bodies reform programme.

<sup>1</sup> The analysis relates to the position during the 2013-14 financial year, consistent with the most recent WGA in order to achieve consistency with the sources of information used. Recent developments are summarised in Part 2.

<sup>2</sup> Available at: [www.nao.org.uk/report/progress-public-bodies-reform/](http://www.nao.org.uk/report/progress-public-bodies-reform/)

<sup>3</sup> Available at: [www.nao.org.uk/report/the-shareholder-executive-and-public-sector-businesses/](http://www.nao.org.uk/report/the-shareholder-executive-and-public-sector-businesses/)

<sup>4</sup> Financial institutions in government. We have also published an interactive data tool alongside the financial institutions landscape to explore the financial profile for the financial institutions landscape, many of which are companies in government. Available at: [www.nao.org.uk/wp-content/uploads/2015/09/Financial-institutions-landscape.pdf](http://www.nao.org.uk/wp-content/uploads/2015/09/Financial-institutions-landscape.pdf)

- **Part Four** describes some of the key relationships between departments and companies; how principles of public accountability are combined with corporate governance arrangements; and compares the approach to assurance of companies in government and other public bodies. We did not examine the processes of individual departments when creating new companies.
- **Part Five** contains a detailed mapping of companies to each of the 17 central government departments, reflecting the position at 31 March 2014.

4 We have included companies which central government wholly or partly owns or controls. We included the parent company and first-line subsidiaries where this information was readily available. The scope does not extend to local government, NHS, police and fire, higher and further education, local partnerships, limited liability partnerships (LLPs), community interest companies and public service mutuals. The financial sustainability of companies in government is also outside our scope.<sup>5</sup>

## Key findings

5 **There is currently no single, definitive, source of information about the number of companies in government.** To identify companies in government we used available public sources listing entities which make up the public sector landscape. None of these sources are designed specifically to identify companies owned or controlled by government. Consequently these sources lead to different totals, (paragraphs 2.3 to 2.19). The connection between the sources is set out in **Figure 1** overleaf.

The public sources are:

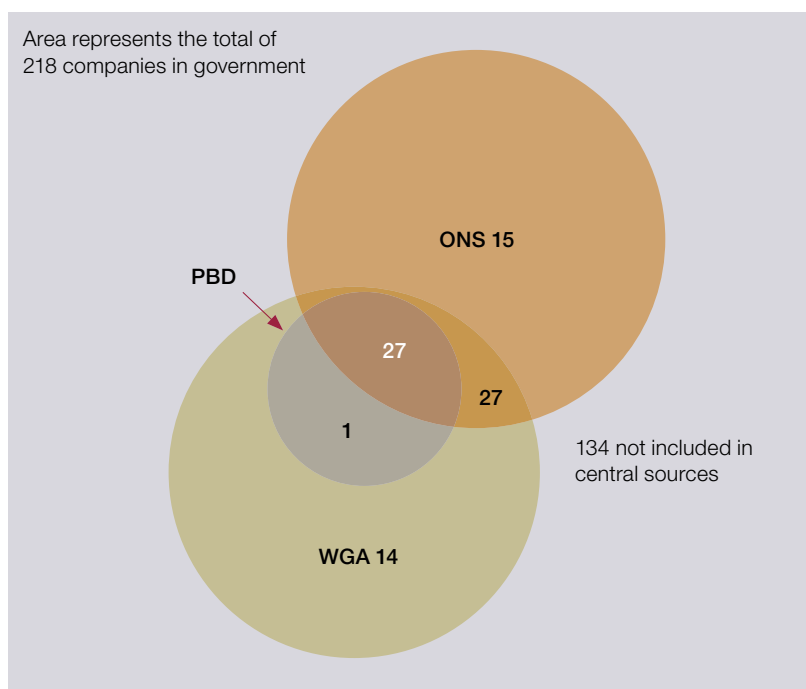
- **The Public Bodies Data Directory, which Cabinet Office prepares, identifies 28 companies.** This directory is a compilation of public bodies operating at arm's length from their sponsoring departments. Only if a company has been categorised as a type of public body<sup>6</sup> does it appear in the directory, (paragraphs 2.5 to 2.6).
- **The public sector classification index, which the Office for National Statistics (ONS) maintains, identifies 69 companies.** The ONS classifies entities to the public sector using a test of control which is standardised across the European Union to achieve consistency in the way that governments calculate national debt, (paragraphs 2.7 to 2.9).
- **The Whole of Government Accounts (WGA), which HM Treasury prepares, identifies 69 companies.** The Treasury specifies which companies, alongside all other public bodies, should be included in this consolidated financial statement each year. It is based on a similar approach to the ONS, (paragraphs 2.10 to 2.12).

5 This report predates the ONS reclassification of approximately 1,600 "Private Registered Providers of Social Housing in England" as Public Non-Financial Corporations on 30 October 2015. Available at: [www.ons.gov.uk/ons/guide-method/classifications/na-classifications/classification-announcements-and-statements/classification-of-private-registered-providers-of-social-housing-including-registered-housing-associations-in-england.pdf](http://www.ons.gov.uk/ons/guide-method/classifications/na-classifications/classification-announcements-and-statements/classification-of-private-registered-providers-of-social-housing-including-registered-housing-associations-in-england.pdf)

6 The administrative categories in the Public Bodies Directory include non-ministerial department (NMD), Executive Agency (EA), which includes Executive Agency Trading Fund (EATF), Executive, Advisory or Tribunal non-departmental public bodies (NDPB) and Public Corporation (PC) which is a statistical not administrative classification. These are sometimes referred to collectively as arm's-length bodies (ALBs).

**Figure 1**

Summary of classification of 218 companies in government identified by the NAO



**Notes**

- 1 Not to scale.
- 2 National Audit Office tally of companies in government: 218. Not included in central databases: 134 (including 9/11 special shares, 17 dormant rail companies and 21 Community Rehabilitation Companies).
- 3 PBD is the Public Bodies Directory maintained by Cabinet Office.
- 4 ONS is the public sector classification register maintained by the Office for National Statistics.
- 5 WGA is the Whole of Government Accounts.

Source: National Audit Office analysis

**6 The aggregate total of companies identified in each of the three sources is 84 companies, of which 27 appear in all three sources.** The partial overlap stems from application of the different methods, and concerns a number of key concepts including how to distinguish between function and form, ownership, control and independence (paragraphs 2.17 to 2.19, Figure 1).

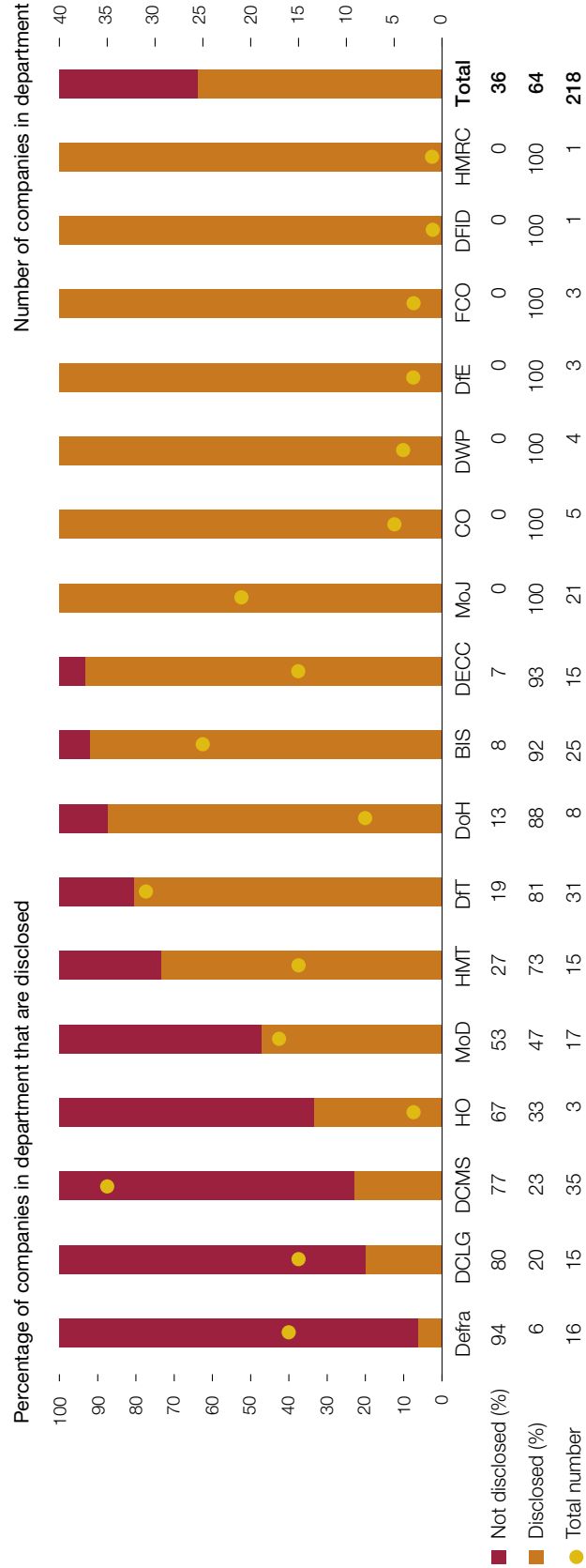
**7 In total we have identified 3,038 companies in government, including 2,591 Academy Trusts, 218 parent companies, and a further 229 subsidiaries of these parent companies.** We amalgamated all three sources described above, and supplemented it with a review of departmental annual reports and accounts and the Companies House register. We adopted a broad principle for inclusion which recognises ownership and other indicators of control including the dependency on public funding (paragraphs 1.6 to 1.9).

We found:

- **The 2,591 Academy Trusts are companies limited by guarantee, under the Companies Act 2006.** They receive the majority of their funds from central government. The government does not own these companies. They are operationally independent with their own boards of directors and accounting officers, and operate on a not for profit basis. By 31 March 2015, the number of Academy Trusts had increased to 2,634 (Figure 9 on page 23).
- **The 218 parent companies and their 229 subsidiaries are distributed widely across all 17 central government departments.** In total 39% of the companies identified are listed in at least one of the ONS, Cabinet Office and Treasury sources (84 out of 218, leaving 134 companies not included). The majority (138 out of 218) are private companies limited by shares under the Companies Act. The number of subsidiaries is likely to be an underestimate as we only identified the first line of subsidiaries (paragraphs 2.17 to 2.19).

**8 Annual reports and accounts published by each of the 17 departments do not always provide a full list of companies.** In total, 139 companies are identified across the 17 departmental annual report and accounts, leaving one third of the companies (79 out of 218) undisclosed. Seven of the 17 departments identify all of the companies that we have included in the departmental mapping. **Figure 2** overleaf compares the total number of companies disclosed in the annual report to the full departmental mapping of companies in government (Part Five).

**Figure 2**  
Disclosure of companies in departmental annual reports 2013-14



**Notes**

- 1 The decision whether or not to disclose a company is generally based on the department's assessment of the materiality of the company relative to the department. (See paragraphs 2.11 and 2.14).
- 2 Defra = Department for Environment, Food & Rural Affairs; DCLG = Department for Communities and Local Government; DCMS = Department for Culture, Media & Sport; HO = Home Office; MoD = Ministry of Defence; HMT = HM Treasury; DfT = Department for Transport; DoH = Department of Health; BIS = Department for Business, Innovation & Skills; DECC = Department of Energy & Climate Change; MoJ = Ministry of Justice; CO = Cabinet Office; DWP = Department for Work & Pensions; DfE = Department for Education; FCO = Foreign & Commonwealth Office; DFID = Department for International Development; HMRC = HM Revenue & Customs

Source: Departmental annual report and accounts 2013-14 financial year



**9 There is no set approvals process for forming a company in government.**

There are clear approvals processes for public bodies and alternative models such as public service mutuels. There is no central guidance on when a company is the most appropriate form of new body (paragraphs 3.2 to 3.4 and Figures 10 and 11).

**10 There has been an increase in the number of companies in government at the same time as a reduction in the number of public bodies.**

Since 2010 and 31 March 2014, the number of public bodies has been reduced by 285. In the same period 11 new non-departmental public bodies (NDPBs) were created as well as 173 new organisations not classified as public bodies, of which 66 are companies (this analysis excludes the 2,591 Academy Trusts, and includes 21 Community Rehabilitation Companies which have since been sold although government retains a special share) (paragraphs 3.6 to 3.8 and Figure 12).

**11 The current accountability system does not reflect the differences between a public body that is incorporated (as a company, Royal Charter or statutory corporation) or not incorporated.**

*Managing Public Money* applies to all central government bodies including those that are companies in government. Government corporate governance guidance, such as *Corporate Governance in Central Government Departments: Code of Good Practice* focuses on ministerial departments but is relevant to those arm's-length bodies (ALBs) which are also companies in government (paragraphs 4.4 to 4.16 and Figures 13 to 15).<sup>7,8</sup>

<sup>7</sup> HM Treasury (2013), *Managing Public Money*. Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/454191/Managing\\_Public\\_Money\\_AA\\_v2\\_-jan15.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf)

<sup>8</sup> HM Treasury and Cabinet Office (2011), *Corporate governance in central government departments: Code of good practice 2011*. Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220645/corporate\\_governance\\_good\\_practice\\_july2011.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220645/corporate_governance_good_practice_july2011.pdf)

# Part One

## Concepts

**1.1** This section introduces the definitions and concepts concerning companies in government that we use throughout this report.

### **The types of company referred to in this report**

**1.2** 'Companies in government' is an umbrella term we have defined to cover the range of corporate forms and means of ownership and control that we observe across government.

**1.3** Companies in government take various corporate forms (see Appendix Two). The most common are limited companies incorporated and registered under the Companies Act 2006. The most frequently used of that type are:

- **Private company limited by guarantee.** The liability of the owners (members) on winding up the company is limited to the (usually nominal) amount stated in the company's articles. It is commonly used for not-for-profit companies;
- **Private company limited by shares.** The liability of its owners (the shareholders) is limited to the amount, if any, unpaid on the shares which cannot be publicly traded. Shares in government companies are typically owned by the Secretary of State and have a nominal value of £1.

**1.4** Companies in government also use special corporate forms:

- **Companies incorporated by Royal Charter.** A Royal Charter is a way of incorporating a body, that is, turning it from a collection of individuals into a separate legal entity. A body incorporated by Royal Charter has all the powers of a natural person, including the power to sue and be sued in its own right.<sup>9</sup> These have no shares or members and are created by Royal Charter which sets out the terms of operation.
- **Companies created by legislation.** These are also called statutory companies or corporations. They are created by bespoke legislation and have no shares or members.

<sup>9</sup> Privy Council Office Information on Chartered bodies. Available at: <http://privycouncil.independent.gov.uk/royal-charters/chartered-bodies/>

**1.5** Some companies in government are ‘Public Corporations’, a statistical classification which ONS applies. Not all companies in government are Public Corporations (paragraph 2.7 to 2.9).

## **Ownership and control**

**1.6** This report identifies companies which central government wholly or partially owned or controlled in the 2013-14 financial year. Companies wholly or partially owned are generally companies limited by shares where government owns all or some of the shares.

**1.7** Government controlled companies are companies limited by shares or guarantee where government is a member and/or where it exerts control by:<sup>10</sup>

- being able to appoint, approve or remove directors;
- providing funding, with rights of control over how that funding is spent;<sup>11</sup>
- owning a share conferring special rights;<sup>12</sup> or
- being able to set or constrain corporate policy.

## **Definitions of a company and a public body**

**1.8** A company is a voluntary association of individuals incorporated by registration, usually created to conduct business, to become a separate legal entity from its owners. It has the full legal powers of an individual, for example to enter into contracts, raise funds, incur liabilities and employ staff. It is accountable to its owners but their liability for what the company does is limited. Companies in government which are incorporated under the Companies Act 2006 (Companies Act) have equivalent legal status whether they are in the public sector or in the private sector.

**1.9** A public body (also known as an arm’s-length body (ALB)) is sponsored by a central government department and operates within the terms of a framework document agreed with the department. A public body is accountable through the accounting officer (AO) to the Secretary of State for the department and then to Parliament. Public bodies are categorised or classified according to their function and characteristics rather than legal form. Public bodies can be incorporated as companies and if incorporated under the Companies Act have equivalent legal status to companies in the private sector. Figure 3 on page 14 sets out the categories of public bodies in central government.

<sup>10</sup> We used a test of control based on the test of control for merger control purposes (see Enterprise Act 2002 s. 26). This test allows for actual control based on majority share ownership, and control of policy or ability to materially influence corporate policy with a minority or no share ownership.

<sup>11</sup> Companies that depend on public money to operate could present a risk to the taxpayer if the company fails as the taxpayer is likely to have to bear the cost of replacing the service they offer.

<sup>12</sup> These companies are generally regarded as being in the private sector.

# Part Two

## Measurement

**2.1** This section explains the scope of the five public sources of information we used to identify companies in government and compares the results of each. Each source is designed for a specific purpose and does not seek explicitly to identify or provide information on whether a body has company status. It also summarises a sixth source – a full departmental mapping – which expands on all of the other sources.

### Summary of sources

**2.2** The five public sources are:

- Central sources:
  - Public Bodies Data Directory, which Cabinet Office prepares;
  - Public Sector Classification Guide, which the Office for National Statistics maintains;
  - Whole of Government Accounts, which HM Treasury prepares;
- Companies House:<sup>13</sup>
  - The official register of UK companies incorporated and registered under the Companies Act.
- Departmental sources:
  - Annual reports and accounts prepared by 17 central government departments.

<sup>13</sup> We could not use the register to identify companies in government because there was no common search term we could use. Once we identified companies we used the register to verify their form.

**2.3** We used these sources, and our own primary research, to produce our own map of companies in government by department (Part Five). We identified 3,038 companies in government: 218 parent companies, 2,591 Academy Trusts and 229 first line subsidiaries (see Figure 7 on page 19). This analysis seeks to assess companies in government as at 31 March 2014. The landscape is subject to change and significant changes after this date are noted later in this part (paragraph 2.20).

**2.4** A comparison between these sources showed:

- 12% of companies in government appear in all three central sources (27/218);
- 13% of companies in government appear in just one of these three central sources (29/218);
- 62% of companies in government are not included in any of these three central sources (134/218);
- 38% of companies in government appear in at least one of the three central sources (84/218); and
- 97% of companies in government are included in the Companies House register (211/218).

### **The number of companies recorded in each information source**

#### Source 1: Public Bodies Data Directory

**2.5** The Public Bodies Data Directory (PBD) lists certain public bodies (non-departmental public bodies (NDPBs), Executive Agencies (EAs) and non-ministerial departments (NMDs) operating at arm's length from their sponsoring departments. It does not seek to provide a comprehensive listing of all public bodies. Cabinet Office produces it to improve transparency and accountability of public bodies and to provide an annual update on public body reform.<sup>14</sup>

<sup>14</sup> Cabinet Office (2014) Public Bodies 2014, p 5. Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/387312/Annex\\_A\\_-\\_PB14\\_Report\\_121214.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/387312/Annex_A_-_PB14_Report_121214.pdf)

**2.6** The PBD lists public bodies by department and administrative category but does not separately identify which of these are companies. It lists the name of the entity and gives details about it. From this information we were able to identify which of these public bodies were also companies in government. Some public bodies are also companies if they have been incorporated under the Companies Act or by other means (see paragraph 1.4). According to the PBD there are 28 companies in government of the categories of public bodies that it covers: all 28 are categorised as an NDPB and one is classified as both an NDPB and Public Corporation (**Figure 3**).

**Figure 3**

Public bodies directory: administrative categories and number of companies in government

Type	Legal status	Accountability	Function	Funding	Number of companies <sup>1</sup>
Non-ministerial department (NMD)	Not a separate legal entity	To Parliament through sponsoring minister and Accounting Officer	Performs a specific statutory function	Estimate voted by Parliament	0
Executive Agency (EA)	Not a separate legal entity. Business unit within a department	To Parliament through sponsoring minister and Accounting Officer	Service delivery function within policy set by ministers	Included in Departmental Estimate	0
Executive Agency – Trading Fund (EATF)	Not a separate legal entity. Statistical classification of Public Corporation in National Accounts	To Parliament through sponsoring minister and Accounting Officer	Commercial function and charge for goods or services	Generates at least 50% of income from commercial activities; government is lender of last resort	0
Non-departmental public body (NDPB) <sup>2</sup>	Separate legal entity and subject to triennial reviews	To Parliament through sponsoring minister and Accounting Officer	Administrative, commercial, executive or regulatory function which may be set out in statute and best delivered at arm's-length	Included in Department's estimate or funded by sectoral levies	28
Public Corporation <sup>3</sup>	Separate legal entity only if incorporated	To Parliament through Sponsoring minister and Accounting Officer	Market body performing a commercial function	At least 50% of costs are met from income from sales of goods or services	1 of the 28 above [Remploy Ltd]

**Notes**

- 1 Companies in government includes Companies Act 2006 companies, Royal Charter companies, statutory corporations.
- 2 Non-departmental public body (NDPB) includes executive, advisory and tribunal NDPBs.
- 3 Public Corporation is a statistical classification, and not an administrative category.

Source: Cabinet Office (2012) Categories of Public Bodies: A Guide for Departments and Cabinet Office, *Public Bodies 2014 Data Directory*, 10 November 2014

## Source 2: Public Sector Classification Guide

**2.7** The ONS classifies organisations according to categories set out in the 2010 European System of Accounts.<sup>15</sup> The *Public Sector Classification Guide* lists those bodies the ONS has classified as public sector bodies for national accounts purposes.<sup>16</sup>

**2.8** The ONS classifications are separate from the categories in the PBD and the process does not separately identify companies in government. The classification process at 31 March 2014 is outlined in **Figure 4** overleaf.

**2.9** We checked the ONS Public Sector Classification Index and identified 69 companies in government (**Figure 5** on page 17).

