

Inclusion of Bank of England and Northern Rock in Public Sector Finance Statistics

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Introduction

On 7 February 2008, ONS announced that Northern Rock plc would be classified as a public monetary financial institution from 9 October 2007. Prior to this date it remains classified to the private sector. The ONS also examined the structures and arrangements used in Northern Rock plcs borrowing programme, which involves securitisation of mortgage assets. ONS' judgement here was also to classify to the public sector the UK-resident special purpose vehicles (SPVs) used in the securitisation programme.

To allow for a consistent and meaningful presentation of the dataset, ONS announced that the Bank of England, which is also a public monetary financial institution, would be fully included within the public sector finances at the same time.

This article explains how these decisions will be implemented in the Public Sector Finances First Release and associated publications and datasets. In what follows, references to Northern Rock should be taken also to cover its UK-resident SPVs.

Summary

Figures for public sector net debt including the Bank of England and Northern Rock are already included in the Background Notes to the Public Sector Finances First Release. The next release on 18 September will see this series appear in the main tables of the First Release, and the coverage of series for public corporations and the public sector totals, including all the key fiscal aggregates, broadened to include the two institutions. These aggregates include the current budget, net investment, net borrowing and net cash requirement. The Bank of England will be included back to 1984, but Northern Rock will only be included back to October 2007, the date of its classification to the public sector.

In the quarterly supplementary electronic dataset, the Bank of England and Northern Rocks combined contribution to the main fiscal aggregates will be published. However, most of the more detailed series that build up to these aggregates will be suppressed in order to prevent the release of potentially disclosive data.

Protecting the Confidentiality of Respondents Data

Revisions to the Public Sector Finances (PSF) dataset could, potentially, reveal statistical information specific to the Bank of England and/or Northern Rock.

The National Statistics Protocol on Data Access and Confidentiality states that ‘The National Statistician will set standards for protecting confidentiality, including a guarantee that no statistics will be produced that are likely to identify an individual unless specifically agreed with them.’ Consistent with this, consent has been obtained from both the Bank of England and Northern Rock for their inclusion in the PSF dataset. However, this is conditional on much of the detailed data relating to the two institutions being suppressed in order to protect sensitive information. This article sets out the new series that will be published in order to incorporate data for the two institutions and, where appropriate, the impact on existing series and published tables.

Sources of information

For Northern Rock, the primary source of information for the calculation of net debt and financial transactions is the monthly statistical returns provided to the Bank of England by the bank and its SPVs. Information relating to Northern Rock's profit and loss accounts and capital account are based on the bank's trading statements which are typically released in February and July, providing results for the previous calendar year and first half of the latest calendar year respectively. Estimates will be made for the most recent months and subsequently revised once the trading statement has been published.

Data for the Bank of England have been estimated by ONS from information published in the Banks Annual Report and Accounts. Monthly and quarterly balance sheet data have generally been derived by straight line interpolation. Other monthly and quarterly data, such as the current budget, net investment and the net cash requirement, have generally been derived by splitting the estimated annual flows equally across the relevant periods. In some cases, it has been possible to refine these estimates – for instance, the date and size of transactions relating to the sale of the Bank's stake in 3i were published in the Bank's annual accounts. As with Northern Rock, estimates will be made for the most recent months and subsequently revised once the Bank's Annual Accounts have been published.

Sub-sectors of the public sector

In the public sector finances, ONS currently separately identifies and publishes statistics for three sub-sectors of the public sector: central government, local government and public corporations. The public corporations sub-sector primarily comprises non-financial corporations. The classification to the public sector of Northern Rock and the Bank of England, which together constitute public monetary financial institutions (public MFIs), will add a fourth public sub-sector. Only highly aggregated information will be published for this sub-sector in the quarterly supplementary electronic PSF dataset (see below). It should be noted that public MFIs includes Northern Rock's SPVs, which strictly speaking are classified as other financial institutions. The coverage of data for public MFIs will be made clear in notes relating to the tables in which they appear.

In some of the published tables, as set out below, data for public MFIs will be combined with that for the pre-existing public corporations to form an overall total for public corporations.

Impact on published tables

There are three sets of tables and data, published to different timetables and containing differing levels of detail, which will be affected by the inclusion of Northern Rock and the Bank of England in the PSF dataset. These are described below and summarised in Annex A.

