EUROPEAN COMMISSION
EUROSTAT

Directorate C: National and European Accounts
Unit C-3: Public finance

eurostat

Luxembourg, 22 June 2007

- FINAL FINDINGS -

EDP dialogue visit to the United Kingdom

25 – 26 January 2007

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Final findings

Executive summary

Eurostat undertook an EDP dialogue visit to the UK on 25 - 26 January as part of its regular visits to Member States and with the more specific aim to analyse the EDP October 2006 notification and the questionnaire related to the notification tables, as well as to clarify the statistical treatment of some operations for years 2005 and 2006.

As far as the analysis of the EDP October 2006 notification is concerned, Eurostat examined in detail the tables of the EDP reporting. Eurostat concluded that an additional effort is required to make the EDP reporting of the UK more complete, especially the tables of the questionnaire related to EDP tables.

The working balance reported in the EDP table 2A was discussed. As explained by the UK authorities, it is not a policy balance, as focus in the UK lies on a public sector balance, and it is not audited. However, the working balance is compiled from detailed transactions that are themselves audited. The working balances are on an ESA95 basis and therefore no corrections are needed.

Concerning the issue of student loans, the write-offs of student loans will be recorded as a capital transfer in the EDP table 3 in April 2007 notification. The UK authorities will also review data on the *other changes in volume* in financial liabilities for years 2002 and 2003 and provide additional explanations. Eurostat also agreed to discuss, at the next FAWG meeting, the opportunity to include an additional line for equity portfolio, and a line for short-term loans in the EDP table 3, as proposed by the UK authorities.

It was also noted that there are still three pending action points from the EDP dialogue visit to the UK in 2003 that need to be implemented by the UK authorities.

Concerning the treatment of the UMTS licences, the UK authorities explained that they maintain their view on the treatment of UMTS licences, as rent (D.45), and confirmed that they believe the Eurostat decision is not in line with the ESA 95. Eurostat asked the UK authorities to provide their arguments on the UMTS in writing and, if deemed useful, a request for a re-examination of the issue. It was recalled that Council regulation (EC) No 2103/2005 explicitly provided Eurostat with specific interpretative competences and required consistency of the statistical data in the government sector (ESA1995 transmission programme). Eurostat also stated that common decisions should be followed by all Member States.

Regarding the treatment of taxes and social contributions, it was concluded that the regulation 2516/2000 was generally satisfactorily applied by the UK.

Some other issues relating to the classification of institutional units according to ESA95 were also discussed, such as the application of the 50 % rule in the UK and the classification of the Pension Protection Fund.

Concerning EU transactions, the UK authorities informed about a problem identifying all transfers from the EU (structural funds). This is especially the case when government is the final recipient. It was concluded that the Eurostat rules concerning the recording of the EU funds are not being fully applied by the UK authorities, although presumably for relatively small amounts. In this context, the UK authorities are thus systematically overstating the deficit.

Following the conclusion at the meeting, Eurostat requested that write-offs for Paris Club by the Export Credits Guarantee Department (ECGD) should be re-routed via government as a capital transfer for the April 2007 notification. The ECGD is classified in the financial corporations sector, but it is the government that decides whether there will be debt cancellation, and ECGD has to comply with this decision.

Concerning the Military expenditures, Eurostat concluded that the UK authorities follow the decision taken by Eurostat, although the issue on the equipment built over many years should be still further investigated.

Eurostat concluded that the issue regarding the Public Private Partnership treatment is open and at this stage it can not confirm that the guidelines of the UK authorities are in line with the Eurostat rules. The possible problem identified by Eurostat is the treatment of the construction risks and the recording of the work in progress.

Some other issues were also discussed: the International Finance Facility for Immunisation (IFFIM), Network Rail and London Congestion Charge. It was noted that the recordings applied are in line with the decisions taken by Eurostat.

