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Setting the record straight on Network Rail

Robin Lynch, Head of National Accounts at the Office for National Statistics and chairman of its Public Sector Classifications Committee today made the following statement on Network Rail.

"Questions have been raised about the role of the Office for National Statistics (ONS) in classifying Network Rail. I would like to set the record straight.

"Network Rail is a new company limited by guarantee established to run the rail infrastructure. ONS has decided that Network Rail will be a private sector company in the national accounts, once its Board has been ratified by its members. We have also decided, based on accountancy advice, that support provided by government for its financing will not score as government debt in the national accounts. This is because the support is considered a contingent liability and is unlikely to be called on.

"One of ONS's key responsibilities is to produce national accounts. These are based on international standards, which in Europe are part of a Council Regulation. We have no choice but to follow these standards. Our policy is to produce a single set of accounts for all customers.

"The ONS is solely responsible for making the decisions needed to produce national accounts in line with these standards. Part of this process involves decisions on the classification of institutions and transactions - it was in this context that ONS was asked to decide on the classification of Network Rail and its transactions.

"It is now common practice, in many countries and in the European Union for the authorities to adopt national statistics offices' decisions on classifications in their monitoring and control of public finances. This is a choice made by policy makers, not by statisticians. The reasons are obvious - to give objectivity to public finance policy, and to ensure that public finance targets and assessment of their achievement are free from political influence.

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"So for example in the UK, the Treasury has decided to use national accounting (ESA95) definitions in the assessment of the government's performance against its public finance targets such as the 'golden rule'. Similarly, in the EU the Council decided in the Maastricht Treaty and in the Stability and Growth Pact to define the government deficit and debt targets in terms of the statisticians' national accounting standards. In fact, the Treaty, protocol and regulations specify the use of ESA standards. In none of these cases, have statisticians been involved in the selection of these targets; they have all been the decisions of the policy makers.

"In national accounts, the guiding principle for classifying institutions as public or private is who exerts control over general corporate policy, including the appointment of directors. As national accountants, we have studied the Articles of Association, and other documents establishing Network Rail, in very great detail. We have examined both the legal form and the underlying economic reality and substance, to determine who will be in effective control of Network Rail. We found that the Board of Directors and the members will be in control.

"The government, which includes the Strategic Rail Authority, will not exert controls on Network Rail over and above those for any other heavily regulated monopoly. Day to day management will lie with the Board of Directors. The Board is appointed, and can be dismissed, by the members. A majority of the members are from the private sector. Other possible indications of control have also been checked, including the directors' incentive plan, to ensure independence from government control. Thus we are clear that for national accounts Network Rail will be classified as private sector.

"Clearly government is involved with establishing Network Rail and it is therefore initially in the public sector. However, it will become private sector as soon as the directors are confirmed by the members.

"In setting up Network Rail, government has kept some powers in reserve which it can use if the company starts to fail. These are similar to the powers associated with golden shares in most other privatisations. If Network Rail began to fail financially and the powers were used, then it would immediately be reclassified to the public sector.

"Using the principles of commercial accounting, the view can be taken that Network Rail should be consolidated into SRA's account. We believe that this different view can be explained by commercial and national accounting using different accounting systems and being intended for very different purposes.

"Commercial accounts are used as a guide to show whether a company is likely to remain solvent and profitable. An example of a difference is that commercial accounts should show all of a company's existing financial assets and liabilities, and for reasons of prudence include possible forthcoming costs arising as a result of past events. These cannot be shown in the national accounts if they are not considered part of the current economic reality, and it is not possible to identify a corresponding asset holder as required by the national accounts integrated framework.

"In conclusion the ONS has used its normal high standards of independence, openness and professional skills to classify Network Rail and its associated financial transactions. The results of our analysis have been through a formal process inside ONS involving the Public Sector Classifications Committee. We have made our findings and supporting arguments publicly available in comprehensive detail on the National Statistics website. We stand by them."

BACKGROUND NOTE

Further information on the Public Sector Classifications Committee and detailed explanation of the decisions announced on 27 June and 5 July is available on the National Statistics website at: www.statistics.gov.uk/psa.