PSF First Release is published on the 14th working day after the end of the month to which the latest data relate. The coverage of series for public corporations and the public sector totals, including all the key fiscal aggregates, will be broadened to include Northern Rock and the Bank of England. No series for public MFIs will be shown separately.

In table PSF5 which reconciles the public sector net borrowing and net cash requirement, the two existing series for “Accounts receivable/payable” and “Other financial transactions” will be combined to form a single new series in order to prevent the release of potentially disclosive data. All financial flows involving public MFIs that count towards the public sector net cash requirement will be included in this new series. This includes net lending to the private sector and rest of the world and net acquisition of company securities, as well as accounts receivable/payable and other relevant financial transactions.

In the 2008 Budget Report, the Government announced that during 2008-09 it would replace the loans provided to Northern Rock by the Bank of England with direct Treasury funding. Cash flows between HM Treasury and the Bank of England associated with this transfer, and all subsequent Northern Rock repayments to HM Treasury, will be included within net departmental outlays, series RUUP in table PSF6 of the PSF First Release. It will therefore count towards central government’s own account net cash requirement (series RUUX) alongside similar lending to the private sector and rest of the world. It will not be counted in central government on-lending to public corporations (series ABEI Table PSF4).

The first occasion when these changes will be implemented in the First Release will be the dataset published on 18 September.

Financial Statistics is published roughly six weeks after the end of the month to which the latest data relate. Tables equivalent to the PSF First Release are reproduced in Financial Statistics. In other tables, the institutions covered by the categories of banks, MFIs or public corporations will be unchanged: banks/MFIs will continue to cover both public and private banks/MFIs; public corporations will not cover public MFIs; and series and tables titles will be amended to reflect this. Only in Table 1.1D, showing how the level of net debt is built up, will a new series be included. This will show public MFIs’ contribution to the level of public sector net debt, which will be calculated so that it excludes other public sector holdings of public MFIs’ debt.

The first occasion when these changes will be implemented in Financial Statistics will be the October edition published on the National Statistics website on 9 October.

Quarterly supplementary electronic data (known as the **PSAT2** table) are published nearly three months after the end of the quarter to which the data relate. The quarterly series are revised on a monthly basis to take account of revisions to monthly or quarterly component data. The PSAT2 table will be extended to include a new column for the public MFI sub-sector, as shown in Annex B. Reflecting concerns about the release of potentially disclosive data, the cells in this new sub-sector will not be fully populated. Only the total contribution to each of the main aggregates (gross saving, current budget, depreciation, gross investment, net borrowing, financial transactions and net cash requirement) will be separately identified:

- the public MFIs' gross saving will be shown in the gross operating surplus row. This means that public MFIs' current expenditure, which in the PSAT2 presentation consists only of interest payable to the private sector and rest of the world, will not be shown separately; instead it will be netted off current receipts. As a result, it will not feed into the public spending aggregate total managed expenditure (TME – the sum of identified current expenditure and net investment). This is necessary so that TME is not distorted by movements in the size of public MFIs' balance sheets, which could give a misleading view of the public sector finances;
- flows of interest between public MFIs and other public sub-sectors, generally central government, will not be separately identified in the columns relating to these other public sub-sectors in the way that flows with other public corporations are. Instead they will be shown combined with payments to or receipts from the private sector and overseas (rest of world). The titles of these categories will be footnoted to explain that they include transactions with public MFIs;
- central government lending to Northern Rock will be included in Other financial transactions for the central government sub-sector (series ANRV);
- all public MFIs' financial transactions that count towards its net cash requirement will be included in Other financial transactions (series IL6C).

The first occasion when these changes will be implemented in the quarterly supplementary electronic dataset will be on 23 September.

Net debt excluding Northern Rock

The Governments sustainable investment rule requires public sector net debt to be reduced to below 40 per cent of GDP over the economic cycle, which is currently dated as starting in 1997/8. The *Budget Report 2008* explains that while Northern Rock remains in the public sector the Government will measure performance against the sustainable investment rule using figures for public sector net debt excluding Northern Rock.

In line with this, Table PSF1 in the PSF First Release will be extended to include columns showing public sector net debt, in £billion and as a percentage of GDP, for the public sector excluding Northern Rock. These new series will be published quarterly. This contrasts with the headline series for public sector net debt, which will

include the Bank of England and Northern Rock and be published monthly. Versions of this table appearing in other publications, such as Financial Statistics, will be similarly amended.