Finally, the Nuclear plants decommissioning and their impact on government finance was discussed. The UK authorities promised to prepare a note concerning this issue. At this stage Eurostat provisionally agreed to the current treatment of the nuclear plants decommissioning. However, Eurostat will analyse the documentation provided by the UK authorities in order to assess the treatment of the operation. Eurostat noted that this issue was relevant for more than one Member States and that there was a need to ensure the comparability of the data.

Final findings

Introduction

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005, amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in UK on 25 – 26 January 2006.

The delegation of Eurostat was headed by Mr. Ascoli, Head of Unit C3 - Public finance. The Directorate General for Economic and Financial Affairs and the European Central Bank (ECB) also participated in the meeting as observers. The UK Authorities were represented by the Statistical Office (ONS) and the HM Treasury.

Eurostat carried out this EDP Dialogue visit with the aim to analyse the EDP October 2006 notification and the questionnaire related to notification tables, as well as to clarify the statistical treatment of some operations for years 2005 and 2006.

Eurostat introduced the meeting by referring to the new procedural arrangements as indicated in article 8 of the Regulation 3605/93, as amended, and by stating that the Main conclusions and action points from the meeting will be sent within days after the mission to the UK authorities for comments. Within weeks, Provisional findings will be sent to the UK authorities in draft form for review. Final findings, including possible comments from the UK, will be sent to the EFC and published on the Eurostat web site.

1. Examination of the October 2006 EDP notification

Introduction

Eurostat reviewed the EDP tables as they were reported in October 2006 together with the EDP related questionnaire. The following issues relating to data in EDP tables were discussed:

<u>EDP Table 1</u>

Discussion and methodological analysis

Eurostat noted significant revisions of GDP data for the years 2004 and 2005 as reported in the EDP table 1. The UK authorities explained that the revision of GDP was notably due to changes in the methodology of FISIM calculation, among other factors.

Findings and conclusions

For the April 2007 notification, the UK authorities do not expect big revisions of GDP data.

EDP Table 2

Discussion and methodological analysis

Eurostat noted that the transition items are reported as "not applicable", except for swaps for central government.

It was also noted that the EDP tables 2 were basically empty for the UK, owing to a situation where the working balances are on an ESA95 basis and, accordingly, need no correction.

The UK authorities indicated that the public accounts and the budget reporting are on an accrual basis, following the introduction in 2001 (for central government) of accrual based system Resource Accounting and Budgeting (RAB).

The UK authorities explained that the main budget document presented to Parliament (in April) covers the public sector as a whole (including public corporations) although general government data is reported in supplementary tables annexed to the core document. The Budget document contains data on an aggregated level. More detailed accounts by departments are available in so called "yellow books", which report department expenditure, own revenue and balance sheets. General revenue is presented separately in the trust statements.

It was noted that the "yellow books" totals do not exactly coincide, though are fully consistent, with the data reported in the budget, as the basis of reporting is not exactly the same. The Treasury database that contains the detailed individual accounting entries of each department is used to derive the "yellow books" as well as, separately, the budget reporting and the national accounts data, by way of the existence of a direct codification at the level of each accounting entry. The translation to national accounts and to EDP tables is thus done by the ONS, in consultation with the Treasury.

Government departments and executive agencies present the audited accounts (yellow books) separately to Parliament. Also, the so-called non-departmental public bodies (NDPB) use the same reporting standards than government bodies (RAB). These accounts are broadly compatible with ESA 95. The budget report is thus only a framework document, which summarizes detailed accounts that are voted in Parliament. Time adjustment for taxes is done in the data that are presented to Parliament (by ONS).

The UK authorities confirmed that the cash working balance is still being produced (Public Sector Net Cash Requirement). However, fiscal policy is being driven by accrual based measures and National accounts, and it was concluded that it would not be appropriate to retain such cash requirement as working balances for the EDP Table 2.

Findings and conclusions

Eurostat noted that the working balance reported in EDP table 2A was not a policy balance, as focus in the UK lies on a public sector balance. It was neither an audited figure, nor was it derived from department totals that are themselves audited. However, the working balance is compiled from detailed transactions that are themselves audited, though it is not constructed from audited statements.