## Source 3: Whole of Government Accounts

**2.10** The Whole of Government Accounts (WGA) are the consolidated financial statements for the whole of the UK public sector (central and local). It shows what the UK government spends and receives and what it owns and owes. It is produced annually by HM Treasury and audited by the Comptroller and Auditor General (C&AG). The WGA uses the statistical classifications produced by the ONS but does not distinguish between financial and non-financial public corporations.

**2.11** The WGA lists the entities which are consolidated to form the accounts in Annex 1 of the WGA.<sup>17</sup> The entities to be included in the WGA are notified annually in the Whole of Government Accounts (Designation of Bodies) Order<sup>18</sup> which HM Treasury prepares. We reviewed the WGA for the 2013-14 financial year and identified 69 companies in government (**Figure 6** on page 17). The departmental accounting boundary determines which entities are consolidated in the WGA and subsequently disclosed in the accounts. The departmental boundary is similar to the concept of a group under generally accepted accounting practice, but is based on the control criteria used by the ONS to classify the relevant sponsored bodies.<sup>19</sup> Any body classified as a Public Corporation by the Office for National Statistics (which includes trading funds) is outside the departmental accounting boundary.<sup>20</sup>

<sup>15</sup> ONS (2014) About the Public Sector Classification Guide.

<sup>16</sup> ONS UK national accounts and public sector finances sector and transaction classification: the classification process. Available at: [www.ons.gov.uk/ons/guide-method/classifications/na-classifications/the-ons-classification-process/index.html](http://www.ons.gov.uk/ons/guide-method/classifications/na-classifications/the-ons-classification-process/index.html)

<sup>17</sup> HM Treasury Whole of Government Accounts March 2014. Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/419973/PU1786\\_WGA\\_2013-14\\_Accounts.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/419973/PU1786_WGA_2013-14_Accounts.pdf)

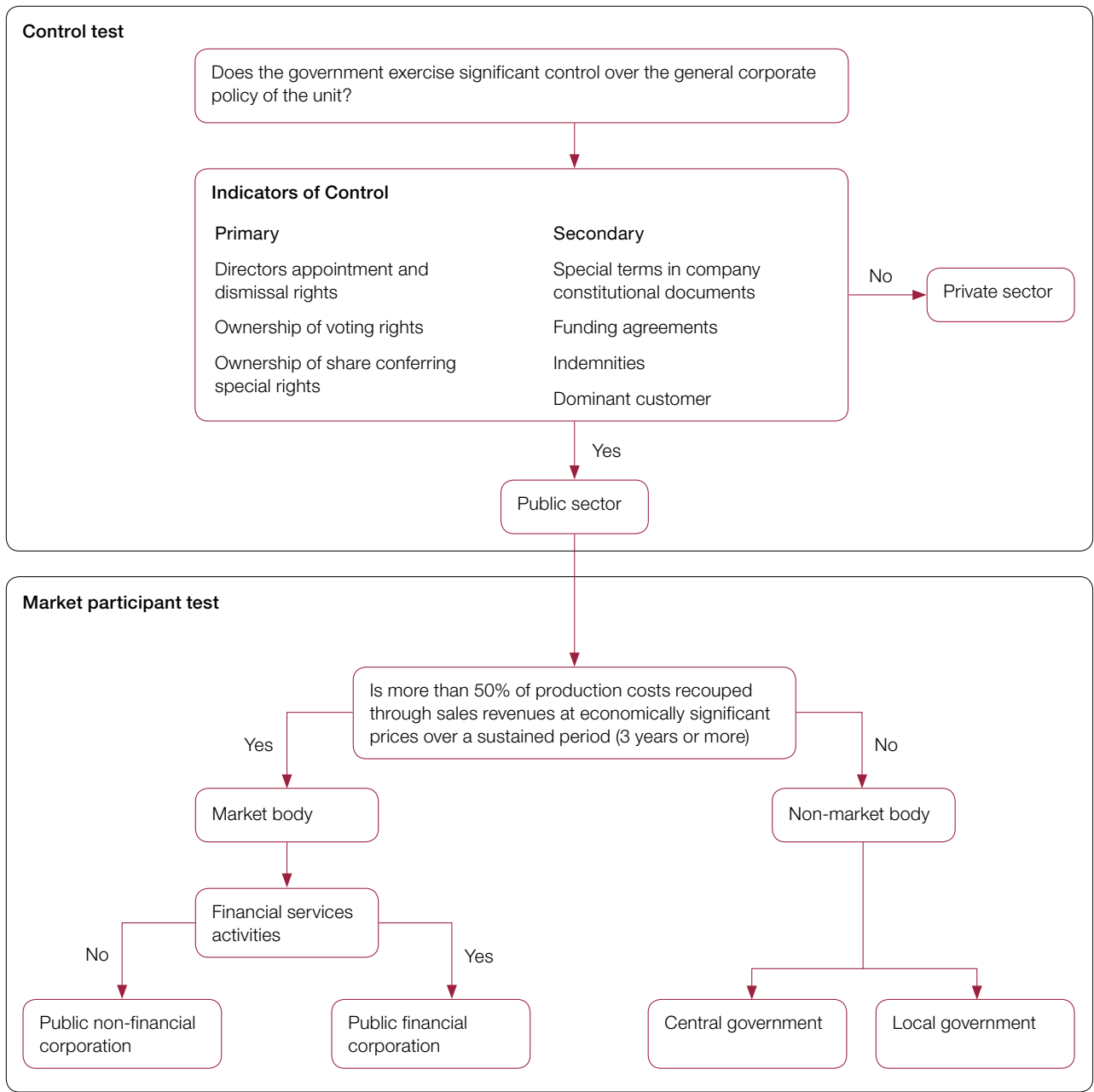
<sup>18</sup> Available at: [www.legislation.gov.uk/uksi/2014/2234/contents/made](http://www.legislation.gov.uk/uksi/2014/2234/contents/made)

<sup>19</sup> Government Financial Reporting Manual 2014-15, paragraphs 4.1.3. Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/388182/FReM\\_2014-15\\_final\\_version\\_3\\_for\\_December\\_2014\\_publication.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388182/FReM_2014-15_final_version_3_for_December_2014_publication.pdf)

<sup>20</sup> Government Financial Reporting Manual 2014-15, paragraphs 4.1.6. Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/388182/FReM\\_2014-15\\_final\\_version\\_3\\_for\\_December\\_2014\\_publication.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388182/FReM_2014-15_final_version_3_for_December_2014_publication.pdf)

**Figure 4**  
Office for National Statistics (ONS) classification process

The ONS classifies ‘institutional units’ in the UK economy for national accounts purposes



**Note**

1 Public financial corporations are subdivided into Central Bank, Financial Auxiliaries, Insurance Corporations & Pension Funds, Monetary financial Institutions and other financial intermediaries.



**Figure 5**

Public sector classification guide, March 2014

<b>Classification</b>	<b>Number of companies</b>
Central government	51
Public non-financial corporation	13
Public financial corporation	5
<b>Total</b>	<b>69</b>

**Note**

1 [www.ons.gov.uk/ons/datasets-and-tables/index.html?pageSize=50&sortBy=none&sortDirection=none&newquery=public+bodies+directory+-+MARCH+2014](http://www.ons.gov.uk/ons/datasets-and-tables/index.html?pageSize=50&sortBy=none&sortDirection=none&newquery=public+bodies+directory+-+MARCH+2014)

Source: Office for National Statistics

**Figure 6**

Whole of government accounts: number of companies identified

<b>Classification</b>	<b>Number of companies</b>
Central government	56
Public Corporations (financial and non-financial)	13
<b>Total</b>	<b>69</b>

Source: HM Treasury, Annex A, Whole of Government Accounts 2013-14

**2.12** Where a department has an investment in another public sector entity that does not meet the criteria for consolidation, it should be reported following the requirements of IAS 39 (recognition and measurement of financial instruments). This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of *Managing Public Money* principles.<sup>21</sup>

## Source 4: Companies House

**2.13** Companies House maintains the official government register of UK companies incorporated and registered under the Companies Act.<sup>22</sup> Of the 218 companies in government that the NAO identified, 211 are on the register. The remainder are not incorporated and registered under the Companies Act 2006.

21 Paragraph 4.1.4, available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/388182/FReM\\_2014-15\\_final\\_version\\_3\\_for\\_December\\_2014\\_publication.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388182/FReM_2014-15_final_version_3_for_December_2014_publication.pdf)

22 At 31 March 2014 the number of companies was 3,250,300. Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/380779/CompaniesRegisterActivities2013-2014.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/380779/CompaniesRegisterActivities2013-2014.pdf)

## Source 5: Departments' Annual Reports and Accounts

**2.14** Departmental annual reports and accounts do not always list all companies owned or controlled by the department. The Government Financial Reporting Manual (FReM), the technical accounting guide to the preparation of financial statements, requires departments to list all entities within the departmental boundary. This boundary does not necessarily include all the companies in government we have identified. Departments disclose investments including interests in companies in accordance with accounting standards but are not required to disclose the extent of the interest in a company investment.

**2.15** We checked the 2013-14 Annual Report and Accounts to see how many of the companies in government we have identified have been disclosed. Seven out of 17 departments disclosed all of the companies in government we had identified somewhere in their annual report, although not necessarily in one place or with additional information on the nature of the company or the relationship to the department. In total 79 out of 218 companies were not set out in the annual report for the relevant department. Figure 2 on page 8 sets out our findings by department.

## Source 6: Departmental mapping

**2.16** The NAO used the sources listed above and individual company accounts to identify 218 companies in government of which 41 are dormant and their 229 first line subsidiaries. These are included in the departmental maps of companies in government (Part Five).

**2.17** We identified a total of 3,038 companies wholly or partially owned or controlled by government in the 2013-14 financial year. This included 2,591 Academy Trusts which were not included in the departmental maps.

**2.18** The results of the NAO's identification are summarised in **Figure 7**, which shows the number of companies we have identified for each department and their legal form.

## Increase in the number of companies since 2010

**2.19** In the period 2010–2014, 66 new companies were formed. Of these, 21 were Community Rehabilitation Companies, nine DFT companies have been dormant since creation and ten have been identified as financial institutions.<sup>23</sup> In addition, 2591 Academy Trusts were created using the form of a company limited by guarantee.<sup>24</sup> **Figure 8** on pages 20 and 21 shows the number of new companies in each department. Part Five contains further details of each new company.

<sup>23</sup> For more detailed examination of financial institutions in government see NAO (2015) Financial Institutions Landscape.

<sup>24</sup> Academy Trusts operate under the Academies Act 2010. Section 12 of this Act specifies that Academy Trusts are companies limited by guarantee and are charities. An Academy Trust may operate one Academy school, or a number of schools, when they are known as a Multi-Academy Trust.

**Figure 7**Number of companies in government by department 2013-14<sup>1</sup>

Department	Private limited by shares	Private limited by guarantee <sup>2</sup>	Public plc	Statutory <sup>3</sup>	Total	Of which, special share <sup>4</sup>
Department for Culture, Media & Sport	26	5	0	4	35	0
Department for Business, Innovation & Skills	8	3	6	8	25	3
Department for Transport	20	8	2	1	31	1
Department of Energy & Climate Change	11	3	1	0	15	1
Ministry of Justice	21	0	0	0	21	0
Department for Environment, Food & Rural Affairs	4	12	0	0	16	0
Ministry of Defence	14	2	1	0	17	5
Department for Communities and Local Government	10	5	0	0	15	1
HM Treasury	7	5	2	1	15	0
Department of Health	7	1	0	0	8	0
Cabinet Office	4	1	0	0	5	0
Department for Work & Pensions	1	2	0	1	4	0
Department for Education	2	1	0	0	3	0
Foreign & Commonwealth Office	1	2	0	0	3	0
Home Office	1	2	0	0	3	0
Department for International Development	0	0	1	0	1	0
HM Revenue & Customs	1	0	0	0	1	0
<b>Total</b>	<b>138</b>	<b>52</b>	<b>13</b>	<b>15</b>	<b>218</b>	<b>11</b>
<b>Academy Trusts</b>		<b>2,591</b>			<b>2,809</b>	

**Notes**

1 Does not include subsidiaries.

2 Includes those 'exempt from using limited'.

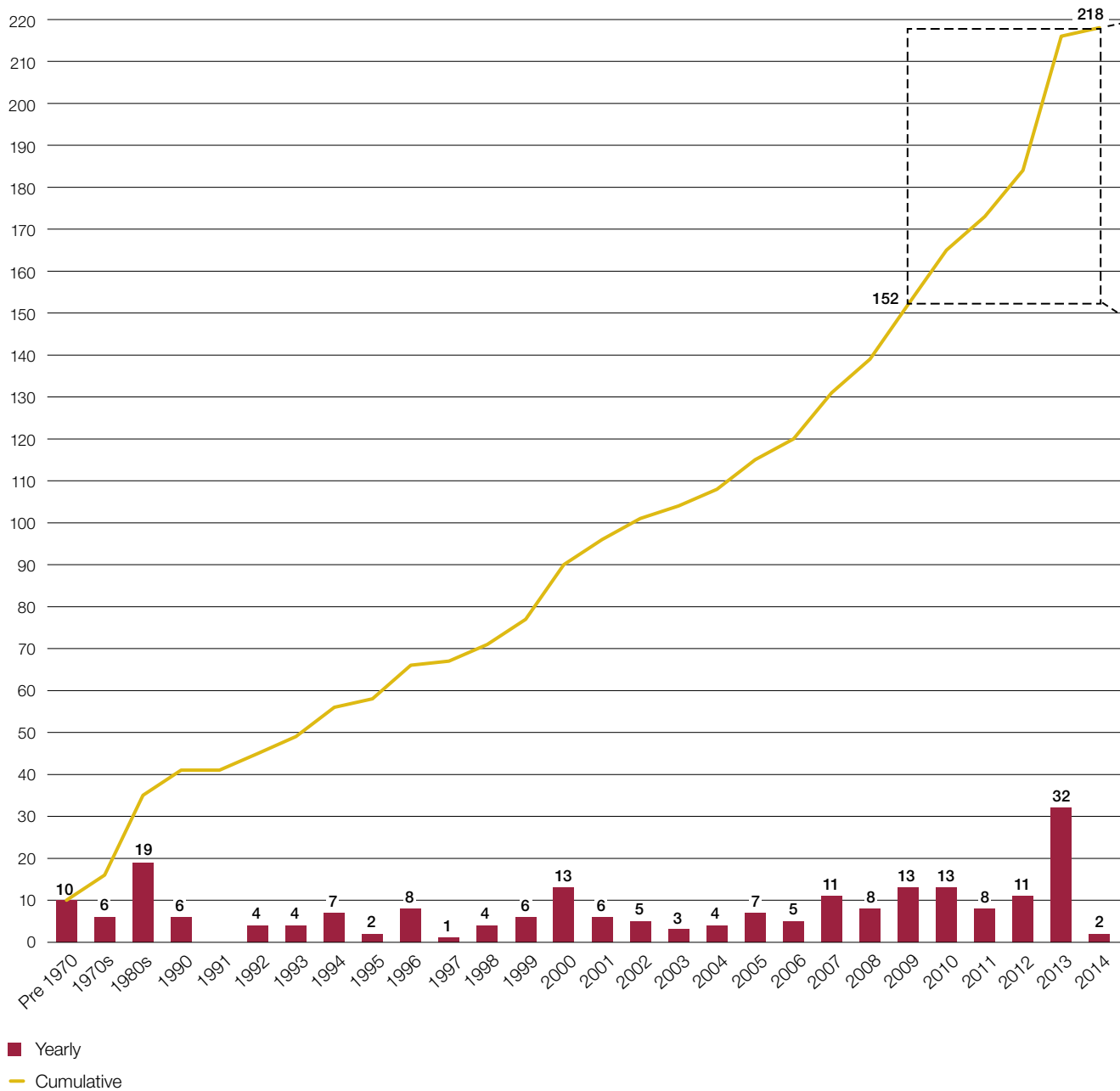
3 Includes companies incorporated by Royal Charter, See Appendix Two for more detail. Available at: <http://privycouncil.independent.gov.uk/royal-charters/chartered-bodies>

4 Companies where a government holds a special share.

Source: National Audit Office

**Figure 8**

Year of formation of companies in existence in the 2013-14 financial year

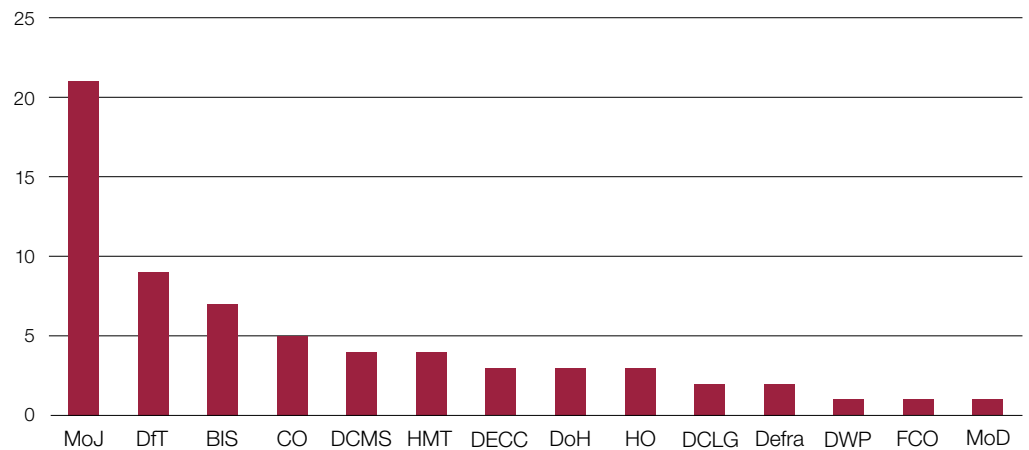


Source: National Audit Office review of company records

**Figure 8 continued**

Year of formation of companies in existence in the 2013-14 financial year

This graph represents the 66 companies incorporated from 2010–2014 by their respective department



**Notes**

- 1 All nine DfT companies are dormant. All 21 MoJ companies are community rehabilitation companies.
- 2 MoJ = Ministry of Justice; DfT = Department for Transport; BIS = Department for Business, Innovation & Skills; CO = Cabinet Office; DCMS = Department for Culture, Media & Sport; HMT = HM Treasury; DECC = Department of Energy & Climate Change; HO = Home Office; DCLG = Department for Communities and Local Government; Defra = Department for Environment, Food & Rural Affairs; DWP = Department for Work & Pensions; FCO = Foreign & Commonwealth Office; MoD = Ministry of Defence.

Source: National Audit Office analysis

## Developments since 31 March 2014

**2.20** The report was prepared using information at 31 March 2014. A summary of key changes to companies is set out in **Figure 9**.

### Figure 9

#### Summary of developments since 31 March 2014

Department	Recent developments
Department for Education (DfE)	The number of Academy Trusts increased to 2,634.
Ministry of Justice (MoJ)	Despite the sale of the 21 Community Rehabilitation Companies (CRCs), they remain under government control with the Secretary of State for Justice holding one special share in each. The ONS has reclassified the CRCs to the private sector effective 1 February 2015. The proceeds from this disposal process were £365,000, the value of net assets in each of the CRCs as at that date.
Department for Business, Innovation & Skills (BIS)	Ordnance Survey was incorporated on 8 July 2014 with shares 100% owned by the Secretary of State for BIS. It was then vested and a new company began operations on 1 April 2015.
Department of Health (DoH)	Dr Foster Intelligence Ltd was sold as of 25 March 2015.
Home Office	College of Policing Ltd ownership has been relinquished as of 22 April 2015.
Department of Energy & Climate Change (DECC)	NDA Archives Ltd was incorporated on 1 July 2014. INS Rokkasho KK(Japan) Ltd was liquidated on 22 January 2015.
Ministry of Defence (MoD)	A special share has been acquired in CLH Pipeline System (CLH-PS) Ltd as of 30 April 2015. Admiralty Hydrographic Asia Pacific Pte Ltd was dissolved on 14 July 2015.
Department for Transport (DfT)	The government sold its shares in Eurostar for £757.1 million. Network Rail has been included in the ONS public sector classification as a result of changes to the European System of Accounts. The change came into effect on 1 September 2014. The Highways Agency, an executive agency, became Highways England, a company, in April 2015.
Department for Work & Pensions (DWP)	The government sold the majority of Remploy's operations and the brand as a subsidiary company, also called Remploy. A private company now owns the majority and an employee trust has a minority holding. DWP manages some residual liabilities via the original company, now renamed Disabled People's Employment Corporation (GB) Ltd.

#### Notes

- 1 The figures for academy trusts is taken from our Short Guide to the Department for Education. Available at: [www.nao.org.uk/wp-content/uploads/2015/08/Department-for-education-short-guide.pdf](http://www.nao.org.uk/wp-content/uploads/2015/08/Department-for-education-short-guide.pdf). We have previously reported on the Academies Programme, available at: [www.nao.org.uk/wp-content/uploads/2010/09/1011288.pdf](http://www.nao.org.uk/wp-content/uploads/2010/09/1011288.pdf)
- 2 Proceeds from the sale of the Community Rehabilitation Companies is taken from the Ministry of Justice's Annual Report and Accounts 2014-15.
- 3 Proceeds from the sale of Eurostar is taken from HM Treasury's Annual Report and Accounts 2014-15.

Source: National Audit Office analysis of departmental accounts and public records

# Part Three

## Formation

**3.1** This section describes the process of creating arm’s-length public bodies (ALBs) and the circumstances in which they may be incorporated as companies, Royal Charters or statutory corporations. It also describes the public bodies reform programme.

### **Creation of a new public body**

**3.2** We reviewed the process for creating a new public body, and how this related to companies in government. Currently, “the government’s presumption is that if a public function is needed then it should be undertaken by a body that is democratically accountable at either national or local level.”<sup>25</sup>

**3.3** Creation of a new public body involves:

- the department concerned;
- the ONS, to assess the statistical classification of the new body once it has been set up;<sup>26</sup>
- the departmental and HM Treasury Spending Team if doing something ‘novel or contentious’, or if significant expenditure is involved;<sup>27</sup> and
- the Cabinet Office Public Bodies Reform Group (PBRG) on the administrative category.

