

Funding the Future

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I have been looking at the thorny issue of what makes up the public sector net debt, excluding public sector banks, [that was announced last week to amount to £2,004 billion](#) (£2.004 trillion). To do so I have used the mass of spreadsheet data published by the Office for National Statistics with that release, all of which spreadsheets are deeply frustrating because they have all the formulas removed from them before publication, which makes no sense at all.

Having undertaken this exercise I believe that the figure for debt is officially made up as follows:

	£'m	£'m
British government stock (gilts)		1,681,162
Sterling treasury bills		95,268
National savings		202,595
Tax instruments		494
Other sterling debt and foreign currency debt		72,295
Residual bank debt		8
Network Rail		24,900
General government gross debt		<u>2,076,722</u>
Local government debt	118,080	
Less: local gov't debt borrowed from central gov't	<u>95,577</u>	
		<u>22,503</u>
General government consolidated gross debt		<u>2,099,225</u>
Adjustment for public corporation debts and pension fund	-12,493	
Offset of government liquid assets	-256,998	
Offset of public corporations liquid assets	<u>-20,473</u>	
		<u>-289,964</u>
Public sector net debt nominal values		<u>1,809,261</u>
Bank of England contribution to Public Sector Net Debt		194,778
Public Sector Net Debt excluding public sector banks		<u><u>2,004,039</u></u>

To the point where debt is £1,809 billion, this makes sense, or at least I can guess the origin of most of it, albeit that it would be good to know what 'other sterling debt and foreign currency debt' really was, and what the liquid assets were would also be good to know. But there is a number I am truly baffled by, and that is the Bank of England contribution to this debt.

The ONS said that in February 2020, when the Bank of England last issued accounts, that the Bank of England contribution to Public Sector Net Debt was subject to three issues that they noted:

1	Figures derived from Bank of England accounts and ONS estimates.
2	Includes BoE Asset Purchase Facility (APF) & Special Liquidity Scheme (SLS).
3	Transactions of the APF are a significant driver of the BoE net debt.

The figure that they suggested the sum came to in February this year was not insignificant, at £174.1 billion. So I have tried to track the number down as at that moment because the ONS says it is based on the Bank of England accounts, which are available for that date, and the ONS's own estimates.

The Bank of England balance sheet reads like this in February 2020:

Financial statements

Banking Department statement of financial position as at 29 February 2020

	Note	2020 £m	2019 £m
Assets			
Cash and balances with other central banks	7	1,004	698
Loans and advances to banks and other financial institutions	8	122,849	136,222
Other loans and advances	9	445,003	445,002
Securities held at fair value through profit or loss	13	5,066	6,064
Derivative financial instruments	20	237	156
Securities held at amortised cost	16	12,067	10,302
Securities held at fair value through other comprehensive income	17	1,365	1,249
Investments in subsidiaries	24	–	–
Inventories	5	5	5
Property, plant and equipment	29	486	412
Intangible assets	30	85	47
Retirement benefit assets	26	1,174	927
Other assets	31	700	499
Total assets		590,041	601,583
Liabilities			
Deposits from central banks	10	15,012	9,922
Deposits from banks and other financial institutions	11	479,419	495,406
Deposits from banks — Cash Ratio Deposits	18	8,790	7,884
Other deposits	12	74,837	76,799
Foreign currency bonds in issue	14	4,799	6,042
Derivative financial instruments	20	145	111
Deferred tax liabilities	34	352	289
Retirement benefit liabilities	26	219	207
Other liabilities	32	619	573
Total liabilities		584,192	597,233
Equity			
Capital	19	15	15
Capital reserves and other reserves	19	1,184	–
Retained earnings	19	3,298	3,076
Revaluation reserves		1,352	1,259
Total equity attributable to shareholder		5,849	4,350
Total liabilities and equity attributable to shareholder		590,041	601,583

As will be noted, assets and liabilities are remarkable evenly matched: there are net assets of £5.8 billion. So to find liabilities of £174.1 billion looks to be hard work.

Thankfully, some is easily found. That's because, bizarrely, the Bank of England does not publish one set of accounts for its activities, but three. Those for the Prudential Regulatory Authority can, however, be ignored: they are utterly immaterial to this issue. But those of the currency-issuing department are not. This is their balance sheet on that same date:

Issue Department statement of balances for the period ended 29 February 2020

	Note	2020 £m	2019 £m
Assets			
Securities of, or guaranteed by, the British Government	3	2,726	2,732
Other securities and assets including those acquired under reverse repurchase agreements	4	71,696	71,439
Total assets		74,422	74,171
Liabilities			
Notes issued:			
In circulation	5	74,422	74,171
Total liabilities		74,422	74,171

On behalf of the Governor and Company of the Bank of England:

Mr A Bailey	Governor
Sir Jon Cunliffe	Deputy Governor
Mr B Fried	Chair of Court
Ms A Kyei	Chief Financial Officer

I think that locates £74.4 billion of liability: it is currency in issue. There is just £99.7 billion to find then. And since we are looking for liabilities only notes 11 and 12 should hide such a sum. These are the notes in question

11 Deposits from banks and other financial institutions

	2020 £m	2019 £m
Deposits repayable on demand	479,365	494,657
Repurchase agreements	54	749
	479,419	495,406

Accrued interest on deposits repayable is recognised in note 32 Other liabilities.