EDP Table 3

Discussion and methodological analysis

It was noted that the splits of increase / reduction of loans, as well as shares and other equity were not yet provided. The UK authorities explained that the current EDP tables, as designed, could not easily accommodate transactions in equity portfolios and in short-term loans. In order to be able to deliver meaningful splits for shares and other equity and for loans, the EDP table design might need to be changed. UK authorities proposed amending the EDP table 3 by adding a line for equity portfolio, and a line for short-term loans.

Eurostat enquired on an increase in net transactions in loans provided by government from 2004 to 2005. The UK authorities explained that the increase in the net flow is mainly due to a resumption of lending to public corporations, while the net flow of loans to students remains stable but at a high level (reflecting higher university tuition fees). Indeed, the stock of student loans has been increasing by about 3 billions GBP per year, and is estimated to be around 18 billions GBP at the end of 2006. Loans accrue interest equal to the inflation rate. Eurostat enquired on the write-offs policy and on the recording in national accounts. The UK authorities indicated that loans are individually repaid by way of an automatic 9% levy on the wages (above 15000 pounds) of borrowers, and are immediately written off in case of inability to work (disability or death) or after 25 years of non-payment. It turned out that write-offs of 30 million GBP a year had been observed in the last two years. These immediate write-offs of loans will be recorded as a capital transfer in the April 2007 notification. Eurostat will reflect on whether the time of recording of the subsequent capital transfers should await 25 years.

Regarding the loans to the public corporations, government provides loans only to those public corporations which are able to repay them. The loans are granted on commercial basis terms. According to UK law, public corporations cannot borrow from private sources.

The UK authorities also confirmed that there had been no substantial privatisation since the 1990`s.

Eurostat also observed significant other volume changes (OCV) in financial liabilities, notably for years 2002 and 2003. Eurostat noted that such entries should generally not be positive as debt is deemed to be appearing by mutual agreement of the parties. Eurostat noted that the OCV related to statistical discrepancies (referred to in ESA 1995 paragraph 6.27e/) should not appear here but under the entry “other statistical discrepancies”, and that OCV in payables should not enter EDP Table 3 altogether. The UK authorities agreed to review these data and provide explanations.

Findings and conclusions

Eurostat agreed to discuss, at the next FAWG meeting, the opportunity to include the additional line for equity portfolio, and a line for short-term loans in EDP table 3. In the meanwhile, for the April 2007 notification, the UK authorities will improve the data availability of EDP table 3, on a pragmatic basis, and also the table Va of the questionnaire related to EDP tables.

The immediate write-offs of student loans will be recorded as a capital transfer in the April 2007 notification. Eurostat will reflect on whether the time of recording of the subsequent capital transfers should await 25 years.

The UK authorities will review data on other volume changes in financial liabilities for years 2002 and 2003 and provide explanations.

2. Follow up of the action points of the Eurostat EDP dialogue visit in 2003

Introduction, discussion and methodological analysis

Eurostat noted that there are still three action points that need to be implemented by the UK authorities, as agreed in the EDP dialogue visit to UK in 2003.

Findings and conclusions

It was agreed that the three action points from the EDP dialogue visit to UK in 2003 are to be implemented by the UK authorities as follows:

- to attempt re-distributing most “Other statistical discrepancies” to other lines of table 3, and to provide a report to Eurostat describing the changes and accounting for any remaining amounts in this line;
- to attempt re-estimating the data series for trade credits;
- to supply Eurostat with further detail on the transactions and debt of Local Government housing units classified as quasi-corporations.

3. Treatment of the UMTS licences

Introduction

The UK EDP notification tables transmitted to Eurostat have not been following the Eurostat decision on the accounting treatment of the UMTS proceeds since its announcement in 2000 (see News Release No 81/2000, 14 July 2000).