<sup>25</sup> As seen on the Cabinet Office’s Public Bodies Reform Guidance. Available at: [www.gov.uk/guidance/public-bodies-reform](http://www.gov.uk/guidance/public-bodies-reform). This refers to the 2010 Public Bodies Reform Programme and the Cabinet Office are in the process of updating their ALB reform strategy.

<sup>26</sup> The ONS may provide provisional classification advice on how a proposed body would be classified if set up as described to ONS but does not proactively seek this involvement and would provide the advice only if it is sought by a ‘policy proposal’ being brought forward. The ONS will only answer questions of the form ‘we plan to do this, how will it be classified?’. The ONS does not advise on how something should be structured to achieve a certain classification.

<sup>27</sup> See Cabinet Office (2015) Cabinet Office controls guidance: version 4.0, (2010) Approval process for the creation of non-departmental public bodies, HM Treasury *Managing Public Money*. Categories of Public Bodies: A Guide for Departments. December 2012. The category of the entity also has an effect, for example the UK government recently told the OECD that generally the commercial operations of NDPBs are undertaken to support strategic goals rather than for profit. See *OECD (2015) State Owned Enterprise Governance*. Available at: [www.oecd-ilibrary.org/governance/state-owned-enterprise-governance\\_9789264239944-en](http://www.oecd-ilibrary.org/governance/state-owned-enterprise-governance_9789264239944-en), A Stocktaking of Government Rationales for Enterprise Ownership, Box 1.2.

**3.4** In order to create a new non-departmental public body (NDPB), one or more of the following three tests must be satisfied:<sup>28</sup>

- Does it perform a technical function that could not be delivered in a department?
- Does its activities need to be, and be seen to be, delivered with absolute political impartiality?
- Does it need to act independently of ministers to establish facts and/or figures?

**3.5** The Commercial Models team within the Cabinet Office advises on alternative ways of delivering services rather than through either public bodies or existing private sector suppliers; this includes creating new private sector suppliers such as public service mutuals and public-private joint ventures. These alternative models are not subject to the approvals process for public bodies (**Figure 10**) unless they are in particular category of public body.

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### Figure 10

#### Approval process for public bodies

Category	Approval process
Non-ministerial department	Cabinet Office, HM Treasury ministers and then the Prime Minister. Needs exceptional business case and generally established by statute.
Executive Agency	Cabinet Office and HM Treasury ministers. Requires value for money (VfM) case supported by fully-costed business case.
Executive Agency Trading Fund	Cabinet Office and HM Treasury ministers. Order laid in Parliament under the Government Trading Funds Act 1973. <sup>1</sup>
Executive non-departmental public body (NDPB)	Cabinet Office and HM Treasury ministers. Needs fully-costed business case establishing need for the body and the function and must satisfy one of the three tests. Established as a last resort.
Advisory NDPB	Same as Executive NDPB. Cabinet Office ministers. Established as last resort.
Tribunal NDPB	No longer used as new appeal rights are administered by the First Tier Tribunal.

#### Note

- <sup>1</sup> All Executive Agency Trading Funds are Public Corporations but not all Public Corporations are Trading Funds. Trading Funds are anomalous in being outside Central Government for national accounts purposes but in general being legally part of their sponsoring department.

Source: Categories of Public Bodies: A Guide for Departments. December 2012

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**3.6** Cabinet Office told us depending on the purpose for which government forms a company, various approval processes may apply. When government incorporates a company, it is to do one or more of the following things:

- create a new NDPB (which requires Cabinet Office Public Bodies Reform Team approval);
- create any new organisation, including (but not limited to) a spin-off from central government, joint venture, public corporation, charity, public service mutual, or social enterprise (which requires Cabinet Office Commercial Models Team approval);
- spend a significant sum of money (which requires HM Treasury approval or Departmental Finance Team approval, depending on the level of spend versus delegated limits); or
- do something that sets a precedent, is novel, contentious or could cause repercussions elsewhere in the public sector (which requires HM Treasury approval).

**3.7** Approval by Commercial Models and HM Treasury (or the Departmental Finance team if the anticipated level of spend is below the delegated limit and it is deemed not to be novel or contentious) is based on a business case.<sup>29</sup>

**3.8** As set out in Part Two, we found only 28 companies in government which had a public body categorisation, and 190 out of 218 companies have no public body category.

**3.9** **Figure 11** on pages 26 and 27 sets out the pathways for a new public body to be incorporated as a separate legal entity.

### **Public bodies reform policy**

**3.10** The public bodies reform policy aims to rationalise the number of public bodies operating at arm's length from government, increase the accountability of those remaining, explore new innovative models and, through triennial reviews, ensure remaining public bodies continue to be the best mode of delivery.

**3.11** Between 2010 and 2014, the Cabinet Office oversaw a reduction in the number of public bodies of 285. During the same period 173<sup>30</sup> new bodies were set up: 66 companies, 96 public service mutuals and 11 NDPBs,<sup>31</sup> (**Figure 12** on page 28).

**3.12** The triennial reviews of NDPBs involves “questioning whether they should remain as an NDPB, close or be reformed”, and “making sure the highest standards of governance are upheld”.<sup>32</sup> However these reviews are only carried out on those organisations with public body categorisations. There is no similar programme to review functions delivered by bodies without these categorisations.

<sup>29</sup> Available at: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

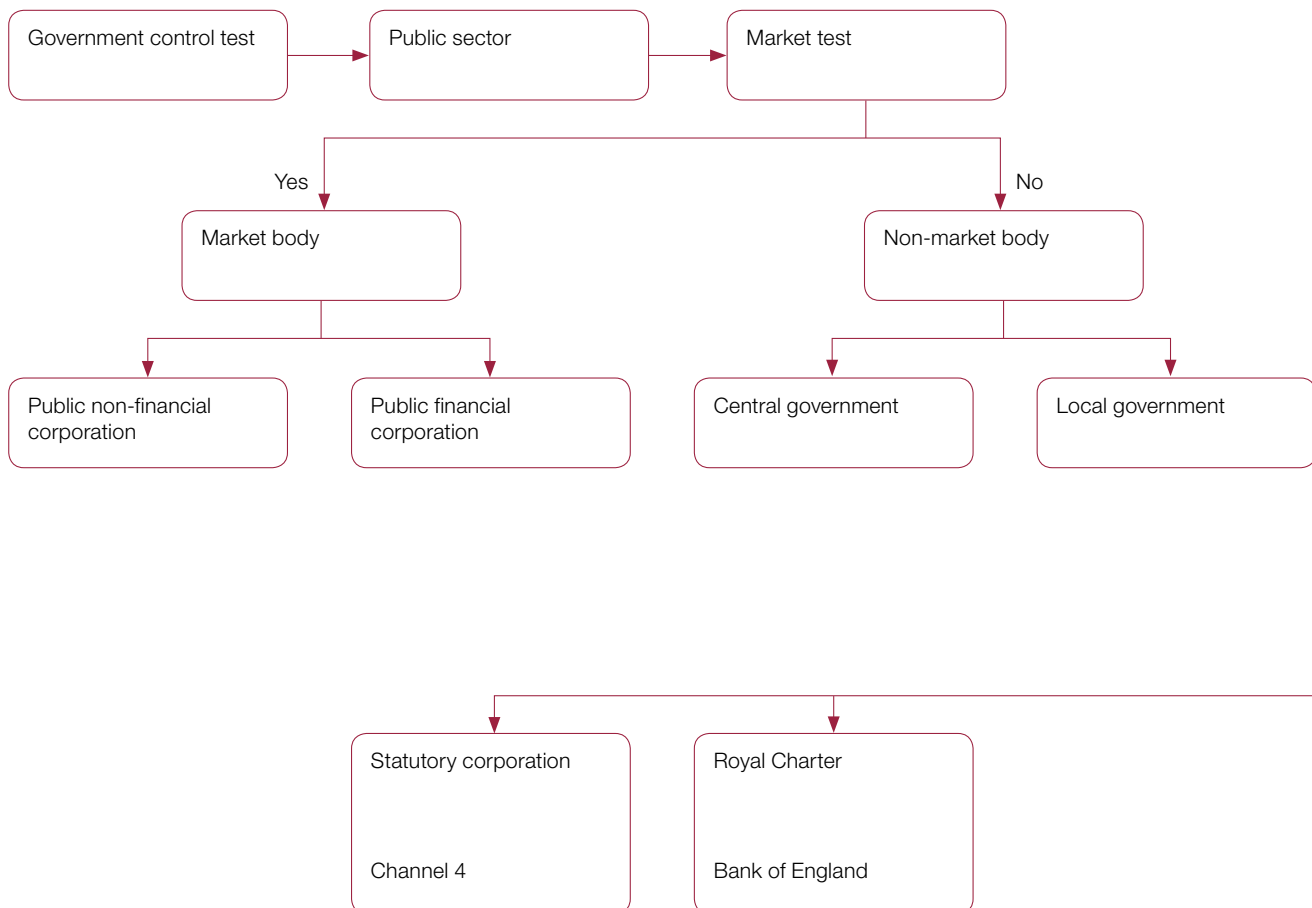
<sup>30</sup> This figure excludes the Academy Trusts.

<sup>31</sup> Between May 2010 and June 2014, the government established and classified 12 new NDPBs which were not previously in existence in another form, including seven independent monitoring boards (which must be set up whenever a new prison or immigration holding centre is established, while 19 during this time have closed or merged).

<sup>32</sup> Both quotes are taken from the government's policy paper on government service reform. Available at: [www.gov.uk/government/publications/2010-to-2015-government-policy-government-service-reform/2010-to-2015-government-policy-government-service-reform#appendix-3-reforming-public-bodies-to-make-them-more-efficient-and-effective](http://www.gov.uk/government/publications/2010-to-2015-government-policy-government-service-reform/2010-to-2015-government-policy-government-service-reform#appendix-3-reforming-public-bodies-to-make-them-more-efficient-and-effective)

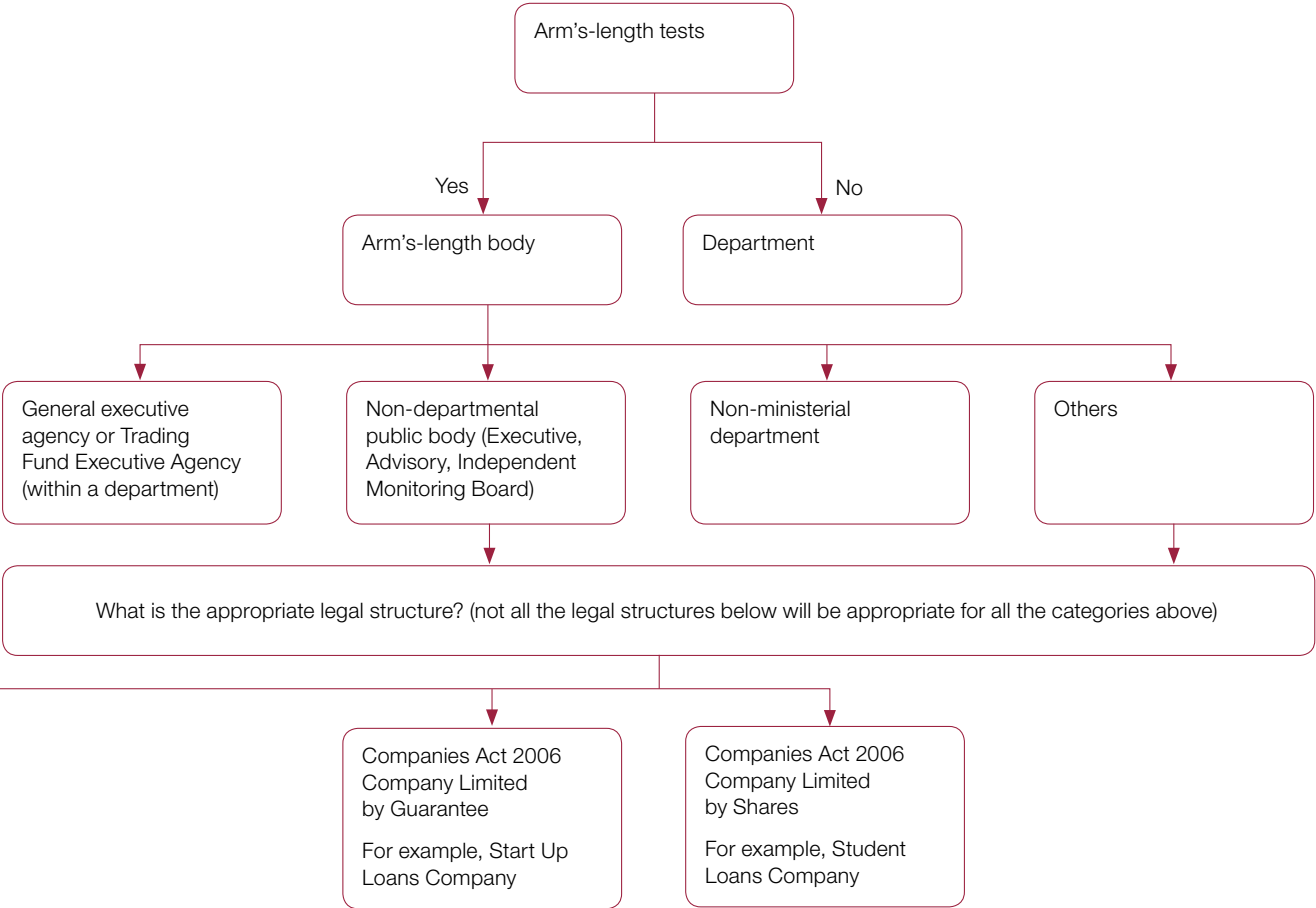
**Figure 11**  
Pathways for a new public body to be incorporated as a separate legal entity

The Office for National Statistics classification process (see Figure 4)

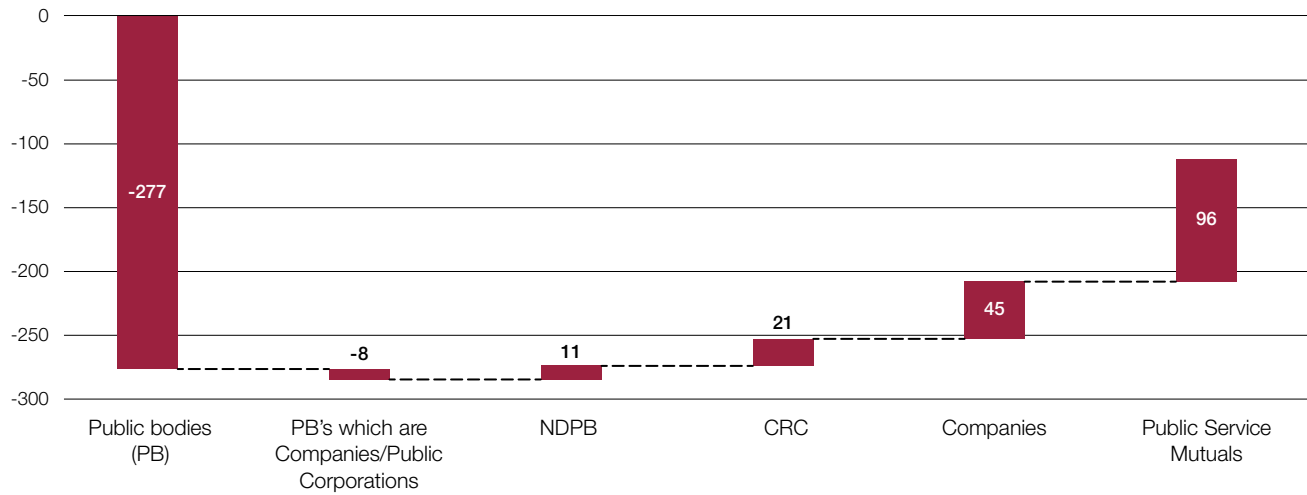


Source: National Audit Office analysis

The Cabinet Office categorises central government organisations for administrative purposes



**Figure 12**  
Changes in the number of public bodies since 2010<sup>1</sup>



**Notes**

- 1 The Cabinet Office told us it believes this graph is misleading because it aggregates figures for dissimilar bodies. It compares some types of public body and some types of contracted service, some of which are provided at national level and some locally. As such the Cabinet Office believes that the graph does not make proper distinction between different types of organisations and as a consequence gives a distorted picture of changes to the service provision landscape.
- 2 According to the Cabinet Office the eight government-owned companies or public corporations that were merged or abolished were not NDPBs. The organisations concerned are: Audit Commission for Local Authorities and the National Health Service in England, BRB (Residuary) Ltd, British Nuclear Fuels Limited, British Shipbuilders, British Waterways, Forensic Science Service, General Teaching Council for England, Horserace Totalisator Board.

Source: National Audit Office analysis of public bodies

# Part Four

## Governance and accountability

**4.1** This section describes some of the key relationships between departments and companies; how principles of public accountability are combined with corporate governance arrangements; and compares the approach to assurance of public bodies to assurance of companies in government. We looked at the existing arrangements, not how each department implemented those.

### Description of the relationship between departments and companies

**4.2** The government's corporate portfolio is widely distributed across government. All 17 central departments have interests in companies, which may take various forms:

- **Direct relationship** between a department and company, as a subsidiary or investment. For example, the Department for Transport (DfT) owns Directly Operated Railways Ltd; the Department of Health (DoH) owns NHS Property Services Limited.
- **Indirect relationship**, through a specialist asset management company. For example, UK Financial Investments Limited (UKFI) was established in 2008 to manage the government's shareholdings in Royal Bank of Scotland (RBS), Lloyds Banking Group and UK Asset Resolution Limited (UKAR). UKFI operates under a framework document and is a signatory to the FRC Stewardship code. In addition, there is an investment mandate which states;
  - In relation to RBS and Lloyds it will follow "best institutional shareholder practice" including the Institutional Shareholders' Committee's statement of principles, and the Walker review;
  - In relation to wholly-owned companies, UKFI will engage with UKAR in a manner "similar to that in which a financial sponsor would engage with a wholly-owned portfolio company".
- **Joint relationships.** The ownership and governance of some companies in government is shared between departments. For example, the Secretary of State for Business, Innovation & Skills (BIS), the Minister for Employment and Learning, Northern Ireland, the Minister for Education and Skills, Welsh Government and the Scottish Ministers jointly own the Student Loans Company Limited, and the Department of Energy and Climate Change (DECC) owns the Low Carbon Contracts Company, but both DECC and BIS provide board members.

**4.3** The relationship between a company and a department can be complex and multifaceted. For example, a department can be a shareholder (ie provider of equity capital), lender (ie debt capital), or a guarantor. It may be a major, or the only customer (providing a source of revenue), and it may be a supplier of goods, services or personnel (for which it may be remunerated). It may exercise control or influence directly by appointing directors, or indirectly, for example through a specialist unit such as the Shareholder Executive.<sup>33</sup>

### **Role of the accounting officer**

**4.4** The accounting officer (AO) is the individual with personal responsibility for public money in each public body, including companies in government. Where a department has an interest in a company there may be more than one involved. For example, the DfT's ownership of Directly Operated Railways Ltd involves two AOs – one for the department, and one for the company. HM Treasury's ownership of RBS involves three AOs – the department, RBS, and UKFI. The Department for Education's Academy Trusts involves three AOs – the department, the Education Funding Agency (who pass agreed grants to the Academy Trust) and the individual Academy Trust, which might operate one or many academies.

**4.5** The responsibilities of an AO are not the same as the responsibilities of a company director, as shown in **Figure 13**. The main difference is that an AO has personal responsibilities and a company director has collective and personal responsibilities enforceable under law.

**4.6** Company directors (the board) act collectively within the powers conferred by the company constitution (Articles of Association) and the owners to manage the company on behalf of the owners. The board is collectively responsible to the owners for ensuring the company complies with all relevant legislation and directors fulfil their duties.

**4.7** Individual company directors (including directors of companies in government) owe duties to the company which are set out in Part 10 of the Companies Act and are enforceable by owners on behalf of the company.<sup>34</sup> A director is also required to comply with a wide range of sectoral and other legislation for example the Insolvency Act 1986, the Health and Safety at Work Act 1974 and the Corporate Manslaughter and Corporate Homicide Act 2007. Although the responsibilities of the AO and company director might overlap, there is an assumption, but no specific requirement, that the AO of a company in government is also a director.<sup>35</sup> *Managing Public Money* recognises that there are 'sensitivities' about the role of an AO in a company, and that conflicts may arise but does not explain how to resolve them.<sup>36</sup>

33 The Shareholder Executive (ShEx) is a unit within the Department for Business, Innovation & Skills established in 2003 to centralise shareholding expertise within government.

34 Companies Act 2006 Part 10, Chapter 2.

35 *Managing Public Money* 3.3.2 states: "The accounting officer of a corporate arm's length body should arrange for a board member to sign the accounts as well as signing them himself or herself, if (unusually) he or she is not a member of the board".

36 *Managing Public Money* 3.8.5 states: "There are sensitivities about the role of the accounting officer in an arm's length body (ALB) which is governed by an independent board, eg a charity or company. The ALB's accounting officer, who will normally be a member of the board, must take care that his or her personal legal responsibilities do not conflict with his or her duties as a board member. In particular, the accounting officer should vote against any proposal which appears to cause such a conflict; it is not sufficient to abstain".