Size of revisions

The main effect of including the Bank of England and Northern Rock in the public sector finances will be on the level of net debt. To illustrate the scale of this effect, figures for June 2008, published in the PSF First Release, showed this series increasing by £85 billion, equivalent to 5.9 percent of GDP, with the inclusion of data for the two institutions.

The impact on the other main fiscal aggregates is relatively less, and can be seen in the next release of the quarterly supplementary electronic dataset on 23 September, which will show figures up to 2008 Q2.

Effect on National Accounts

There will be no impact on the quarterly and annual National Accounts from the inclusion of Northern Rock and the Bank of England in the public sector. Both institutions will remain within the wider MFI sub-sector in the National Accounts. The MFI sub-sector will not be disaggregated in the detailed National Accounts tables (for instance, those published in United Kingdom Economic Accounts or Blue Book) to show the central bank sub-sector or public MFIs. The institutions covered by the public corporations sector will therefore remain unchanged.

Currently, totals for the public sector as a whole are published on both a PSF basis and a National Accounts basis. The two differ because the most up-to-date data are used for PSF for all time periods, whereas revisions may not be incorporated into the National Accounts until later because it has a more restricted revisions policy.

The National Accounts consistent dataset enables users to examine statistics for the public sector on a consistent basis with those for the wider economy, and is published in section 2.3 of Financial Statistics. Where possible, the tables in this section will be extended to include public MFIs, as set out in Annex A. It will not be possible to do this for Table 2.3E because it contains a much more detailed breakdown of public sector statistics than will be available for public MFIs. Hence this table will cease to be published.

These changes will come into effect in the 9 October release of Financial Statistics.

Annex A: Detailed description of series affected

PSF First Release

Table	Series Title	Identifier	Change
PSF1	Current budget Net investment Net borrowing Net debt (£bn) Net debt as % of GDP Net debt exc N Rock (£bn) Net debt exc N Rock as % of GDP	ANMU -ANNW -ANNX RUTN RUTO HF6W HF6X	} } }public MFIs added in } } new series new series
PSF2	Public corporations net borrowing Public sector net borrowing	-IL6E -ANNX	Public MFIs added in Public MFIs added in
PSF4	Public corporations net cash requirement: Total Other than from CG	IL6F AAZL	Public MFIs added in Public MFIs added in
PSF5	Net cash requirement Other financial transactions + Accounts receivable/payable	RURQ IL6H= ANSY+ ANSW	add in public MFIs NCR new combined series replacing two existing series: add in all MFIs transactions that contribute to the NCR
PSF6	Net departmental outlays	RJUP	add in Government lending to public MFIs
PSF8	Public sector net debt (£bn) Net debt as % of GDP	RUTN RUTO	add in public MFIs net debt add in public MFIs net debt

Financial Statistics

Financial Statistics Tables 1.1A, 1.1B, 1.1E, 1.1F, 2.1A are identical to the following tables in the PSF First Release: PSF1, PSF2, PSF4, PSF1 & PSF5, and PSF6, and the series in them will change as set out above.

Other tables affected by the reclassification of the Bank of England and Northern Rock are shown in the table below.

Table	Series title	Identifier	Change
1.1D	Public MFIs net debt net of other public sector holdings of public MFIs debt Public sector net debt (£bn) Public sector net debt (% of GDP)	IL6I BKQK RUTO	New series Add in IL6I Changes proportionately in line with BKQK
1.3B	Heading of column 4 will change to read 'Non-MFI public corporations'		
1.3C	Heading of column 7 will change to read 'Non-MFI public corporations'		
1.3D	Heading of column 9 will change to read 'Non-MFI public corporations'		
1.4A	Table title will be footnoted to make clear that it does not include public MFIs		
2.3A	Current receipts Gross saving plus capital taxes Depreciation Current budget Net investment Net borrowing Financial transactions Net cash requirement	ANBT ANSP -ANNZ ANMU -ANNW -ANNX BKQL RURQ	Add in IL65 – see Annex B Add in IL66 – see Annex B Add in -IL67 – see Annex B Add in IL68 – see Annex B Add in -IL6A – see Annex B Add in -IL6B – see Annex B Add in IL6C – see Annex B Add in IL6D – see Annex B
2.3B	Public sector net debt (£bn)	RUTN	Add in IL6I