Discussion and methodological analysis

The UK authorities explained that they maintain their view that the decision-making process leading to the Eurostat Decision on UMTS licences had been flawed, and that under the terms of the ISWGNA decision (endorsed by the UN Statistical Commission) the UMTS licence receipts in the UK are correctly treated as rent (D.45). The UK authorities stated that they believe the Eurostat decision is not in line with the ESA 95, as signalled in an old 2001 letter to Eurostat. Eurostat stated that common decisions should be followed by all Member States, even if reservations had been expressed during the debates prior the decision.

Findings and conclusions

Eurostat asked the UK authorities to provide their arguments on UMTS in writing and, if deemed useful, a request for a re-examination of the issue. It was recalled that Council regulation (EC) No 2103/2005 explicitly provided Eurostat with specific interpretative competences and required consistency of the statistical data in the government sector (ESA1995 transmission programme).

4. Implementation of the accrual principle

4.1 Taxes and social contributions

Introduction

Central government runs its business on a full accrual basis, and Parliament votes "resources" (expenditure and revenue) and not cash (except for taxes).

Discussion and methodological analysis

The UK authorities use a time adjusted cash method although with specific features, notably for social contributions where adjustments are made for certain erratic components of compensation of employees. VAT cash payments are moved backwards over 3 months, resulting in a 2 months average time adjustment.

For some very specific taxes (encompassing very small amounts – Council tax and remainder of the Poll tax) the amounts not being collected are treated as a capital transfer at the time of the official write-off in public accounts. Although generally not in line with best practice, this recording was deemed acceptable, as a provisional and cost-effective solution, in the face of the very limited amounts involved.

Findings and conclusions

Eurostat found that regulation 2516/2000 was generally satisfactorily applied in the UK.

4.2. Whole of Government Accounts (WGA) project

Introduction

After the introduction in 2001 of accrual based system RAB, the WGA addresses the issue of accrual-based accounting for the whole consolidated public sector (here defined as The Government rather than the National Accounts definition of central government). It aims at improving the public sector data by drawing up a consolidated balance sheets and financial statements. The WGA project presents all relevant public entities as one reporting entity, encompassing both central and local government and their public corporations.

Discussion and methodological analysis

The UK authorities indicated that the WGA project, while essentially of a presentational nature, involves establishing an additional data source, which might improve the quality of data reported in EDP tables, notably with respect to consolidation.

In relation to this last point, Eurostat recalled the ongoing work on discrepancy (difference between the non-financial and the financial accounts in government accounts) with a module specifically aimed at compilation methods for consolidation, and asked the UK authorities to provide a more complete response to the circulated questionnaire.

WGA accounts have not yet been released. While the central government modules are operating, progress on local government is more difficult as local authorities use their own accounting standards.

Findings and conclusions

Eurostat took note of the progress made in this field and the positive impact that this project might have on the overall quality of the data.

5. Delimitation of the general government sector: classification of institutional units according to ESA95

5.1 Application of the 50% rule in national accounts

Introduction

The ONS has overall responsibility for national accounts sectorization in the UK, but has delegated decisions at a decentralized level. Most of the financial information needed to produce the central government sector accounts is provided by government departments and agencies and routed through HM Treasury. ONS and HM Treasury have produced guidelines to help government departments sectorize units/activities for National Accounts purposes. These have been circulated to departments with the expectation that most cases will be settled in departments by reference to the guidelines, without the need for consultation.

Discussion and methodological analysis

The UK authorities explained that a complete assessment of the public corporations and central government bodies, in order to check the 50 % rule, should be done by ONS, on an individual basis, every 3 years. However this is yet to be systematically carried out. It was also noted that the universities and the Scottish Trust Ports were classified by "blocs", for reason of practicality.

Findings and conclusions

Eurostat took note of the arrangement and suggested carrying out a regular test of the market/non-market criteria at the institutional unit level. It asked the UK authorities to confirm the number of non-departmental public bodies.