**Figure 13**

Accountability: differences between a non-departmental public body (NDPB) and a company

	<b>Non-departmental public body</b>	<b>Company<sup>1</sup></b>
Who is accountable	Permanent head	Chairman of the board or chief executive
Method of appointment	Departmental principal accounting officer (PAO)	Directors or shareholders
Line of Accountability	PAO, minister and Parliament	Shareholders
Personal responsibilities	Managing public money: <ul style="list-style-type: none"> <li>● Governance statement</li> <li>● Regularity and propriety</li> <li>● Affordability and sustainability</li> <li>● Value for money</li> <li>● Control</li> <li>● Management of opportunity and risk</li> <li>● Accounting accurately for the organisation's financial position</li> </ul>	Individual statutory duties: <sup>2</sup> <ul style="list-style-type: none"> <li>● promote the success of the company;</li> <li>● act within powers;</li> <li>● exercise independent judgement;</li> <li>● exercise reasonable care, skill and diligence;</li> <li>● avoid conflicts of interest;</li> <li>● do not accept benefits from third-parties; and</li> <li>● declare interests in proposed transactions or arrangements</li> </ul>
Collective responsibilities		Board's collective responsibilities: <sup>3</sup> <ul style="list-style-type: none"> <li>● preparation of annual report and accounts;</li> <li>● reporting on a going concern basis and disclosure of material uncertainties;</li> <li>● setting culture and reward systems;</li> <li>● determining the company's risk appetite and ensuring appropriate risk management/mitigation and internal control systems are in place;</li> <li>● establishment of an audit committee and its terms of reference; and</li> <li>● appointment of senior management</li> </ul>

**Notes**

1 Company outside of government.

2 General and fiduciary duties of directors Companies Act 2006, Part 10, Chapter 2 ss.171–177.

3 The directors act collectively. Companies Act 2006, Part 15 Chapter 4, The company's Articles will set out the scope of the board's responsibility. These are taken from the Model Articles, The Companies (Model Articles) Regulations 2008 (S.I. 2008/3229). Available at: [www.opsi.gov.uk/si/si2008/pdf/uksi\\_20083229\\_en.pdf](http://www.opsi.gov.uk/si/si2008/pdf/uksi_20083229_en.pdf)

4 For companies in government arrangements are in practice a combination of those in the table, generally with an AO appointed and a framework document ensuring appropriate arrangements are in place.

Source: HM Treasury, *Managing Public Money*; Companies Act 2006; UK Code of Corporate Governance; Model Articles

## Sponsorship

**4.8** Sponsorship refers to the link between departments and their ALBs. Departments are expected to play an active role in the governance, financial management, risk management and performance monitoring of ALBs and are responsible for managing the relationship with an ALB on behalf of the minister and the AO.<sup>37</sup>

**4.9** Current sponsorship guidance does not specifically address the relationship between departmental sponsors and companies in government nor other specific forms of arm's-length bodies.

## Review of corporate governance guidance

**4.10** We reviewed various documents that provide guidance about governance in the public sector and other corporate governance guidance that applies in the private sector. We also set out the specific arrangements in a small sample of companies in government (Appendix Three).

**4.11** *Managing Public Money* states each public sector organisation should establish governance arrangements that combine efficient decision-making with accountability and transparency.<sup>38</sup> There is no specific guidance for governance of companies in government but a range of governance codes and principles are relevant (Figure 15). These include a few specific references to 'companies':

- The primary public sector governance resource, *Corporate Governance in Central Government Departments: Code of Good Practice* (the Code of Good Practice)<sup>39</sup> states that when an arm's-length body is a company, one lever of control which the department's AO may use to influence the AO of the arm's-length body is the shareholder vote. However this should only be used "in extremis".<sup>40</sup>
- The guidance *Principles of Good Corporate Governance in Executive Non Departmental Bodies* (the NDPB Code) states for NDPBs established as companies, or which have charitable status, the public body must also be fully compliant with relevant statutory and administrative requirements.<sup>41</sup>

<sup>37</sup> Civil Service (2014) Introduction to Sponsorship: An Induction Pack for new Sponsors of arm's length bodies. p14.

<sup>38</sup> *Managing Public Money* 4.1.1.

<sup>39</sup> Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220645/corporate\\_governance\\_good\\_practice\\_july2011.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220645/corporate_governance_good_practice_july2011.pdf)

<sup>40</sup> Corporate governance in central government departments, Code of good practice 2011 – Guidance Note. Paragraph 5.6 states: "A departmental AO should be prepared to use the mechanisms for ensuring AOs in the department's ALBs fulfil their AO responsibilities. In extremis, these might include: exercising shareholder or guarantor control if the ALB is a company; withdrawal of the delegated AO's responsibilities in the ALB. Source available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220646/corporate\\_governance\\_good\\_practice\\_guidance\\_july2011.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220646/corporate_governance_good_practice_guidance_july2011.pdf)

<sup>41</sup> Principles Of Good Corporate Governance In Executive NDPBs.



**4.12** Governance arrangements for companies in government are complex, based on many difference codes (**Figure 14**). Framework documents<sup>42</sup> between the department and the company may set out additional requirements such as compliance with elements of the private sector UK Code of Corporate Governance (the UK Code)<sup>43</sup> which apply to smaller unlisted companies. The *Civil Service Code*<sup>44</sup> sets out the standards of behaviour expected of civil servants. This also applies to civil servants acting as directors of companies in government but not to other directors or company employees.

**Figure 14**

Governance resources relevant to companies in government

	Governance resources	Private company limited by shares or guarantee (Ltd)	Public company limited by shares (Plc)	NDPB which is incorporated
Applicable as a result of the legal structure	UK Code <sup>1</sup>	X	✓	X
	UK Code – smaller unlisted companies <sup>2</sup>	✓	X	✓
	UK Stewardship Code <sup>3</sup>	✓ if exercising stewardship role	✓ if exercising stewardship role	✓ if exercising stewardship role
	Disclosure and Transparency Rules <sup>4</sup>	X	✓	X
	Companies Act 2006	✓	✓	✓
	Articles of Association	✓	✓	✓
Applicable as a result of categorisation as a public body	Managing Public Money	✓	✓	✓
	Code of Good Practice	✓	✓	✓
	NDPB Code	X	X	✓
	Public Appointments	✓	✓	✓
	Framework Document	✓	✓	✓

**Notes**

- 1 UK Corporate Governance Code. Available at: [www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf](http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf)
- 2 Sections of the UK Code applying to unlisted companies. Available at: [www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf](http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf)
- 3 UK Stewardship Code. Available at: [www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf](http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf)
- 4 Maintained by UK Listing Authority. Available at: <https://fshandbook.info/FS/html/handbook/DTR>
- 5 Governance resources applicable to statutory companies or companies incorporated by Royal Charter are not included. An incorporated NDPB may take the form of a private company limited by shares or by guarantee.

Source: National Audit Office analysis

42 A framework document sets out the arrangements to monitor the performance of an arm's-length body (*Managing Public Money* Annex 7.2).

43 [www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf](http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf)

44 [www.civilservice.gov.uk/about/values](http://www.civilservice.gov.uk/about/values)

**4.13** The World Bank<sup>45</sup> and Organisation for Economic Cooperation and Development (OECD)<sup>46</sup> have set out best practice governance principles for government companies. These are also relevant as they are internationally-agreed standards on how governments should exercise ownership of state-owned-enterprises.

**4.14** *Managing Public Money*<sup>47</sup> provides a number of suggestions concerning the relationship between a shareholder department and a Public Corporation,<sup>48</sup> providing guidance for some but not all companies in government (**Figure 15**).

---

### **Figure 15**

#### Outline terms for relationship with a Public Corporation

“Sponsor departments should define any contractual relationship with a corporate in a framework document adapted to suit the corporate context while delivering public sector disciplines. The financial performance expected should give the shareholder department a fair return on the public funds invested in the business.”

Outline terms:

- the shareholder’s strategic vision for the business, including the rationale for public ownership and the public sector remit of the business;
- the capital structure of the business and the agreed dividend regime, with suitable incentives for business performance;
- the business objectives the enterprise is expected to meet, balancing policy, customer, shareholder and any regulatory interests;
- the department’s rights and duties as shareholder, including: governance of the business; procedure for appointments (and disappointments); financial and performance monitoring; any necessary approvals processes; the circumstances of, and rights upon, intervention; and
- details of any other relationships with any other parts of government.

Source: *Managing Public Money*, Paragraph 7.7.2 and Box 7.5. Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/454191/Managing\\_Public\\_Money\\_AA\\_v2\\_-jan15.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf)

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45 Corporate Governance of State Owned Enterprises. Available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/20390/9781464802225.pdf?sequence=1>

46 OECD Guidelines on Corporate Governance of State-Owned Enterprises. Available at: [www.oecd.org/daf/ca/corporategovernanceofstate-ownedenterprises/34803211.pdf](http://www.oecd.org/daf/ca/corporategovernanceofstate-ownedenterprises/34803211.pdf)

47 *Managing Public Money* paragraph 7.7.2.

48 A public corporation is a statistical classification. A public corporation may take the legal form of a company.

## Central Oversight

**4.15** There are two bodies which manage the government's interests in some of its companies: the Shareholder Executive (ShEx) and UK Financial Investments Limited (UKFI)<sup>49</sup> but management of the government's corporate portfolio is conducted mainly at departmental level.

**4.16** *Managing Public Money* promotes the use of ShEx.<sup>50</sup> A Committee of Public Accounts report in 2007<sup>51</sup> recommended that "there should be a presumption that government businesses come within the Executive's portfolio". The Shareholder Executive's objective is to be an effective shareholder of businesses owned or part-owned by the government and to manage government's interventions in the private sector in order to secure best value for the taxpayer. It focuses its resources on the those government businesses where it can have most impact, in general by acting as a shareholder of those arm's-length bodies that are structured to allow a meaningful shareholder function and other assets facing complex transformations. Our analysis has found that at of the 20 businesses ShEx was responsible for in 2013-14, 14 were companies in government.<sup>52</sup> The government announced in May 2015 that ShEx would merge with UKFI into a new company, UK Government Investments Limited.

## Public sector assurance arrangements

**4.17** HM Treasury is responsible for appointing the auditor of public bodies including companies in government. **Figure 16** overleaf compares responsibility for appointing the auditors across a range of different organisations.

**4.18** The Comptroller and Auditor General (C&AG) may also carry out value-for-money (VfM) audits of departments, authorities or other bodies where C&AG is the statutory auditor or auditor by agreement, provided that the ability to do so is included in the agreement expressly or by implication.<sup>53</sup> Section 7 of the National Audit Act 1983 gives the C&AG a statutory right of examination into the economy, efficiency and effectiveness VfM with which a body he has reasonable cause to believe has in any of its financial years received more than half its income from public funds has used those resources and has to consult with the body and HM Treasury whether this condition has been met. The C&AG has the same right in respect of any authority or body appointed, or whose members are required to be appointed, by or on behalf of the Crown except specific exemptions.<sup>54</sup>

49 The Shareholder Executive is a unit within the Department for Business, Innovation & Skills established in 2003 to centralise shareholding expertise within government, to bring a specific focus to shareholder issues and to improve government's performance as the owner of businesses. UK Financial Investments Ltd (UKFI) was established in 2008 to manage the government's shareholding in Royal Bank of Scotland (RBS) Lloyds Banking Group (Lloyds) and UK Asset Resolution Limited (UKAR) which integrates the activities of Northern Rock (Asset Management) plc and Bradford & Bingley plc. ShEx and UKFI are explored in more detail in our report *Financial Institutions in Government*.

50 *Managing Public Money* paragraph 7.7.1.

51 HC Committee of Public Accounts, *The Shareholder Executive and Public Sector Businesses*, Forty-second Report of Session 2006-07, HC 409, June 2007.

52 Shareholder Executive Annual Review 2013-14, p25. Annual Review 2013-14.

53 Section 6 of the National Audit Act 1983.

54 These specific exemptions are set out in Schedule 4 of the National Audit Act 1983.

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## Figure 16

### Approach to assurance

Form of organisation	Party responsible for the appointment of auditors
Departments and other public bodies	HM Treasury <sup>1</sup>
Companies in the private sector	The company itself <sup>2</sup>
Companies in government	HM Treasury may appoint the auditor of companies with a public purpose in accordance with note 5 (below). Otherwise the company itself
Academy trusts (companies limited by guarantee)	The company itself <sup>3</sup>
Local services	Public Sector Audit Appointments Limited (PSAA) appoints local auditors, under the National Audit Office framework <sup>4</sup>

#### Notes

- 1 Government Resources and Accounts Act, 2010: HM Treasury (HMT) appoints the statutory auditor when it appears to HMT that an organisation is substantially funded by public money.
- 2 Companies Act 2006. A Companies Act company must have its accounts audited (CA 2006 Part 16 section 475).
- 3 The Academy Trusts each have an AO who reports to the Department for Education's Principal AO (PAO) through the Education Funding Agency (EFA). The PAO produces the annual Accountability Statement. EFA translates requirements set out by the Charity Commission in its Statement of Recommended Practice (SORP) into a form applicable to academy trusts. The Accounts Direction outlines the requirements for each academy trust to have these accounts audited annually by independent registered auditors, produce a statement of regularity, propriety and compliance and obtain a regularity assurance report on this statement from the auditor. See [www.gov.uk/guidance/academies-accounts-direction](http://www.gov.uk/guidance/academies-accounts-direction)
- 4 The Local Audit and Accountability Act 2014: National Audit Office set the framework for VfM. PSAA Limited is responsible for the appointment of auditors for local government, NHS bodies, and police, fire, and rescue services.
- 5 The C&AG is the auditor of accounts of bodies which HM Treasury decides exercise functions of a public nature or are entirely or substantially funded from public funds (Government Resources and Accounts Act 2000, section 11). HM Treasury may by statutory order make C&AG auditor of a body which exercises functions of a public nature or is entirely or substantially funded from public money and have access to documents and if the body is a Companies Act company the order does not need to be laid before Parliament. (Government Resources and Accounts Act 2000 section 25). Failing an order from HM Treasury, the company itself must appoint an auditor. The C&AG is eligible to be appointed as a statutory auditor for a Companies Act company (Companies Act 2006 Part 42 Chapter 3 section 1226).

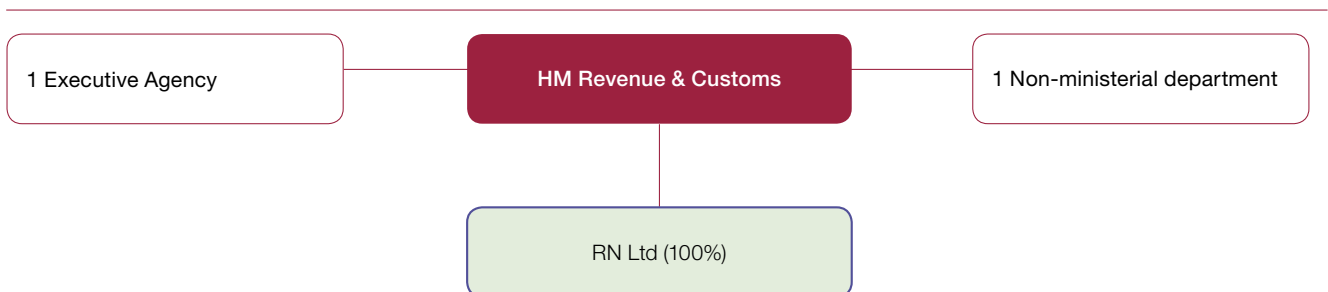
Sources: Set out in notes above

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# Part Five

## Departmental mapping

**5.1** This section shows the companies that we have mapped to each of the 17 central departments.



- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 In the 2013-14 financial year.

Source: National Audit Office analysis

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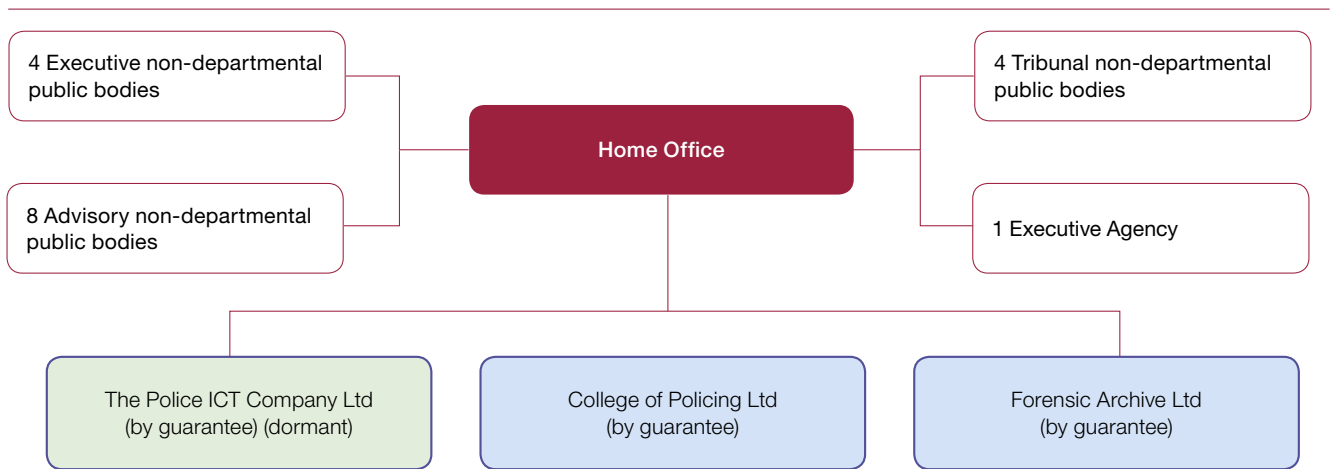


- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 In the 2013-14 financial year.

Source: National Audit Office analysis

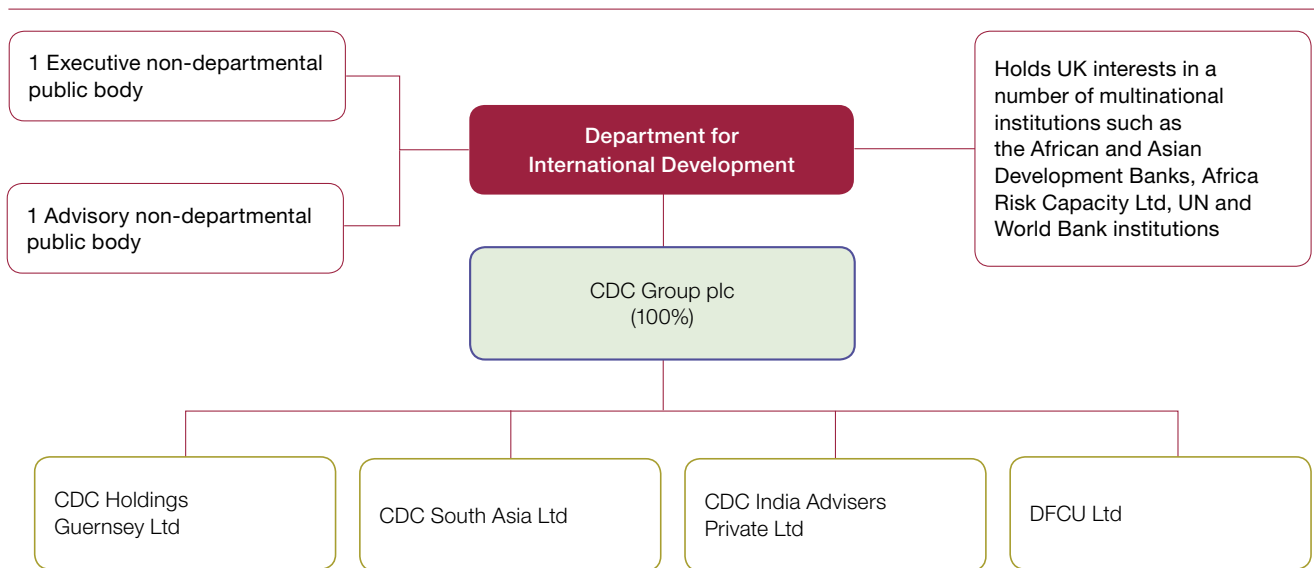


- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Consolidated in WGA and may also be listed in the ONS

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 In the 2013-14 financial year.

Source: National Audit Office analysis



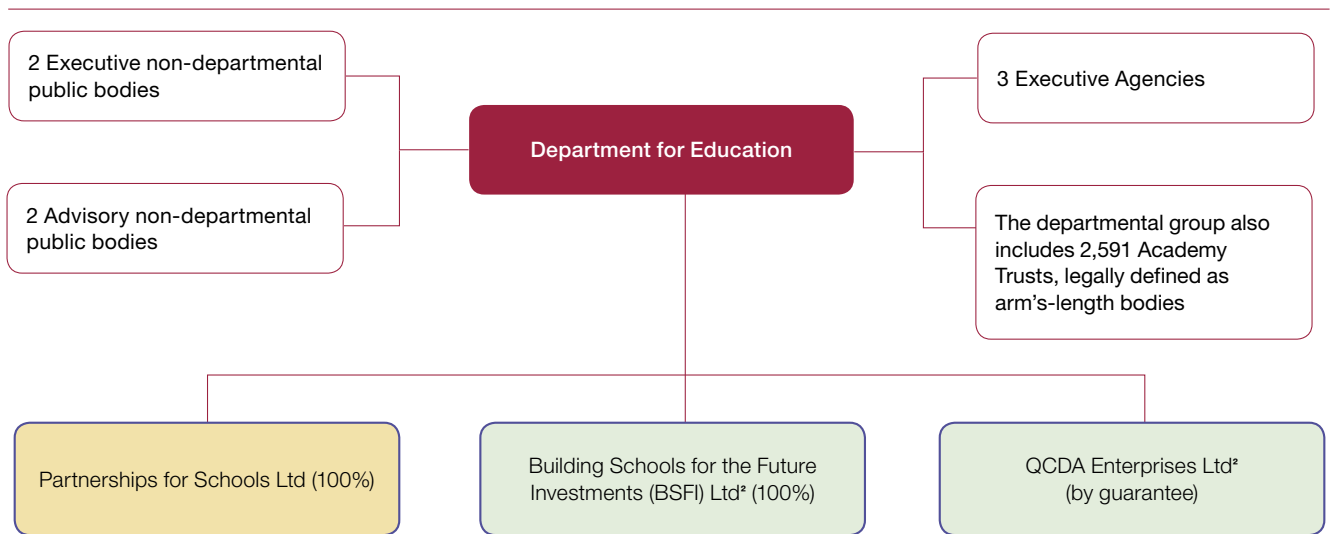
- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- First line subsidiaries

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 In the 2013-14 financial year.

