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CGNCR ex B&B, NRAM and Network Rail

Dear Robert,

Today, we have identified an error in the data we provided you for the Central Government Net Cash Requirement excluding B&B, NRAM and Network Rail (CGNCR ex B&B, NRAM and NR), related to the expected sale of the Granite securitisation vehicle, held by UK Asset Resolution (UKAR). I am writing to you to explain this error, its implications and our approach to handling this.

Our central assumption is that a sale of the Granite securitisation vehicle would result in a cash receipt of £4.2bn in 2015-16 and the transfer of liabilities of £6.7bn in 2015-16 from the public sector to the purchaser. This was set out to the OBR in the Costings Explanatory Note.

The implication would be a reduction in the Public Sector Net Cash Requirement (PSNCR) of £10.9bn in 2015-16. In turn, this would reduce the Central Government Net Cash Requirement (CGNCR) by the same sum in 2015-16. However, £6.7bn of cash would remain with UKAR to fund the transfer of liabilities. The CGNCR ex B&B, NRAM and NR would therefore only fall by £4.2bn. Unfortunately, this last distinction was incorrectly entered in the spreadsheets we provided to you (although it was correct in the Costing Explanatory Note). This has been picked up subsequently by our quality assurance processes. Figures for the PSNCR and CGNCR were both correct.

As you know, the CGNCR ex B&B, NRAM and Network Rail is the main aggregate for setting the gilt remit. In order to avoid accidentally underfunding, we propose to include an adjustment in the Gross Financing Requirement and hence also the Net Financing Requirement. These will appear in the Financing Annex of the Budget Red Book and the Debt and Reserves Management Report. We propose to explain this in these terms:

"The financing arithmetic is adjusted in 2015-16 to reflect UKAR's deconsolidated liabilities that will transfer to the buyer of the Granite securitisation vehicle, if such a sale should go ahead. As a result of the sale of Granite, public sector net debt will fall by £10.9 billion, reflecting the assets at closing net of the cash earnings that would have accrued to the Exchequer should a sale not have taken place. The OBR's forecast for the CGNCR (ex NRAM, B&B and NR) assumes the full value of this sale would accrue to the Exchequer. However, the government's cash requirement will only fall by £4.2 billion due to the transfer of the £6.7 billion funding for the securitisation vehicle to the buyer."

There is no impact on the Public Sector Net Debt numbers in the published Economic and Fiscal Outlook (EFO). This simply involves financing the transfer of one set of liabilities out of the public sector by the issuance of the equivalent amount of gilts. There may be some effect on debt interest. However, this would only arise from any difference in the interest rates between the gilts issued and the liabilities transferred. The net effect is therefore likely to be very small.

I am sorry that we have only picked up this error after the print deadline for the EFO. I believe that the only impact this would have on the EFO text is in Table 4.36.

Yours sincerely,

James Richardson
Director, Fiscal