5.2 Pension Protection Fund

Introduction

The Pension Protection Fund (PPF) was established to pay compensation to members of defined benefit pension schemes, in case of employer insolvency and where there are insufficient assets in the pension fund to cover minimum Pension Protection Fund levels of benefits. The PPF is a statutory fund established by the Pensions Act of 2004 adopted by the UK Parliament. It became operational on 6 April 2005. The Fund is run by a Board, which is initially composed by a chairman and five ordinary members appointed by government. Appointments for further terms are made by the board itself. The PPF is funded by annual compulsory levies on all schemes that are eligible to the PPF (defined benefit and hybrid schemes). The assets are invested in financial instruments, mainly on different types of bonds. The fund managers are private investment banks.

Discussion and methodological analysis

The UK authorities indicated that the PPF is not sectorized in general government, but in the Insurance corporations and pension funds (S.125) sub-sector. Government is involved in the compulsory levies, but does not contribute financially. Financial transactions are carried out between the Pension Protection Fund and Pension fund.

The ONS indicated that contributions to the PPF were routed in national accounts via general government, in view of their tax-like characteristic and of their redistributive element. Eurostat felt that this might as well suggest recognizing the entity as a government unit.

Findings and conclusions

The UK authorities distributed during the meeting a document on the PPF. Eurostat will closely examine the document and prepare its opinion in writing.

6. Review of Eurostat decisions and other important methodological issues

6.1 EU transactions

Introduction

Upon a Eurostat enquiry, data on receivables / payables of S.13 relating to the EU that had been provided in the October 2006 EDP questionnaire have been revised by the ONS for inconsistencies between stocks and transactions. The ONS indicated that the reported data refers to the EU agricultural subsidies only (and not to all EU transfers).

Discussion and methodological analysis

The UK authorities indicated having a problem identifying all transfers from the EU (structural funds), especially in the case when government is a final recipient of EU funds. According to present practices, these are recorded only on the expenditure side (government as final recipient of the EU funds) and no recording of revenue from the EU is considered. The information that a given intra-government transfer in fact comes from the EU is lost in the system. Consequently, some EU flows are only recorded as government expenditure, increasing the deficit. The UK authorities confirmed that these sums, though small, might be non-negligible, although the exact amount is not known. In this context, the UK authorities are thus systematically overstating the deficit.

Findings and conclusions

Eurostat asked the UK authorities to provide time-series, or estimates thereof, of the amounts of the EU funds to the government as final recipient.

Eurostat concluded that the Eurostat rules concerning the recording of the EU funds are not being fully applied by the UK authorities, although presumably for relatively small amounts.

6.2 Government guarantees

Introduction

Data requested in the questionnaire related to EDP tables on the total stock of guarantees and provisions, as well as new guarantees provided, are not directly available at the ONS.

Discussion and methodological analysis

It was noted that information on off-balance sheet commitments existed, and until recently were annexed to department reports. The UK authorities distributed a document on contingent liabilities. The UK authorities also confirmed that there have been no calls on guarantees for 2002-2006.

Findings and conclusions

The UK authorities agreed that, in the April 2007 notification, partial information can be provided in the tables III of the questionnaire related to EDP tables for a subset of guarantees, covering the biggest ones.

6.3 Debt assumptions, debt cancellations

Introduction

The Export Credits Guarantee Department (ECGD) is the entity that undertakes transactions of debt cancellations on behalf of the UK government. The classification of ECGD in national accounts was discussed in the 2003 EDP mission, when it was agreed that it was to be classified in the financial corporations sector due to the fact that the premiums for its main activity (issuance of guarantees) are charged on an equivalent market rates basis.

Discussion and methodological analysis

The UK authorities indicated that the debt write-offs agreed in the Paris Club are recorded as capital transfers paid by ECGD to the Rest of the World for the full amount written-off, but that these capital transfers are currently not reported in the EDP tables (no impact on the deficit), since the ECGD is not part of general government.

Eurostat concluded that these operations (write-offs for Paris Club) should be re-routed via government as a capital transfer with an impact on the government deficit, since government decides whether there will be debt cancellation and ECGD has to comply with this decision.

It is noted that the write-offs to Paris Club amounts to around 300 million GBP per year and, as confirmed by the UK authorities, an additional write-off of Nigeria debt in 2005 and 2006 took place for 1.1 billion GBP in each year.