Source: National Audit Office analysis



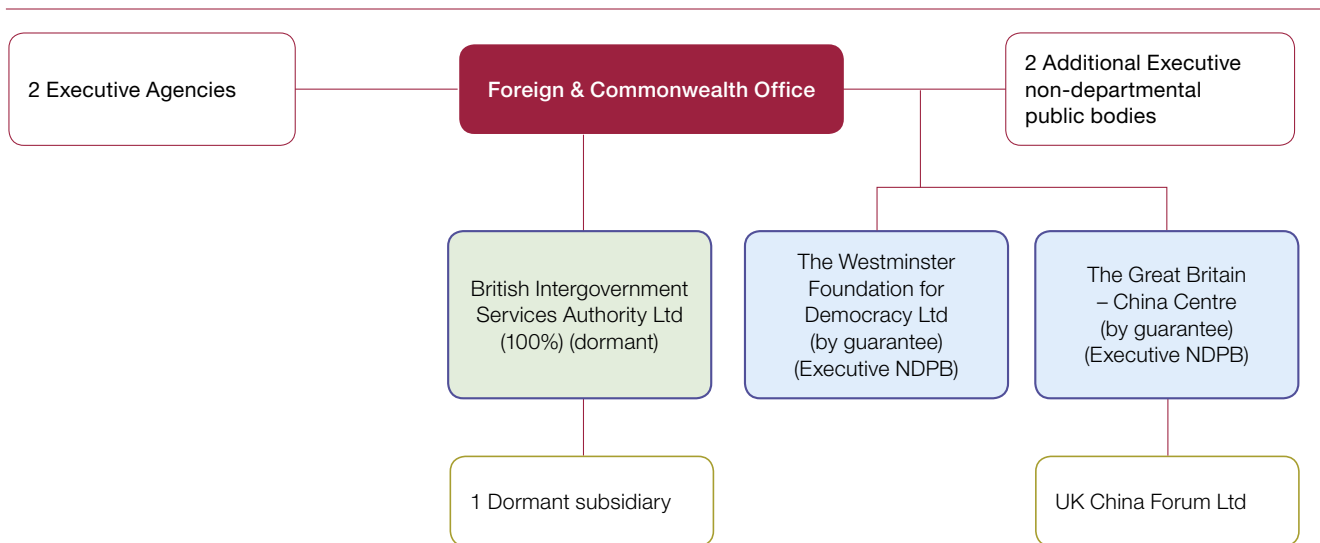


- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Only listed in the ONS

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 Dissolved in the year 2013-14.
- 3 In the 2013-14 financial year.

Source: National Audit Office analysis

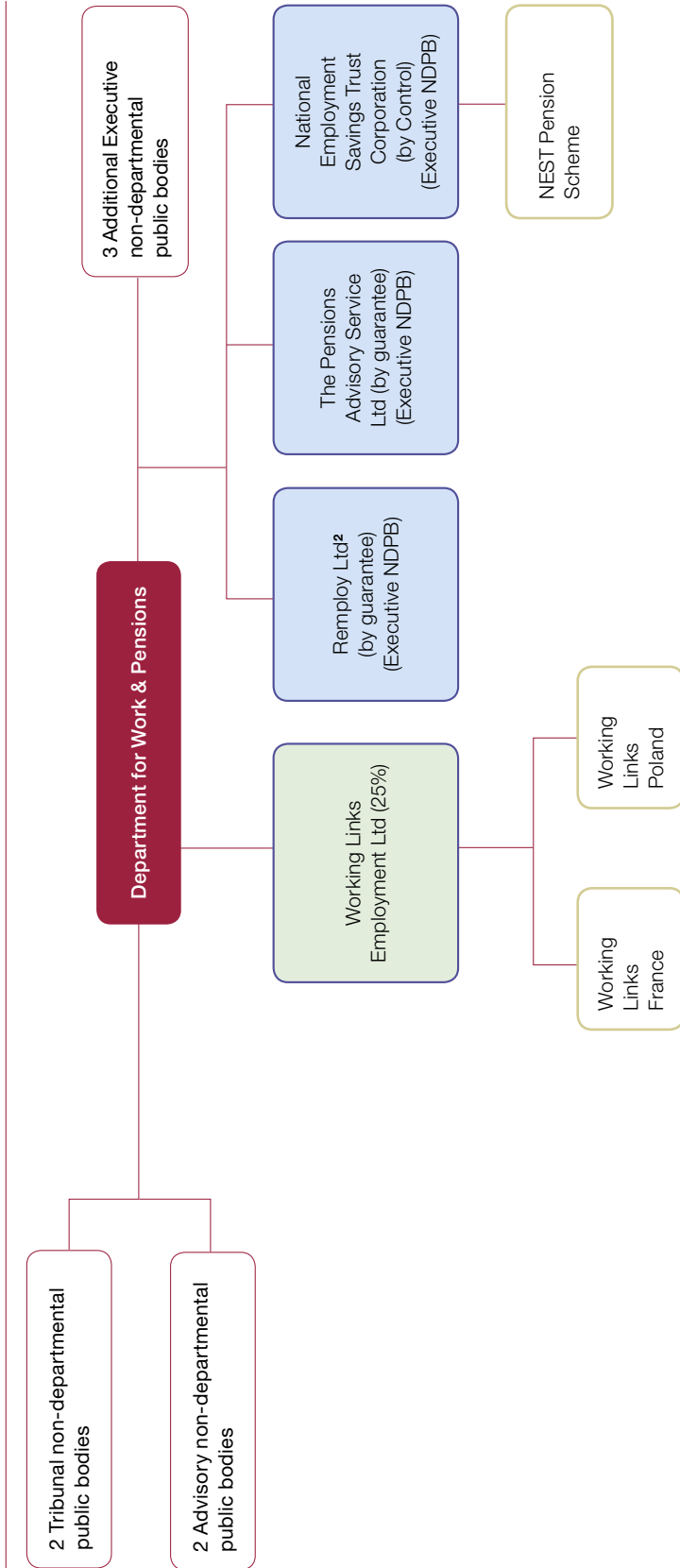


- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Consolidated in WGA and may also be listed in the ONS
- First line subsidiaries

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 In the 2013-14 financial year.

Source: National Audit Office analysis

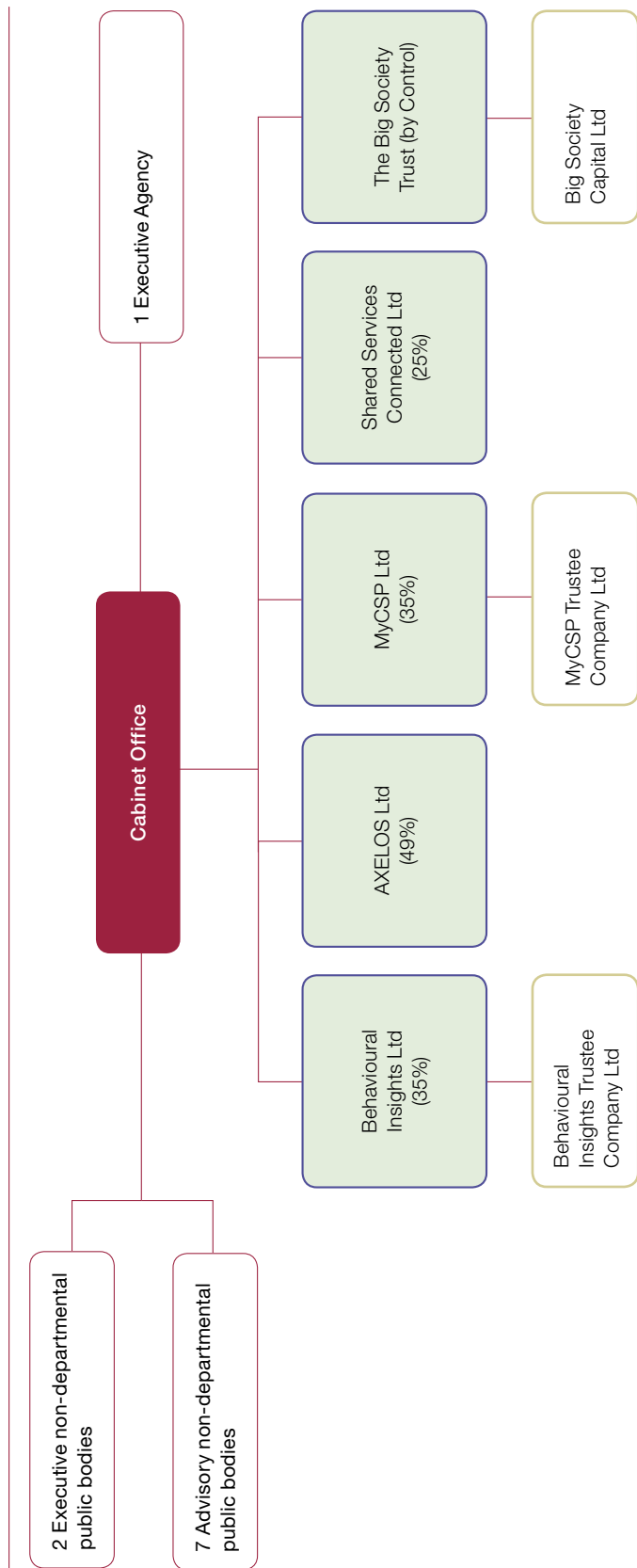


- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Consolidated in WGA and may also be listed in the ONS
- First line subsidiaries

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 Now Disabled People's Employment Corporation (GB) Ltd.
- 3 In the 2013-14 financial year.

Source: National Audit Office analysis

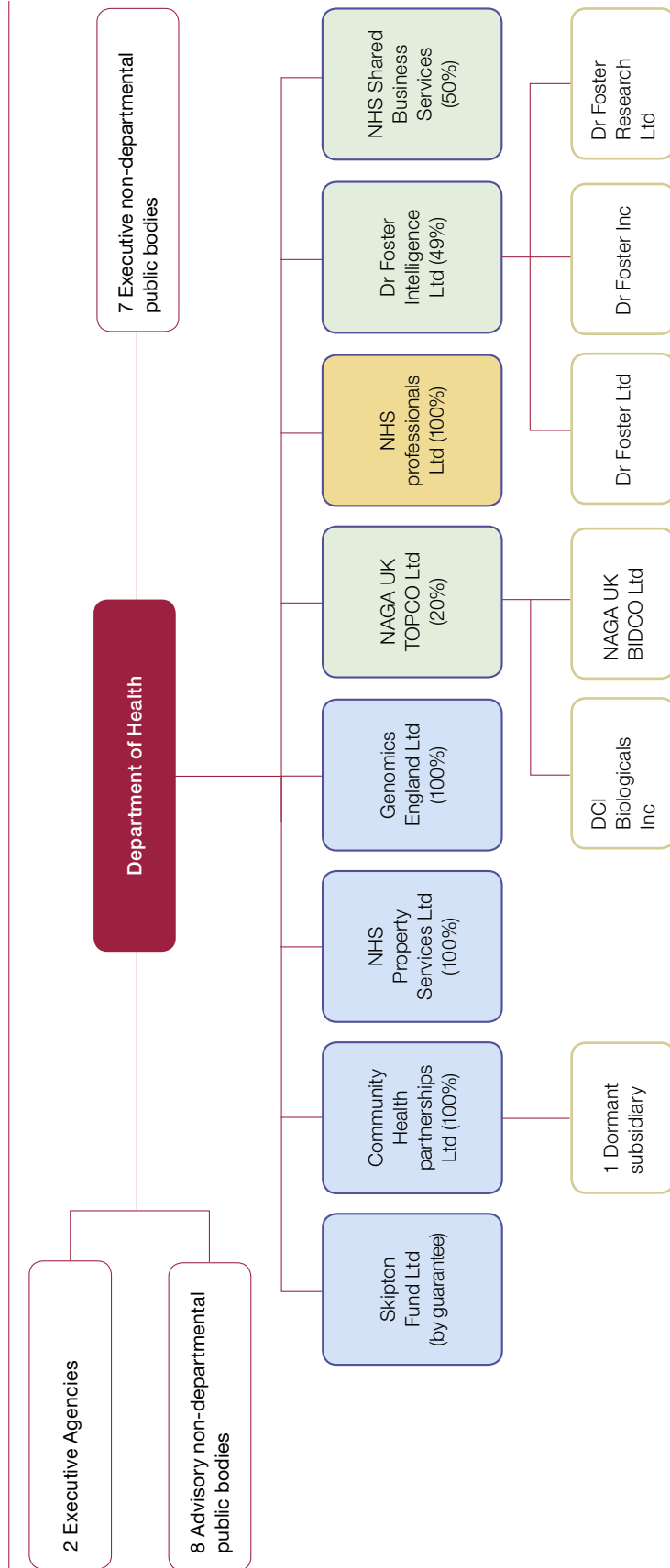


- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- First line subsidiaries

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 In the 2013-14 financial year.

Source: National Audit Office analysis

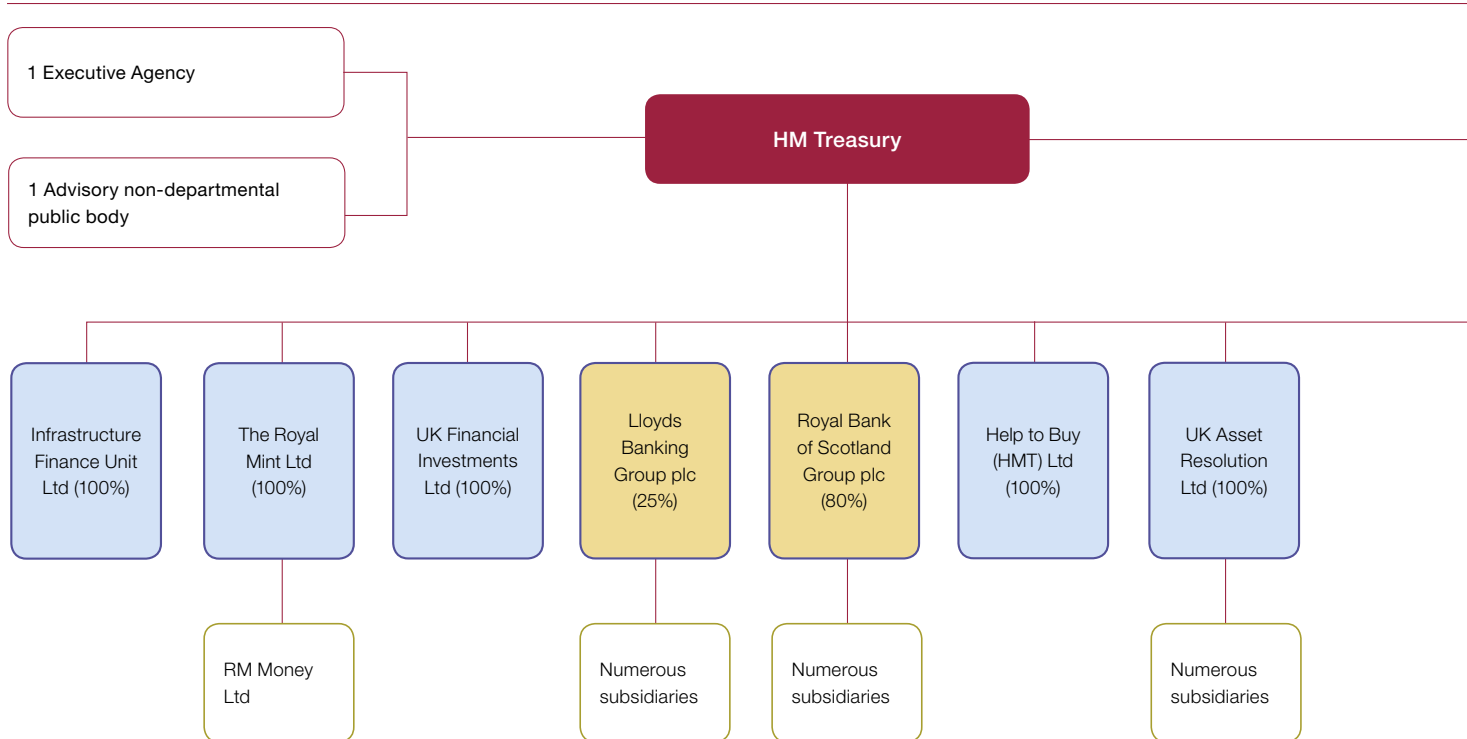


- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Consolidated in WGA and may also be listed in the ONS
- Only listed in the ONS
- First line subsidiaries

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 In the 2013-14 financial year.

Source: National Audit Office analysis



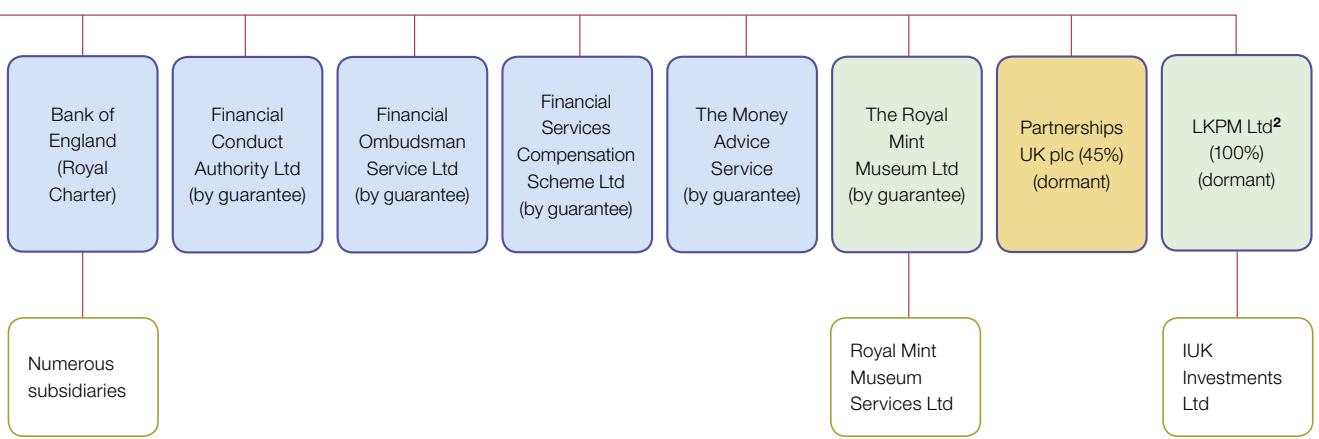
- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Consolidated in WGA and may also be listed in the ONS
- Only listed in the ONS
- First line subsidiaries

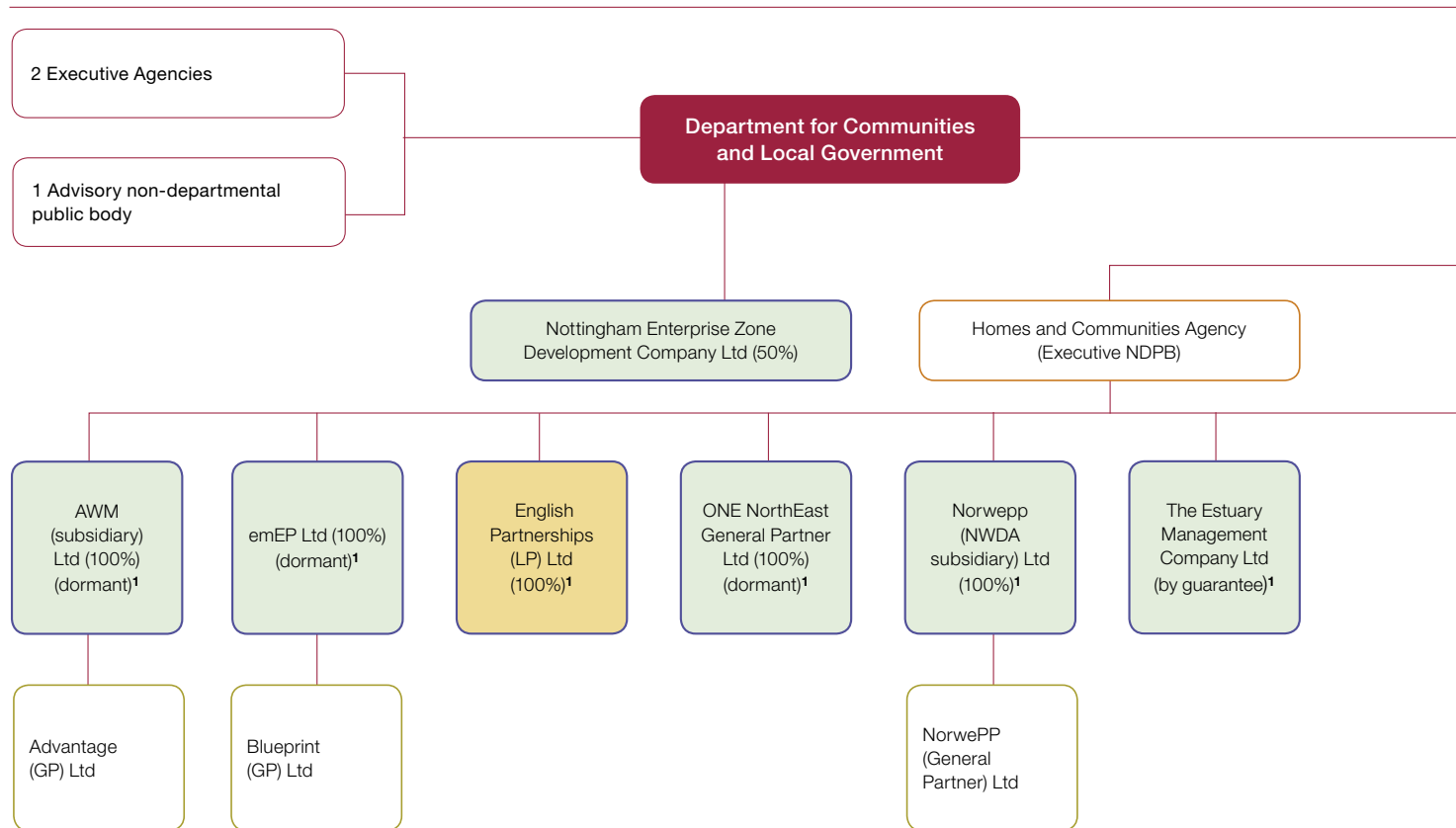
**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 Now IUK Holdings Ltd.
- 3 In the 2013-14 financial year.

