

Funding the Future

Article URL

Published: January 12, 2026, 6:27 pm

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 | | <u>24,900</u> |
| General government gross debt | | 2,076,722 |
| | | |
| Local government debt | 118,080 | |
| Less: local gov't debt borrowed from central gov't | <u>95,577</u> | |
| | | 22,503 |
| General government consolidated gross debt | | 2,099,225 |
| | | |
| 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> | |
| | | -289,964 |
| Public sector net debt nominal values | | 1,809,261 |
| | | |
| Bank of England contribution to Public Sector Net Debt | | 194,778 |
| | | |
| Public Sector Net Debt excluding public sector banks | | <u>2,004,039</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 |
| 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 remarkably 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 with 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.