The majority of deposits repayable on demand comprises reserves accounts held at the Bank. Reserves accounts are sterling current accounts for banks and building societies. They are the most liquid asset a bank or building society can hold and are the ultimate means of settlement between banks and building societies.

The rate paid by the Bank on reserves account balances is also the means by which the Bank keeps market interest rates in line with Bank Rate. All reserves balances are remunerated at Bank Rate.

12 Other deposits

	2020 £m	2019 £m
Deposit by Issue Department	66,552	68,700
Public deposits repayable on demand	2,849	1,880
Other deposits repayable on demand	5,436	6,219
	74,837	76,799

Public deposits are the balances on HM Government accounts, including Exchequer, National Loans Fund, Debt Management Office, National Debt Commissioners and dividend accounts. Accrued interest on other deposits is recognised within 'Short-term creditors and other liabilities' in note 32 Other liabilities.

The deposits held on demand are clearly not what is being looked for: because of the relative size of them and the number being looked for it seems very unlikely that they are what makes up this figure.

I think we can also ignore the £66,552 owing by the issues department: it is an

intra-group balance that should be cancelled on consolidation. That is confirmed by Note 4 to the Issues Department accounts.

So, we are left with a hotchpotch. The effective impact of the Asset Purchase Facility is in the loan to it, amounting at this date to £445 billion. But this is an asset. Of course, that asset helped create the central bank reserves of £479.4 billion. But why are they offset, if they are? Is it now acknowledged that the objective of QE failed and it just produced cash and not new investment? That is what the offset, if it is made, would imply. And yet, it seems that they must be, because otherwise those reserves are not reflected in debt and yet it is said by the ONS that the Asset Purchase Facility that is related to both does have an impact. In that case, then, does note 8 also come into play? This says:

8 Loans and advances to banks and other financial institutions

	2020 £m	2019 £m
Secured lending agreements held at amortised cost	3,048	6,891
Reverse repurchase agreements held at fair value through profit and loss	12,592	7,916
Other loans and advances	–	15
Term Funding Scheme loans	107,209	121,400
	122,849	136,222

Term Funding Scheme Loans

TFS loans are cash loans made to eligible participants financed by the issuance of central bank reserves, secured against eligible collateral. The term of each loan is four years; participants can terminate, in part or in full, before the maturity date. Participants are charged interest on the loans equal to Bank Rate (the Bank of England base rate) plus a Scheme fee. The fee is determined based on the net lending of each participant over the reference period of the scheme. This fee ranges from 0 basis points to 25 basis points.

Originally these loans were made by BEAPFF Ltd (a subsidiary of the Bank, note 9) to counterparties but were subsequently transferred to the Bank. The Bank made an agreement with BEAPFF Ltd that they should continue to receive TFS scheme fees after the transfer. The Bank treats scheme fees as an agent, collecting the fees from counterparties and passing them over to BEAPFF Ltd when they are received, and does not recognise them as income.

However, I stress, once more, that this is an asset. So what this has to do with debt is hard to tell, and that would also seem to leave the ONS note as deeply confusing, at best.

I have then some simple questions to ask in that case:

- * What makes up other sterling debt and foreign currency debt?
- * What are the government's liquid assets and where are they held and how does this sum interact with the Bank of England?
- * How is the Bank of England contribution calculated and how does it relate to the Bank's published accounts?

I genuinely have no clue as to the answers to these questions and the ONS data on the national debt does not answer them, and nor does my attempt to link the data to published source documentation do so. I have made Freedom of Information requests to try to find out.

I have already made the point, time and again, that the above logic, which ignores debt subject to quantitative easing is wrong. It is not credible to ignore QE simply because it is deemed that the Bank of England subsidiary company that owns this debt is considered to be outside the government sector by the Office for National Statistics

when that company is wholly owned and controlled by HM Treasury, for whom it acts as an agent, making a mockery of what the ONS assert, but I now have another concern.

In my opinion, if the Office for National Statistics is going to issue data that it knows will grab headlines - and it clearly and knowingly did that last week - then it has a duty to also put out an unambiguous explanation as to where its data comes from, and to show how it can be reconciled to it, if appropriate.

Try as I might I cannot explain the national debt based on the figures they published, and I am a fairly informed reader of accounts and statistics. There is, then, a problem. And given the significance of this issue this needs to be resolved. Too much hangs on this number for it to be made of data of unknown origin and credibility.