Source: National Audit Office analysis

1 Executive non-departmental public body





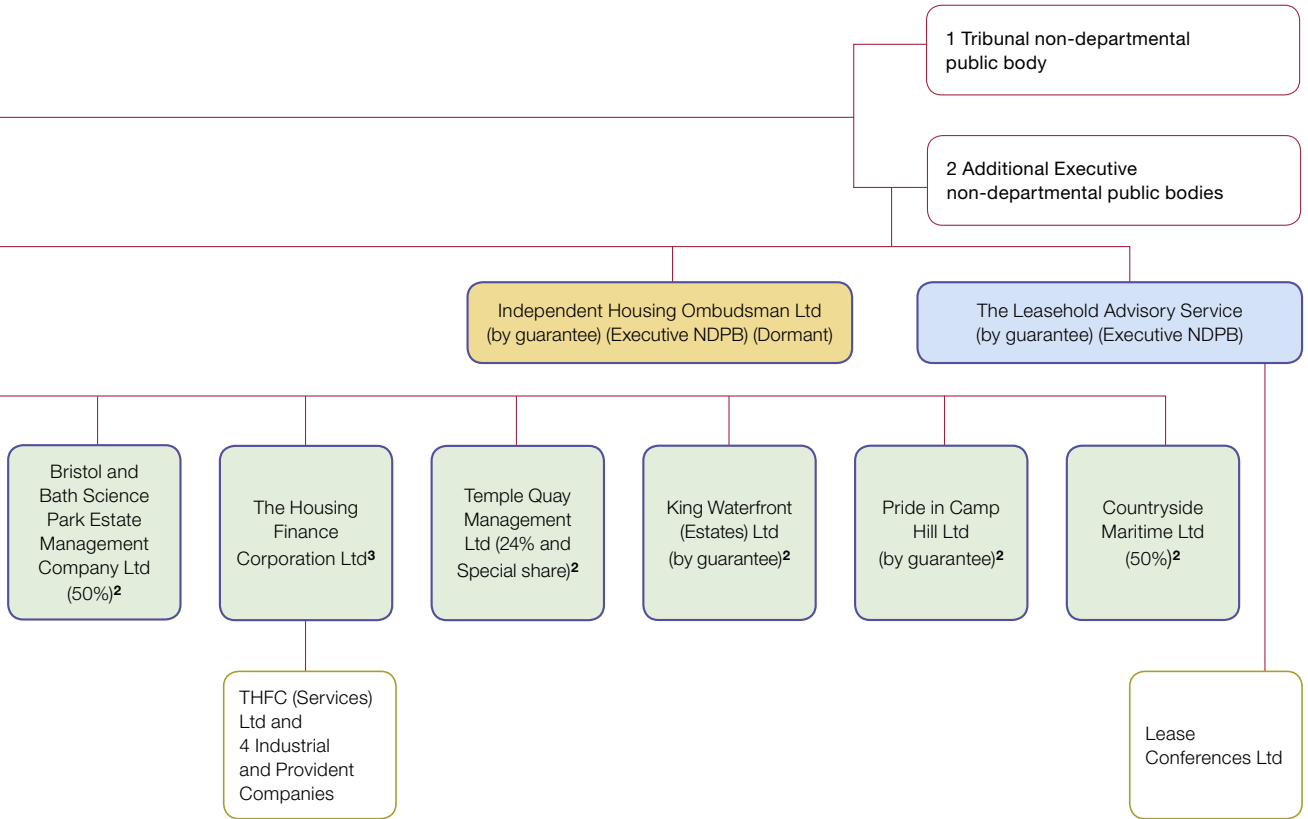
- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Consolidated in WGA and may also be listed in the ONS
- Only listed in the ONS
- Incorporated public body
- First line subsidiaries

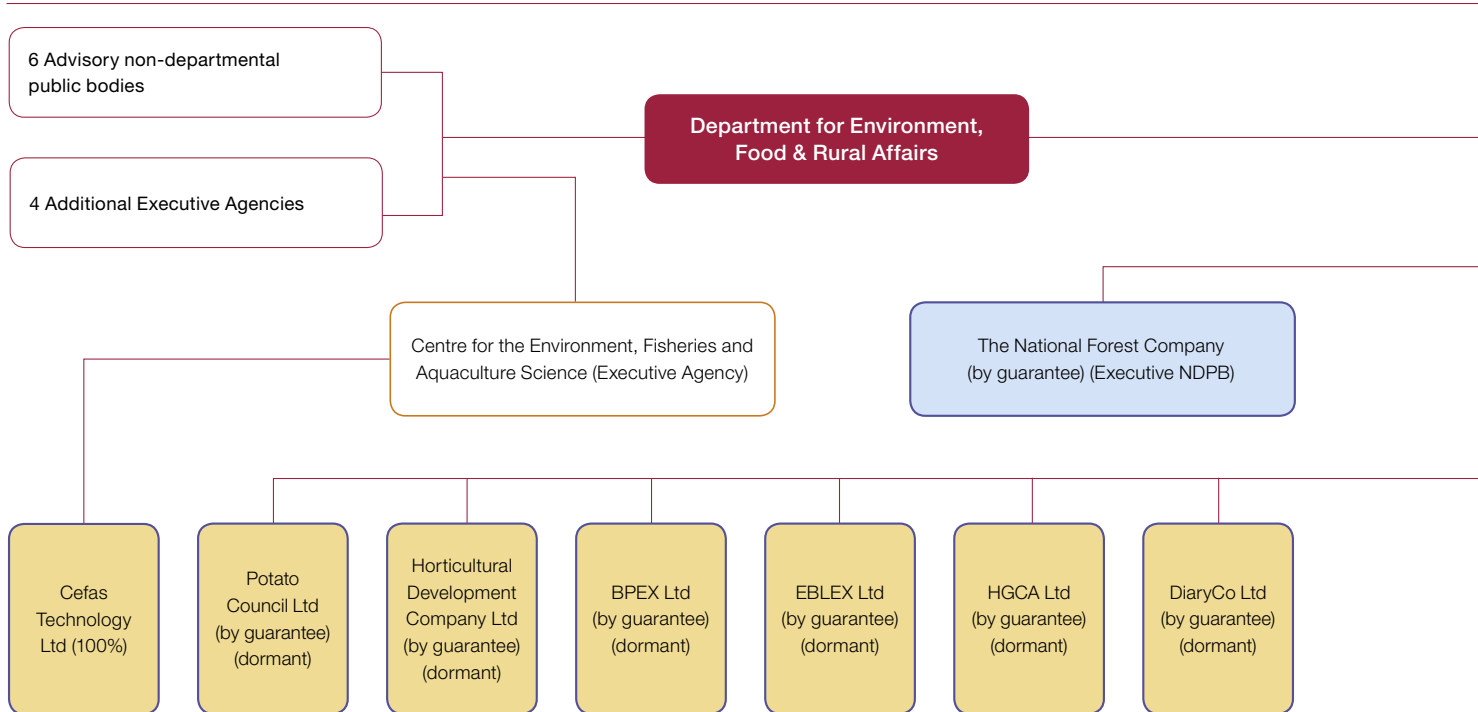
**Notes**

- 1 Recognised as a 'Subsidiary undertaking' with the HCA Annual Report and Financial Statements 2013-14.
- 2 Recognised as an 'Associated undertaking and joint venture' with the HCA Annual Report and Financial Statements 2013-14.
- 3 THFC is a private limited company incorporated in the UK under the Industrial and Provident Societies Acts 1965 to 2002. Per THFC Annual Report and Financial Statements, HCA owns £1 of £7 share capital in THFC, and appoints a non-executive director to the board of THFC. THFC is not disclosed as either a subsidiary undertaking nor an associated undertaking within the HCA Annual Report and Financial Statements 2013-14.
- 4 Unless otherwise noted all companies are active.
- 5 In the 2013-14 financial year.

Source: National Audit Office analysis





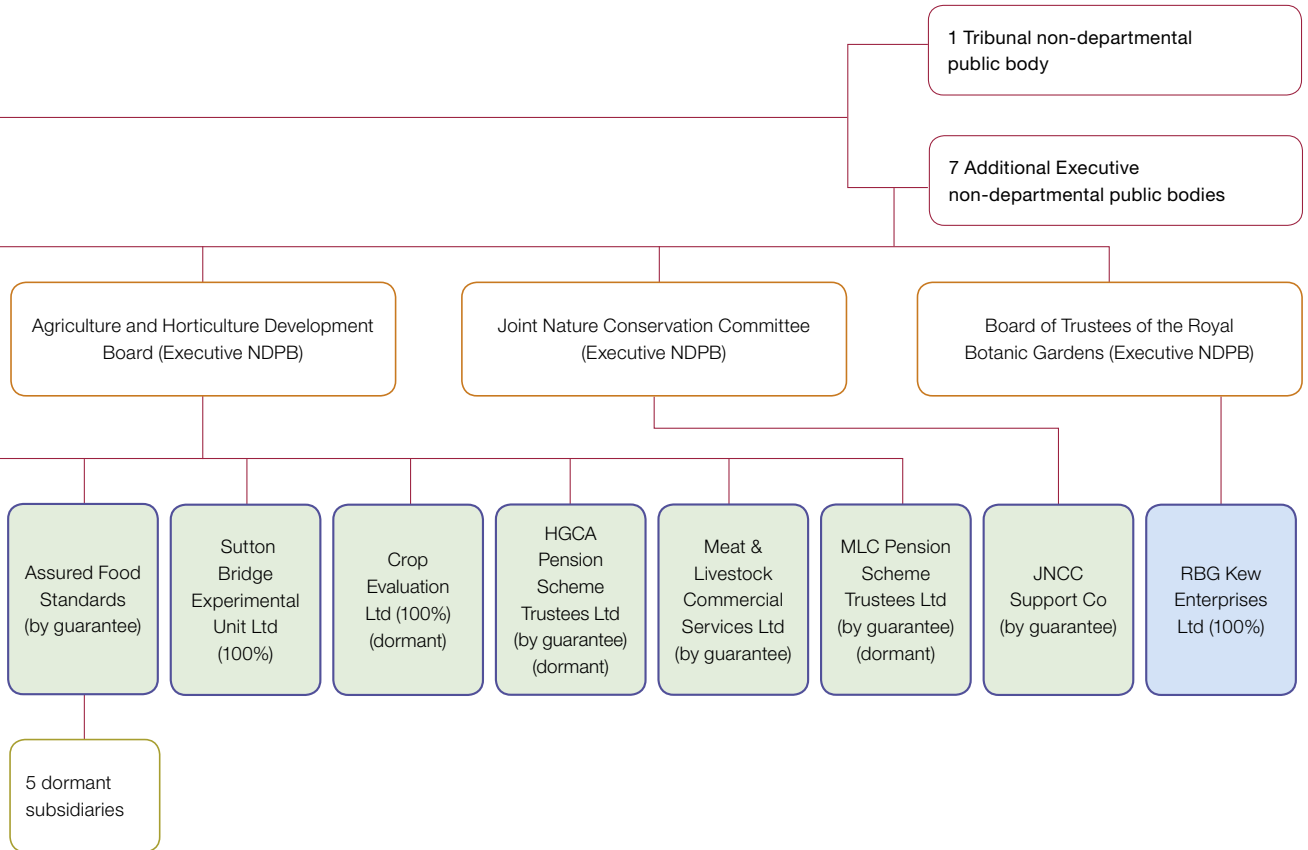


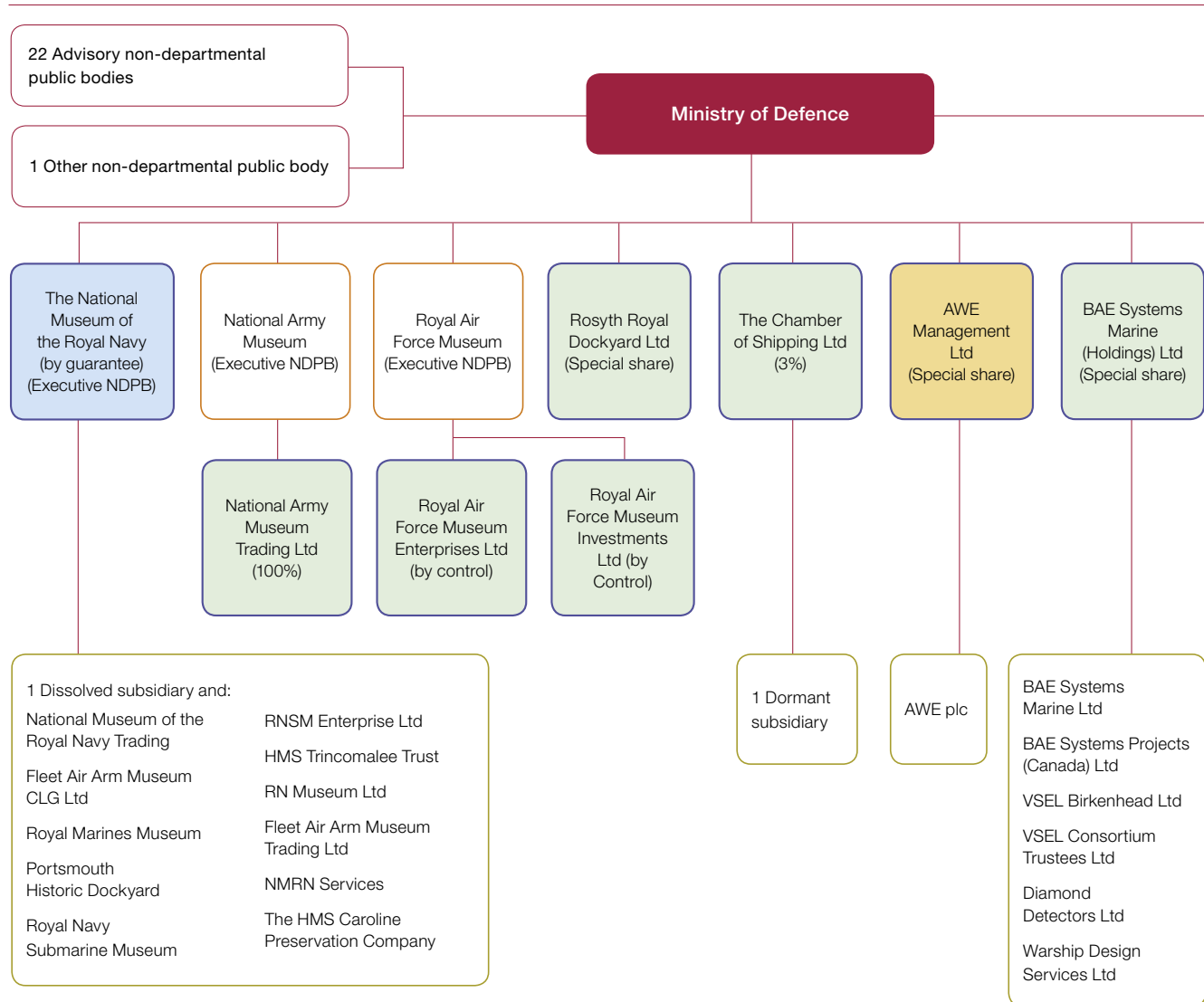
- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Consolidated in WGA and may also be listed in the ONS
- Only listed in the ONS
- Incorporated public body
- First line subsidiaries

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 In the 2013-14 financial year.

Source: National Audit Office analysis



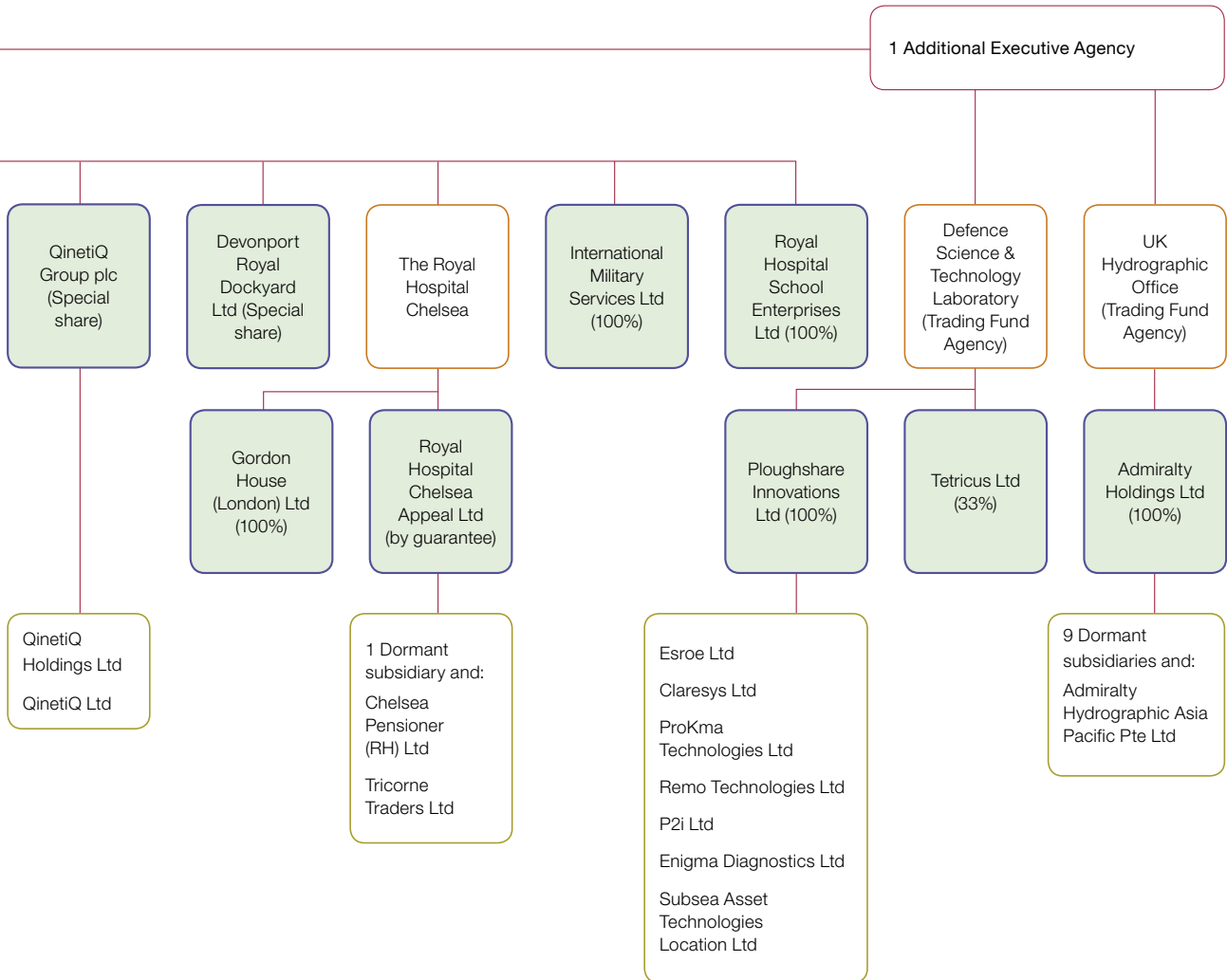


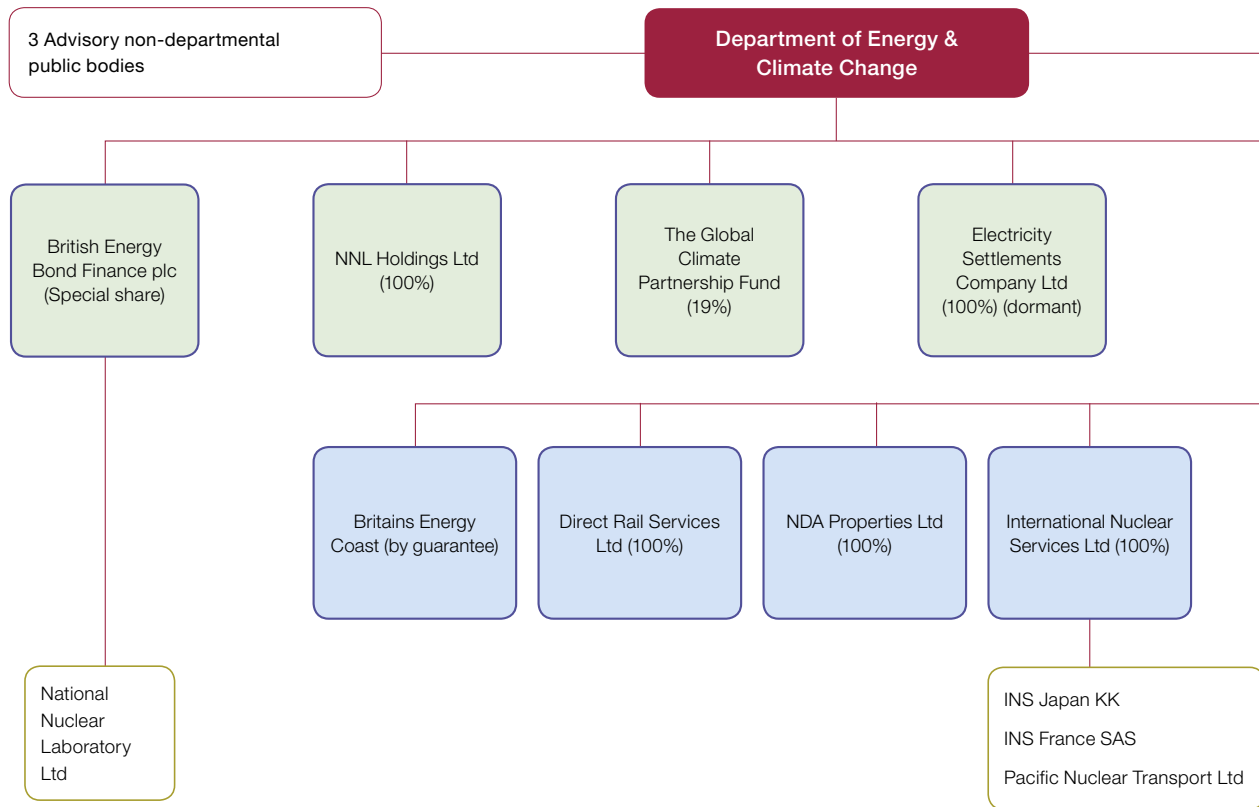
- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Consolidated in WGA and may also be listed in the ONS
- Only listed in the ONS
- Incorporated public body
- First line subsidiaries

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 In the 2013-14 financial year.