Concerning the time of recording of the capital transfer, it was agreed that the capital transfer should be recorded at the time of signature of the agreement, which seems different than the time of write-off in the books of the ECGD (apparently recording a write-off only gradually at time the principal is due).

Findings and conclusions

Eurostat asked to receive data on the total amount written-off either via ECGD or directly by government, along with the explanation on how the write-off was treated in the National Accounts.

Eurostat concluded that the treatment of write-offs for the Paris Club should be corrected for the April 2007 notification, with a noticeable impact on the government deficit for the notification year 2006.

6.4 Capital injections, super-dividends and privatisations

Introduction

Eurostat reminded the UK authorities that no data were provided in tables V of the questionnaire related to EDP tables in the October 2006 EDP notification.

Discussion and methodological analysis

The ONS indicated that it could improve the coverage of the table V of the questionnaire related to EDP tables. It is in a position to report, for the lines 32-33 and 36, a balance for the public corporations as a whole (net savings B.8n, or net savings net of capital transfers B.10.1) and a balance for the public corporations with biggest losses (but perhaps on a different basis: using the gross operating surplus B.2g).

Funds provided to local government quasi-corporations for investment purposes are to be recorded as capital transfers.

Findings and conclusions

The UK authorities agreed that the information on capital injections in the tables 5 of the questionnaire related to EDP tables can be partially provided for the April 2007 notification.

6.5 Military equipment expenditure

Introduction

The UK authorities informed that the Ministry of Defence accounts are consistent with the Eurostat decision and that they do not build up the accounts from a deal by deal micro basis, but on an aggregated level. However, the UK authorities do not have any information on equipment built over many years.

Discussion and methodological analysis

Concerning the time of recording, it was explained that the date of payment is being used, which is however close to the time of delivery.

The UK authorities also indicated not to be aware of pre-payments and late payments. Thus, it is not possible to confirm that in such cases (if applicable) the prepayments/late payments do not deviate by more than 0.05% of GDP from deliveries in a given year.

Eurostat stressed the importance to receive for the April 2007 notification information on the equipment built over many years, as requested in the table VI of the questionnaire related to EDP tables.

It was stressed by the ONS that this information is not being received from the Ministry of Defence as it is treated as secret information. However, ONS will investigate whether this information could be obtained from the National Audit Office (NAO).

In addition, it was confirmed that there was only one case of lease, treated as operating and not as financial lease (already expired), related to transport troops (dual purpose equipment). The treatment was considered to be appropriate.

Findings and conclusions

Eurostat believe that at first sight, the Eurostat Decision is being broadly respected. However, the issue of the equipment built over many years should be still further investigated. Eurostat also asked for additional efforts of the UK authorities when filling in the questionnaire related to the EDP.

The ONS suggested receiving this questionnaire earlier to facilitate its heavy workload. Eurostat will try making an effort in this respect, and will aim at sending out the EDP package earlier than 1 March.

6.6 Public Private Partnership / Private Finance Initiative projects

Introduction

The first PPP/PFI project was signed in 1987. Until the end of December 2006, 794 PPP/PFI contracts have been signed. They cover such sectors as transport, education, environmental protection, health, housing, military, etc. The total capital value of all projects amounts to ca. 54.5 billion GBP (4.4 % of GDP).

Discussion and methodological analysis

The UK authorities thought their rules were broadly consistent with Eurostat ones. They were in an ongoing process of checking the consistency of the treatment of PPP/PFI projects with the Eurostat rules. Eurostat raised some doubts on the compliance to the rules and asked the UK authorities to provide documentation for the three biggest PPP projects.

The UK authorities distributed a document describing the treatment of PPP projects. Eurostat identified a possible problem regarding the treatment of the construction risks. Another possible problem might be the recording of the work in progress (when the PPP asset is considered a government asset) in the partner accounts instead of recording it as government expenditure, pending actual delivery (see ESA 1995 para 3.59).