	Public sector net debt (% of GDP) Insert additional columns for the following public MFI aggregates: Current budget Net borrowing Net cash requirement	RUTO IL68 -IL6B IL6D	Changes proportionately in line with RUTN New series New series New series
2.3C and 2.3D	Add in additional column for public MFIs as in Annex B		
2.3F	Gross operating surplus Current receipts Gross saving plus capital taxes Depreciation Current budget Gross fixed capital formation Net investment Net borrowing	ANBP ANBT ANSP -ANNZ ANMU ANSQ -ANNW -ANNX	Add in IL64 – see Annex B Add in IL65 – see Annex B Add in IL66 – see Annex B Add in -IL67 – see Annex B Add in IL68 – see Annex B Add in IL69 – see Annex B Add in -IL6A – see Annex B Add in -IL6B – see Annex B

Table 2.3E will be withdrawn.

Annex B: Public sector transactions by sub-sector and economic category

New series identifiers are shown in the column headed 'PC MFI'

	CG	LG	GG	PC	PC MFI ¹	PS
Current receipts						
Taxes on income and wealth	NMCU		NMZJ	-FCCS		ANSO
Taxes on production	NMBY	NMYH	NMYE			NMYE
Other current taxes	NMCV	MJBB	MJBC			MJBC
Taxes on capital	NMGI		NMGI			NMGI
Compulsory social contributions	AIIH		AIIH			ANBO
Gross operating surplus	NRLN	NRLT	NMXV	NRJT	IL64 ²	ANBP
Interest and dividends from private sector and RoW ³	GVHE	GVHF	ANSC	GVHG		ANBQ
Interest and dividends (net) from public sector	ANNY	ANPZ	ANSD	ANRW		
Rent and other current transfers	ANBU	ANBX	ANCU	ANCW		ANBS
Total current receipts	ANBV	ANBW	ANBY	ANBZ	IL65 ²	ANBT
Current expenditure						
Current expenditure on goods and services	NMBJ	GZSM	GZSN			GZSN
Subsidies	NMCD	ADAK	NMRL			NMRL
Net social benefits	GZSJ	GZSK	GZSL			ANLY
Net current grants abroad	GZSI	C626	C627			C627
Current grants (net) within general government	QYJR	-QYJR				
Other current grants	NMFC	EBFE	NNAI			NNAI
Interest and dividends paid to private sector and RoW ³	NMFX	NUGW	NMYX	GZSO		ANLO
Total current expenditure	ANLP	ANLQ	ANLR	ANLS		ANLT
Saving, gross plus capital taxes	ANPM	NRLX	ANSA	NRKD	IL66	ANSP
Depreciation	-NSRN	-NSRO	-NMXO	-NSRM	-IL67	-ANNZ
Surplus on current budget	ANLV	NMMX	ANLW	FDDP	IL68	ANMU
Net investment						
Gross fixed capital formation	ANPI	ANCY	ANSE	ANNQ	IL69	ANSQ
less Depreciation	-NSRN	-NSRO	-NMXO	-NSRM	-IL67	-ANNZ
Increase in inventories and valuables	ANMY	ANMZ	ANSF	DHHL		ANSR
Capital grants (net) within public sector	-ANND	-ANNE	-ANSG	-ANNG		
Capital grants to private sector	ANNI	ANNJ	ANSM	MIYZ		ANSS
Capital grants from private sector	-ANNN	-ANNO	-ANSN	-ADSE		-ANST
Total net investment	-ANNS	-ANNT	-ANNV	-ANNU	-IL6A	-ANNW
Net borrowing	-NMFJ	-NMOE	-NNBK	-CPCM	-IL6B	-ANNX
Financial transactions determining net cash requirement						
Net lending to private sector and RoW	ANRH	ADDU	ANSH	ANRY		ANSU
Net acquisition of company securities	ANRS	LSIB	ANSI	ANRZ		ANSV
Accounts receivable/payable	ANRT	ANML	ANSJ	ANVQ		ANSW
Adjustment for interest on gilts	ANRU	NCBV	ANSK	NCXS		ANSX
Other financial transactions	ANRV	ANMW	ANSL	ANVU	IL6C	ANSY
Net cash requirement (own account)	RUUX	ABEG	RUUS	ABEM	IL6D	RURQ

1 Comprises Bank of England together with Northern Rock and its UK-resident special purpose vehicles

2 Calculated as the current budget

3 Includes flows of interest with public MFIs