Source: National Audit Office analysis



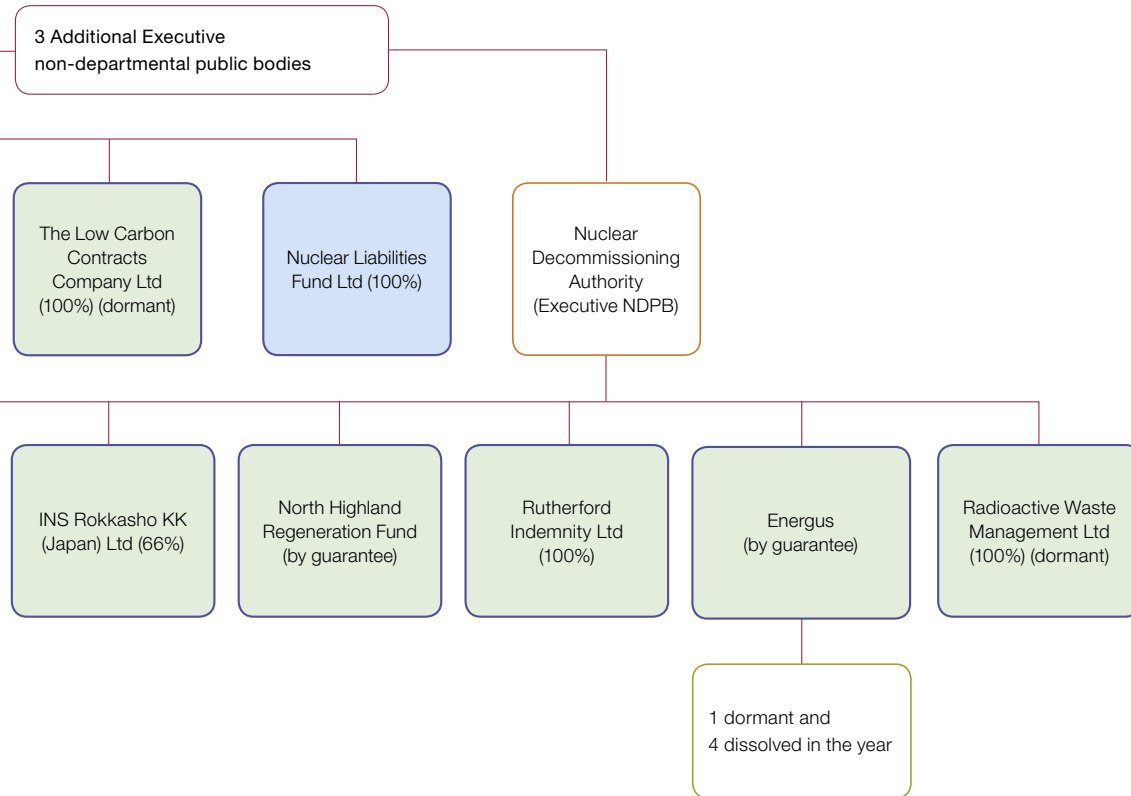


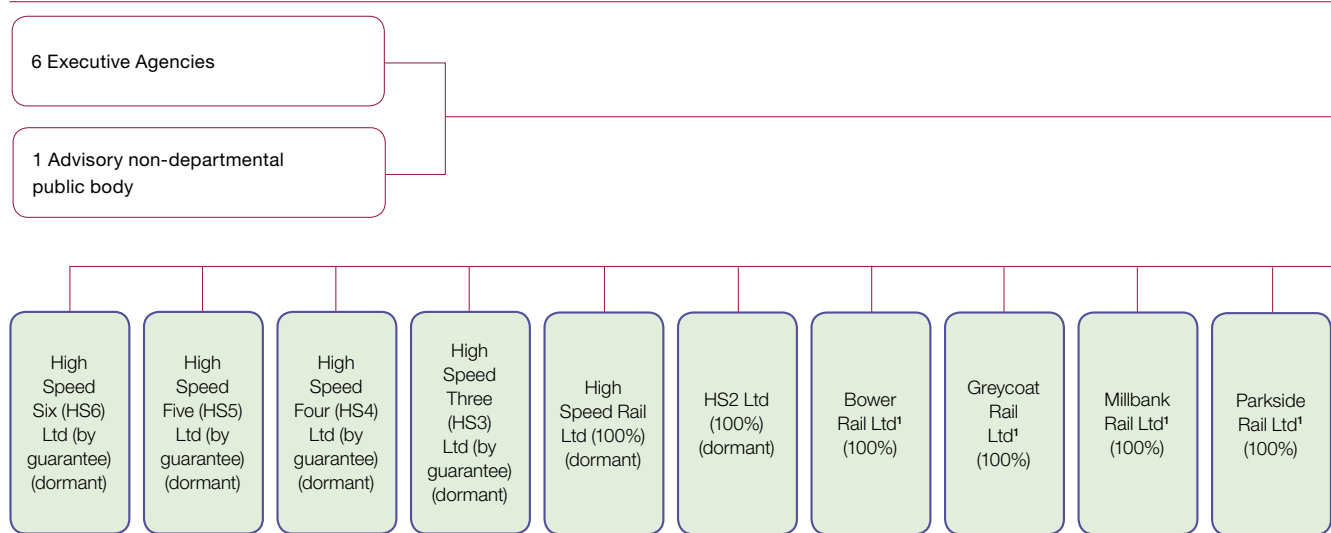
- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Consolidated in WGA and may also be listed in the ONS
- Incorporated public body
- First line subsidiaries

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 In the 2013-14 financial year.

Source: National Audit Office analysis





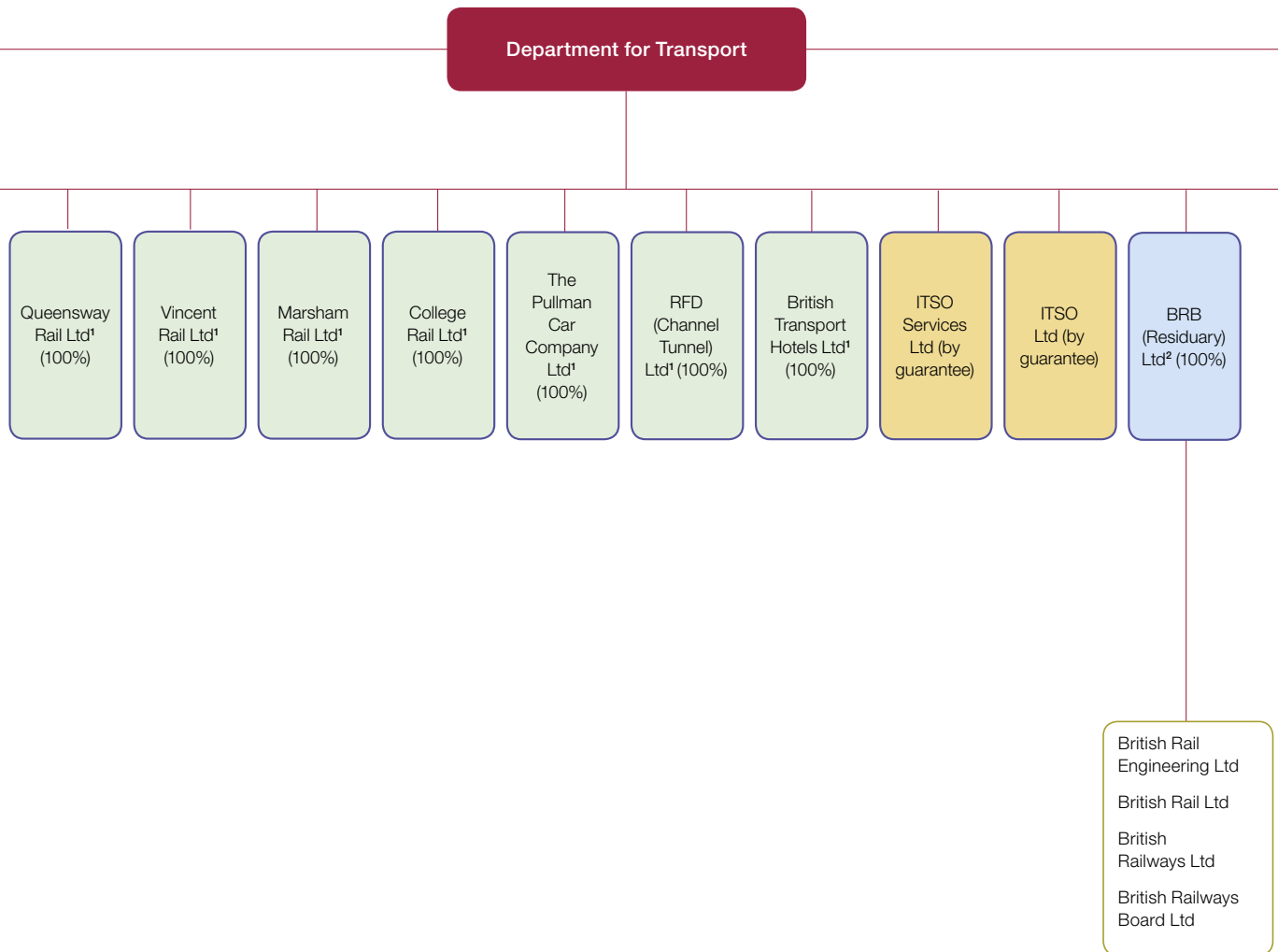
- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Consolidated in WGA and may also be listed in the ONS
- Only listed in the ONS
- Incorporated public body
- First line subsidiaries

**Notes**

- 1 Active (Dormant).
- 2 Dissolved in the year 2013-14.
- 3 Unless otherwise noted all companies are active.
- 4 In the 2013-14 financial year.

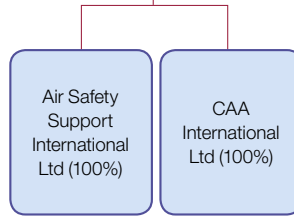
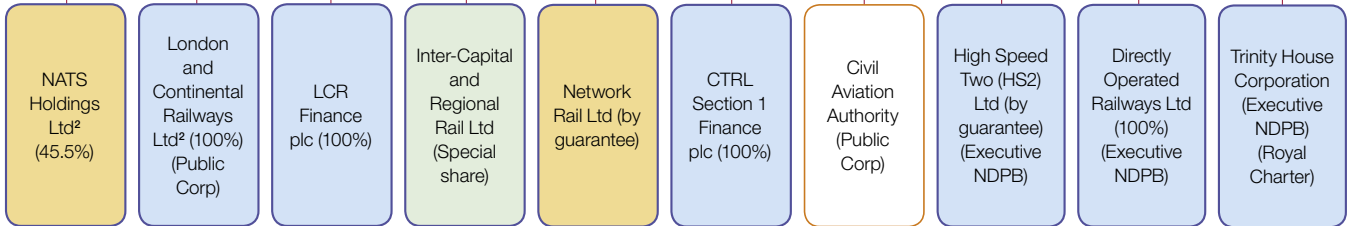
Source: National Audit Office analysis





1 Tribunal non-departmental public body

3 Additional Executive non-departmental public bodies



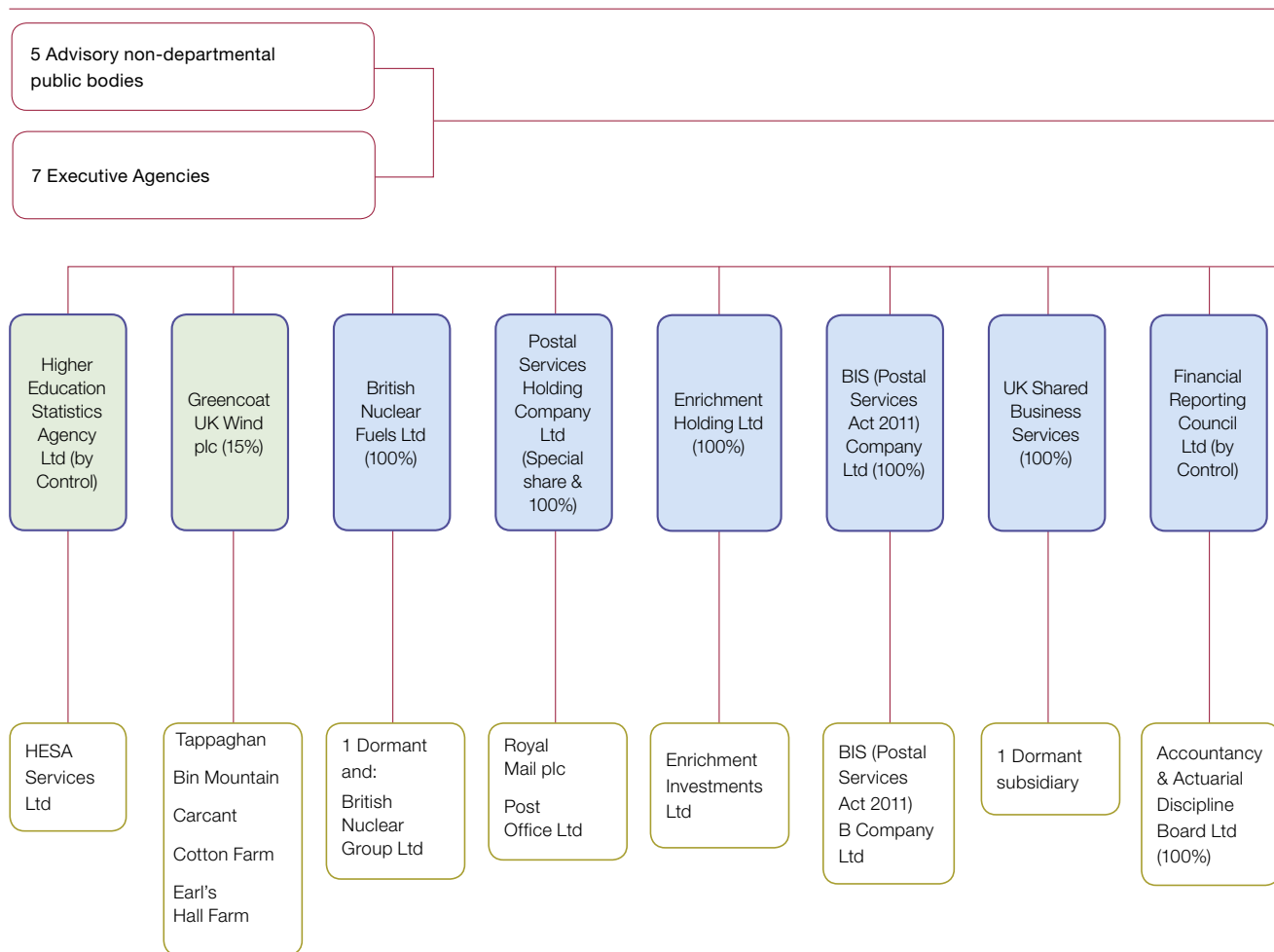
- NATS (USA) Inc
- NATS SverigeAB
- NATS (En Route) plc
- NATS Employee Sharetrust Ltd
- NATS (Services) Ltd
- NATSNV Ltd
- FerroNATS
- Air Traffic Services SA
- ESSP SAS

- 7 Dormant subsidiaries and:
- Eurostar International Ltd
  - KXC (LCR) LP Investment Ltd
  - Metropolitan King's Cross Ltd
  - Whittles Properties Brunel Ltd
  - Whittles Properties Trent & Derwent Ltd
  - Whittles Properties Croydon Ltd
  - Whittles Properties Manchester Ltd

- NR Holdco Ltd
- NR Insurance Ltd
- NR (High Speed) Ltd
- NR Development Ltd
- NR Pension Trustee Ltd
- NR Consulting Ltd
- NR Certification Body Ltd
- NR (VY1) Ltd
- NR (VY2) Ltd

- 7 Dormant subsidiaries and East Coast Main Line Company Ltd



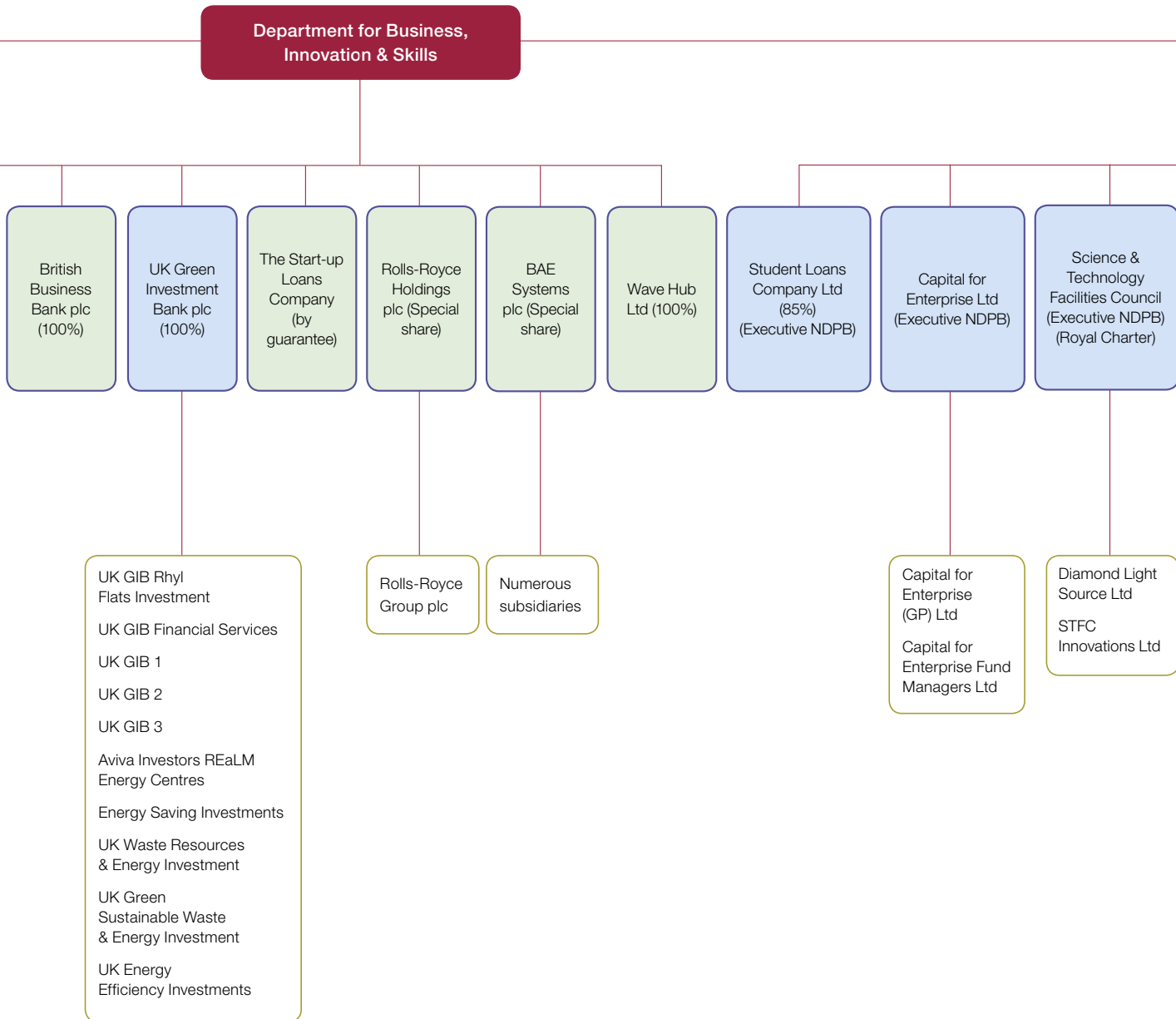


- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Consolidated in WGA and may also be listed in the ONS
- Incorporated public body
- First line subsidiaries

**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 In the 2013-14 financial year.

Source: National Audit Office analysis



4 Tribunal non-departmental public bodies

11 Additional Executive non-departmental public bodies

Medical Research Council (Executive NDPB) (Royal Charter)

Biotechnology & Biological Sciences Research Council (Executive NDPB) (Royal Charter)

UK Atomic Energy Authority (Executive NDPB)

Innovate UK (Executive-NDPB) (Royal Charter)

The Natural Environment Research Council (Executive NDPB) (Royal Charter)

The Economic and Social Research Council (Executive NDPB) (Royal Charter)

The Arts and Humanities Research Council (Executive NDPB) (Royal Charter)