Findings and conclusions

Eurostat concluded that the issue regarding PPP recording is open and at this stage can't confirm that the accounting guidelines of the UK authorities (HM Treasury) are in line with the Eurostat rules. The ONS will examine the points raised by Eurostat.

The UK authorities have to provide documentation for the three biggest PPP projects to Eurostat. Eurostat will closely examine the documentation and may require additional information.

6.7 Other: securitisation operations

Introduction, discussion and methodological analysis

According to the table VI of the questionnaire related to the EDP tables, there were no securitisation operations in the UK in 2005.

Findings and conclusions

The UK authorities confirmed there were no securitisation operations in 2005 and 2006.

7. IFFIM

Introduction and discussion and methodological analysis

The International Finance Facility for Immunisation (IFFIM) initiative concerns the provision of development aid in the context of a programme of large-scale immunisation against disease in developing countries. It involves the creation of a securitisation vehicle, IFFIM, to securitise part of the Vaccine Fund’s expected future income stream, which is mainly expected to be a series of future conditional annual donations by governments.

After consulting the CMFB, Eurostat published, on 2 August 2005, its decision on the accounting implications of the operation. The main lines of the decisions are the following: (i) the units involved should be combined in a single institutional unit and classified in the international organisation sector (S.22); (ii) borrowing of IFFIM should be considered as borrowing of a non-government unit; (iii) the government donations to IFFIM should be recorded as government expenditure when donations are actually made.

Findings and conclusions

Eurostat noted that IFFIM had, as anticipated, benefited from a sovereign ratings distributed by rating agencies.

6. Network rail

Introduction

The classification of Network Rail in national accounts was extensively discussed in the 2003 EDP mission with respect to the application of the 50% rule and the treatment of government guarantees for Network Rail borrowing. On 27 February 2004, the ONS issued a press release in which it confirmed that Network Rail is to be further classified outside general government, and that a newly granted government refinancing package of 10 billion GBP in the form of medium term notes was to be treated as a contingent liability. In August 2006, the company announced that it intends to cease using its government guarantee to raise debt, and that in the next couple of years it will begin to raise money on normal commercial terms.

Discussion and methodological analysis

The ONS is closely following the case and stated that none of the guarantees had been called.

Findings and conclusions

Eurostat concluded that the sectorization of Network Rail was appropriate and that ONS was closely monitoring the situation.

7. Nuclear plants decommissioning

Introduction

The financial aspects of the decommissioning of the nuclear sites in the UK and their impact on government finance were discussed in the 2003 EDP mission, when Eurostat expressed doubts over a proposed treatment of the envisaged government's annual payments to the Nuclear Liabilities Fund (NLF) as prepayments of capital grants (recorded under F.7).

Discussion and methodological analysis

The UK authorities confirmed that it is mainly British Energy (classified outside general government but in the public sector) who contributes annually to the financing of the NLF.

Findings and conclusions

The UK authorities promised to prepare a note concerning this complex issue. At this stage Eurostat provisionally agreed to the current treatment of the nuclear plants decommissioning. However, Eurostat will analyse the documentation provided by the UK authorities in order to assess the treatment of the operation. Eurostat noted that this issue was relevant for more than one Member States and that there was a need to ensure comparability of the data.

8. London Congestion Charge

Introduction

The inner London Congestion Charging (LCC) was introduced in February 2003. The scheme requires drivers to pay 8 GBP per day if they wish to continue driving in central London during the scheme's hours of operation (from 7h00 to 18h30 on working days).

Discussion and methodological analysis

The UK authorities explained that receipts are currently being treated as sale of services and not as taxes. The reasoning is that the payments were made to the roads owners, the payments were assigned for road maintenance and were non-discriminatory or non-selective. In addition, the ONS confirmed that there is a choice between daily/weekly tickets and that there is availability of alternative transport.

The subject has been discussed at the Financial Accounts Working Group and will be further discussed, notably by the National Accounts Working Group.

Findings and conclusions

Eurostat concluded that the UK authorities can provisionally continue treating the LCC as a sale of service. The final view of Eurostat will however depend on further discussion in the appropriate fora.