

27 February 2004

Coverage

United Kingdom

Theme

The Economy

Classification of Network Rail

A £10 billion refinancing package for Network Rail's debt was announced yesterday. This will be a medium term notes programme. ONS's National Accounts Classification Committee has reviewed the terms of this package. It has concluded that it does not alter its decision to classify Network Rail in the private sector for National Accounts purposes. Any issuance from the medium term notes programme will be classified as Network Rail's borrowing. The government support is classified as a contingent liability by departmental accountants.

ONS has also announced today that the date from which Network Rail is classified in the private sector has been amended from August 2002 to April 2003. For the period from its incorporation until the end of March 2003, Network Rail will be classified as a public corporation within the public sector.

The amendment arises solely from new information relating to a transitional arrangement for directors' incentive pay.

When reaching its original classification decision, ONS was advised of the mechanism for establishing the directors' incentive pay. However, for a transitional period to March 2003, this mechanism was not followed. The Strategic Rail Authority, which is classified as part of central government in the National Accounts, had sufficient involvement in the transitional process for the classification committee to judge Network Rail as government controlled.

A key criterion for classification of an institution to the private sector is that it is not controlled by the government or other public sector entities. One key test is government involvement in setting remuneration. The expected incentive mechanism was subsequently followed for the period from April 2003 and thus Network Rail's reclassification date is amended to reflect that.

ONS compiles National Accounts according to international standards. The decisions were taken by the National Accounts Classification Committee and authorised by the National Statistician, Len Cook.

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BACKGROUND NOTES

1. On 27 June 2002 ONS published a news release announcing the national accounts sector classification of Network Rail.
2. On 5 July 2002 ONS published its original decision on Network Rail borrowing.
3. The National Accounts Classification Committee was formerly known as the Public Sector Classification Committee.
4. Network Rail was incorporated on 22 March 2002. Government was involved in the initial appointments necessary to create the company, hence Network Rail was classified in the public sector at this point. Certain criteria were met so that Network Rail was reclassified to the private sector. The original information that ONS had was that these criteria were fully met once Network Rail's members held a ratification vote of the directors. This took place on 16 August 2002. Network Rail had limited economic activity until its acquisition of Railtrack plc on 3 October 2002. The directors' incentive arrangements were implemented for the period from April 2003, so the criteria for private sector classification are fully met from then.
5. Under the National Statistics Code of Practice all important methodological decisions, and the reasons for them, are to be made publicly available in advance of the statistics based on them. Public Sector Classification announcements will be made in the public sector accounts page of the National Statistics website once all confidentiality implications have been cleared.
6. Further information explaining this decision will be made available on the national statistics website at: www.statistics.gov.uk/psa as soon as possible after related information has been made publicly available.
7. Details of the policy governing the release of new data are available from the press office.
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