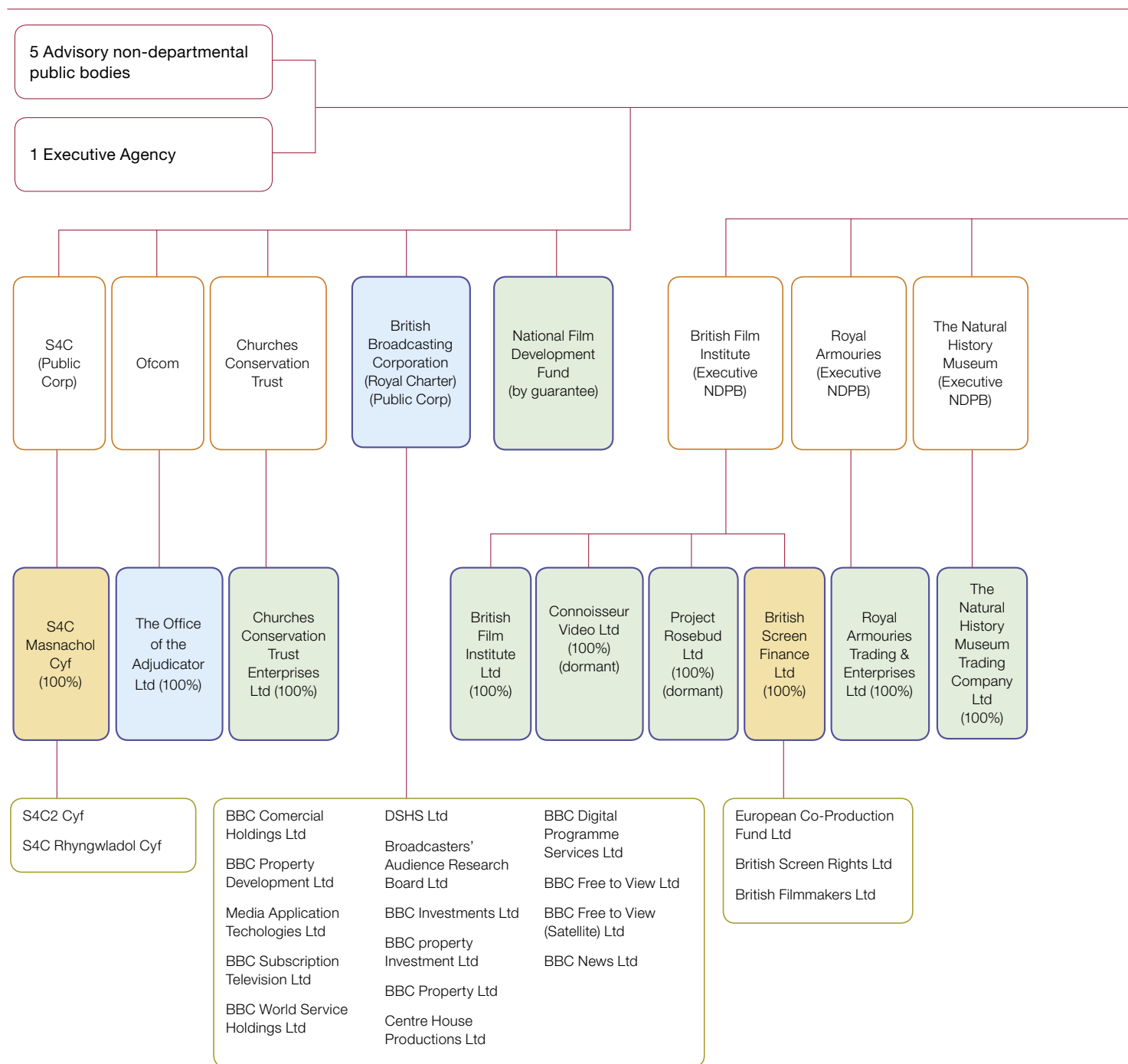
The Engineering and Physical Sciences Research Council (Executive NDPB) (Royal Charter)

AEA Insurance Ltd (100%)

The Francis Crick Institute Ltd  
Medical Research Council Technologies Ltd  
UK Biobank Ltd

1 Dormant and:  
International Geosciences (IGS) Ltd  
Wallingford Hydrosolutions Ltd  
Microbial Solutions Ltd  
Spectrum Ltd





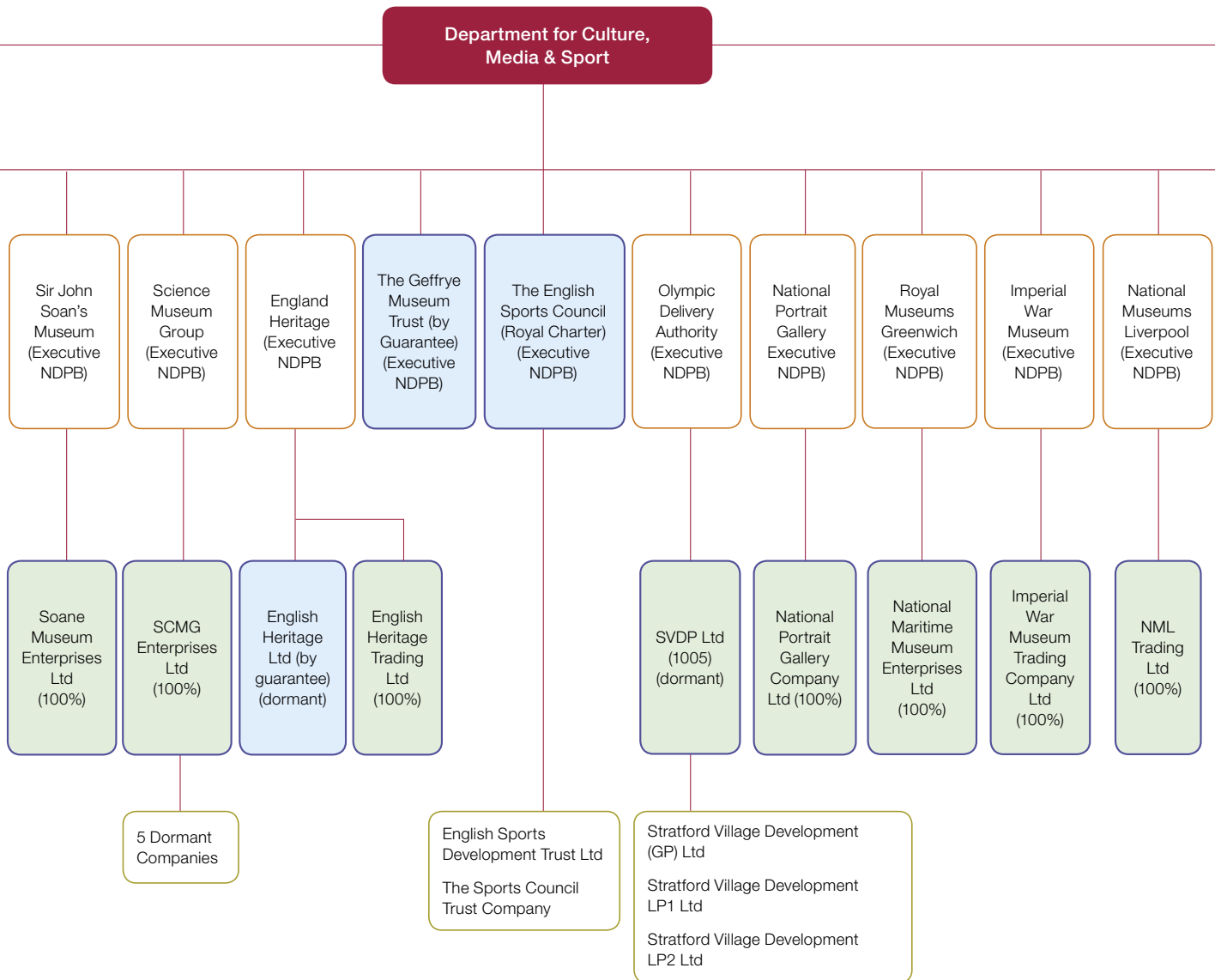
- The Companies in government identified
- Excluded from the CO, ONS or WGA classifications
- Consolidated in WGA and may also be listed in the ONS
- Only listed in the ONS
- Incorporated public body
- First line subsidiaries

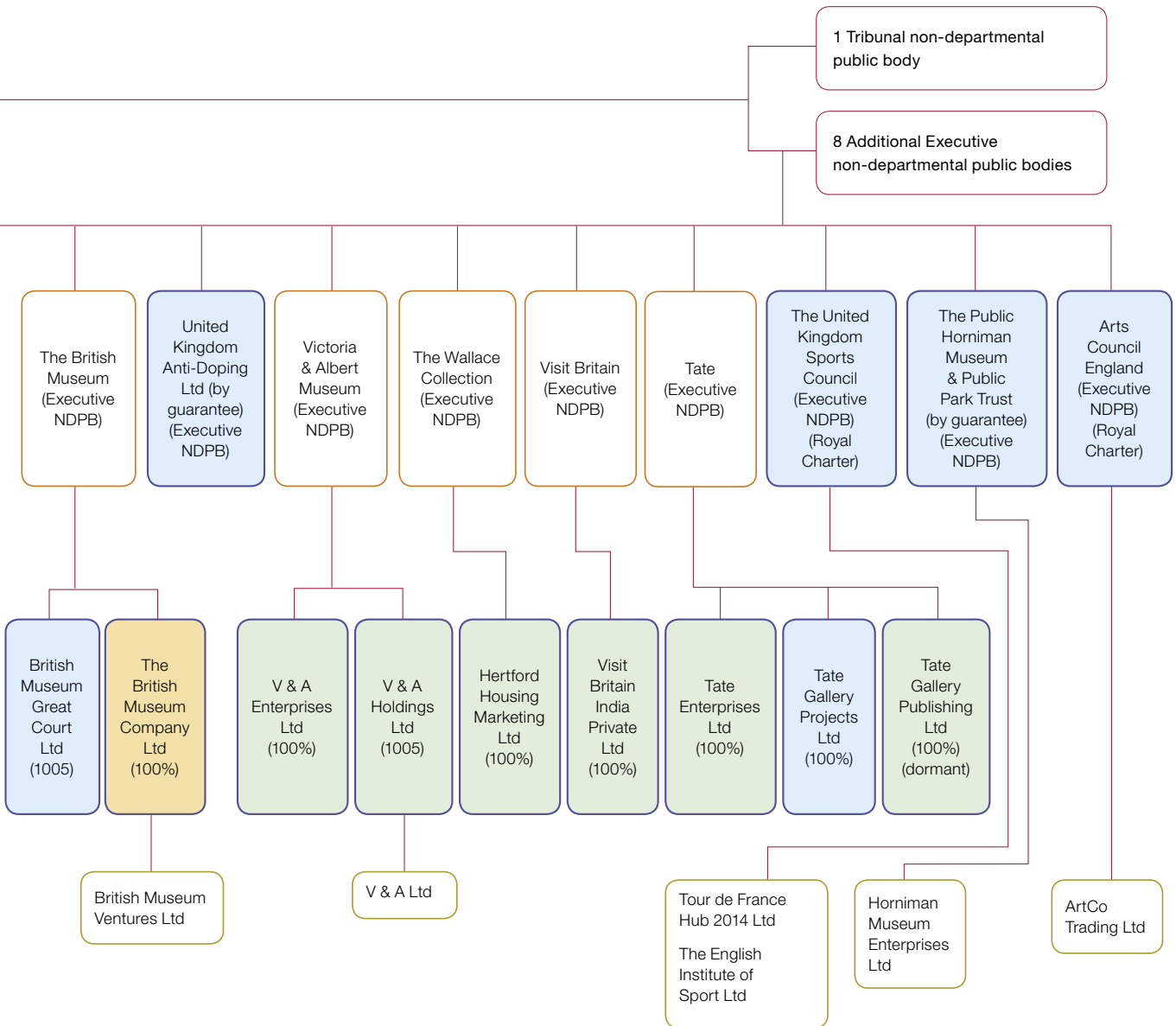
**Notes**

- 1 Unless otherwise noted all companies are active.
- 2 In the 2013-14 financial year.

Source: National Audit Office analysis









# Appendix One

Summary of mapping by department

**Figure 17**  
Companies and other public bodies by department

Department	Companies <sup>1</sup>	<i>of which are dormant</i>	Companies subsidiaries <sup>2</sup>	Total	Other categorised public bodies <sup>3</sup>	Total
Cabinet Office	5	0	3	8	10	18
Department for Business, Innovation & Skills	25	0	37	62	28	90
Department for Communities and Local Government	15	4	9	24	7	31
Department for Culture, Media & Sport	35	5	36	71	31	102
Department for Education <sup>4</sup>	3 (2,591)	0	0	2,594	7	2,601
Department of Energy & Climate Change	15	2	10	25	7	32
Department for Environment, Food & Rural Affairs	16	9	5	21	22	43
Department for International Development	1	0	4	5	2	7
Department for Transport	31	17	43	74	11	85
Department for Work & Pensions	4	0	3	7	7	14
Department of Health <sup>5</sup>	8	0	6	14	17	31
Foreign & Commonwealth Office	3	1	2	5	4	9
HM Revenue & Customs	1	0	0	1	2	3
HM Treasury	15	2	29	44	3	47
Home Office	3	1	0	3	17	20
Ministry of Defence	17	0	42	59	28	87
Ministry of Justice	21	0	0	21	238	259
<b>Total</b>	<b>2,809</b>	<b>41</b>	<b>229</b>	<b>3,038</b>	<b>441</b>	<b>3,479</b>

**Notes**

- 1 Companies owned or controlled by government; includes companies where government holds a special share.
- 2 Only first line subsidiaries.
- 3 Includes Executive NDPBs, Tribunal NDPBs, Advisory NDPBs, Other NDPBs, Executive Agencies and non-ministerial departments.
- 4 Department for Education includes 2,591 Academy trusts.
- 5 Department of Health excludes NHS entities.

Source: National Audit Office analysis of companies in government

## Details of companies created between 2010 and 2014

**Figure 18**

Companies created between 2010 and 2014

Department	Companies created
Cabinet Office	Axelos Ltd Behavioural Insights Ltd MyCSP Ltd Shared Services Connected Ltd The Big Society Trust
Department for Business, Innovation & Skills	BIS (Postal Services Act 2011) Company Ltd British Business Bank plc Greencoat UK Wind plc Rolls-Royce Holdings plc (Special share) The Start-Up Loans Company UK Green Investment Bank plc Wave Hub Ltd
Department for Communities and Local Government	Bristol and Bath Science Park Estate Management Company Ltd Nottingham Enterprise Zone Development Company Ltd
Department for Culture, Media & Sport	Churches Conservation Trust Enterprises Limited Royal Armouries Trading & Enterprises Ltd Soane Museum Enterprises Limited SVDP Ltd
Department of Energy & Climate Change	Electricity Settlements Company Limited Radioactive Waste Management Ltd The Low Carbon Contracts Company Limited
Department for Environment, Food & Rural Affairs	HGCA Pension Plan Trustees Ltd MLC Pension Scheme Trustees Ltd
Department for Transport	Bower Rail Limited College Rail Limited Greycoat Rail Limited Marsham Rail Limited Millbank Rail Limited Parkside Rail Limited Queensway Rail Limited Vincent Rail Limited HS2 Ltd
Department for Work & Pensions	National Employment Savings Trust (NEST) Corporation <sup>1</sup>
Department of Health	Genomics England Limited NHS Property Services Limited NAGA UK TOPCO Ltd

**Figure 18** *continued*

## Companies created between 2010 and 2014

Department	Companies created
Foreign & Commonwealth Office	British Intergovernment Services Authority Ltd
HM Treasury	Help to Buy (HMT) Ltd The Money Advice Service UK Asset Resolution Ltd (Bradford & Bingley plc and NRAM plc) LKPM Ltd (now IUK Holdings Ltd)
Home Office	College of Policing Ltd The Police ICT Company Ltd Forensic Archive Ltd
Ministry of Defence	Gordon House (London) Ltd
Ministry of Justice	Bedfordshire, Cambridgeshire, Hertfordshire and Northamptonshire Community Rehabilitation company limited Bristol, Gloucestershire, Somerset & Wiltshire Community Rehabilitation company limited Cheshire & Greater Manchester Community Rehabilitation company limited Cumbria and Lancashire Community Rehabilitation company limited Derbyshire, Nottinghamshire, Leicestershire & Rutland Community Rehabilitation company limited Dorset, Devon & Cornwall Community Rehabilitation company limited Durham Tees Valley Community Rehabilitation company limited Essex Community Rehabilitation company limited Hampshire & Isle of Wight Community Rehabilitation company limited Humberside, Lincolnshire & North Yorkshire Community Rehabilitation company limited Kent, Surrey & Sussex Community Rehabilitation company limited London Community Rehabilitation company limited Merseyside Community Rehabilitation company limited Norfolk & Suffolk Community Rehabilitation company limited Northumbria Community Rehabilitation company limited South Yorkshire Community Rehabilitation company limited Staffordshire & West Midlands Community Rehabilitation company limited Thames Valley Community Rehabilitation company limited Wales Community Rehabilitation company limited Warwickshire and West Mercia Community Rehabilitation company limited West Yorkshire Community Rehabilitation company limited

**Note**

- 1 NEST is a statutory corporation but its funding is dependent on DWP, and from the NEST annual report meets two of the ONS tests of control, namely: provision of funding accompanied by rights of control over how that funding is spent; and right to demand certain reports or information. DWP has no control or any responsibility over the scheme assets or performance of/return on the assets under management.

Source: National Audit Office analysis of companies in government

# Appendix Two

Description of company types



**Figure 19**  
Description of company types

Type	Characteristics	Formation
Private limited by guarantee	Has members not shareholders, separate legal entity from members, liability limited to nominal amount, usually operated on a not for profit, can raise capital through borrowing.	Incorporated under the Companies Act 2006 and registered at Companies House.
Private limited by shares	Owned by shareholders, separate legal entity, liability limited to amount unpaid on shares, operated on a for profit basis, cannot raise funds by offering shares to the public.	Incorporated under the Companies Act 2006 and registered at Companies House.
Public limited by shares	Has features of private limited by shares but name ends with words 'public limited company' or 'PLC' and can raise funds by offering shares to the public.	Incorporated under the Companies Act 2006 and registered at Companies House.
Unlimited	Has all the features of a private company limited by shares; liability of members is unlimited.	
Community Interest Company	A limited company, created for conducting a business or other activity for community benefit. Assets and profits must be permanently retained within the CIC and used solely for community benefit, or transferred to another organisation which itself has an asset lock, such as a charity, or another CIC.	Companies (Audit, Investigations and Community Enterprise) Act 2005. Formation and registration is similar to any limited company. Registered at Companies House – Registrar of Community Interest Companies.
Royal Charter	Created by Royal Charter which sets out the terms of operation.	Recommendation of the Privy Council.
Statutory	Entities incorporated pursuant to legislation other than Companies Act 2006.	Bespoke legislation.
Trading Fund	Executive Agency. Not a separate legal entity and remains part of the department. Engages in commercial operations and finances itself from sales of goods or services. HM Treasury appoints the Accounting Officer.	Statutory Order under Government Trading Funds Act 1973 with Treasury concurrence.
Registered Societies	Societies registered under the Co-operative and Community Benefit Societies Act 2014. This includes co-operative societies, community benefit societies and societies previously known as 'industrial and provident societies'.	Registration with FCA pursuant to Co-operative and Community Benefit Societies Act 2014.
Industrial and Provident Society	An industrial and provident society (IPS) is an organisation set up to carry out a trade or business for community benefit. It is incorporated, which means that it has gone through the registration process that converts a new or existing business into a corporate body, making it a legal entity in its own right. IPS's are regulated by the Financial Conduct Authority.	See Registered Societies.

Sources: Department for Business, Innovation & Skills: *Insolvency direct: History of Companies in the British Isles*. Available at: [www.gov.uk/set-up-a-social-enterprise](http://www.gov.uk/set-up-a-social-enterprise); Privy Council Royal Charters Financial Conduct Authority website

# Appendix Three

## Sample test of governance arrangements

**1** We reviewed various aspects of corporate governance arrangements for a small sample of companies in government, including board composition.

**Figure 20**

Corporate governance arrangements at 31 March 2014

Principle	Low Carbon Contracts Company Limited	NHS Property Services Ltd	UK Financial Investments Ltd	Green Investment Bank	Genomics England Ltd	Rolls-Royce
<b>Leadership</b>						
Separate Chief Executive and Chairman	Yes	Yes	No	Yes	No	Yes
Board members	7	12	7	11	9	15
Women	2	2	3	3	2	4
NEDs	No information	6	5	9	6	9
Shareholder appointed directors	2	1	1	1	1	0
<b>Effectiveness</b>						
Annual board appraisal	Yes self evaluation	No information	Yes self evaluation	Yes self evaluation	No information	Yes external
NED appraisal	Annual by board	No information	Annual review by Chairman	Annual by board	No information	Chairman in face-to-face discussion
<b>Accountability</b>						
Accounting Officer	1	None	1	1	No information	n/a
Line of Accountability	To Principal AO	No information	No information	No information	No information	To shareholders
Auditor	C&AG	C&AG	C&AG	C&AG	C&AG as part of DoH	KPMG
<b>Framework Agreement</b>						
	Yes	No	Yes	Yes	No but Articles sets out shareholder's rights	Special shareholder's rights included in Articles of Association

**Note**

1 Government's special share in Rolls-Royce does not confer general control or voting rights.

Source: Annual reports and accounts, National Audit Office teams

# Appendix Four

## Audit approach

**Figure 21**  
Data sources

Source	Remarks
Cabinet Office Public Bodies Data Directory	Lists arm's-length public bodies by administrative category
Office for National Statistics Public Sector Classification Guide March 2014	Lists all public bodies classified to central government and public corporations
Whole of Government Accounts (Designation of Bodies) Order 2014	Lists entities designated for inclusion in the Whole of Government Accounts
Guidance for the Whole of Government Accounts for 31 March 2014	Annex One lists 'minor bodies' <sup>1</sup> not included in the Whole of Government Accounts
Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2013	Lists bodies designated in relation to a department
Departmental annual reports and accounts	Lists companies consolidated in departmental accounts
Individual company annual reports and accounts	Lists companies included in the group

**Note**

1 Those with gross annual expenditure and income during the year and gross assets and liabilities as at year end below £10 million which may be companies.

Source: National Audit Office analysis

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