

19 February 2009

Classification of Royal Bank of Scotland Group plc and Lloyds Banking Group plc

The Office for National Statistics has determined that the Royal Bank of Scotland Group plc and Lloyds Banking Group plc (previously HBOS plc and Lloyds TSB Group plc) will be classified in the public sector from 13 October 2008. Prior to this date they, and their subsidiary companies, are classified in the private sector.

The ONS decision is based on a judgement that government has the ability to control the respective banks' general corporate policy through the conditions associated with the agreements signed relating to recapitalisation. These agreements were in place from 13 October 2008 and contain unconditional covenants and contractual arrangements, which include: restrictions on the declaration and payment of any dividends or distributions; restrictions on Directors' remuneration; and obligations relating to lending.

These decisions are consistent with international statistical guidelines on national accounts. National accounts classification decisions relate to control rather than ownership.

The decisions have been authorised by the National Statistician, and ONS will publish an article providing further details on the classification of these entities in due course.

The exact impact of these decisions on the Public Sector Finances cannot yet be ascertained, but data for the two entities will be included as soon as is practicable. It should be noted that they are large, complex organisations, and this will take time.

The biggest impact will be on Public Sector Net Debt. So far no data have been specifically collected, but an indicative analysis suggests that the addition to Public Sector Net Debt is likely to be in the range between £1 trillion and £1.5 trillion. As a percentage of GDP, this range is roughly equivalent to between 70 per cent and 100 per cent of GDP.

Issued by
Office for National Statistics
Cardiff Road
Newport
NP10 8XG

Contact
Media Office
0845 6041858
Media Office on-call
07867 906553

This estimate has been derived using information in published Annual Report and Accounts at end-2007.

It should be stressed that this estimate is necessarily indicative because:

- it relates to an earlier time period;
- the published accounts are on a commercial accounting basis, which uses different categories and definitions to National Accounts and Public Sector Finances;
- they are group accounts and include foreign-based entities that will be outside the UK public sector;
- the valuation of liabilities can be on a different basis;
- the original maturity of assets is not always known; and
- there are intra-Public Sector positions.

The estimate attempts to correct for these issues using the information provided in the published accounts but there is often insufficient detail to achieve this.

BACKGROUND NOTES

1. ONS produces the United Kingdom's National Accounts. The National Accounts are an internationally comparable accounting framework that describes the activities in a national economy, including the transactions that take place between sectors of that economy. The relevant international manuals are the System of National Accounts 1993 (SNA93) and the European System of Accounts 1995 (ESA95) in particular.
2. ONS has a well-established process for handling the classification of institutions and transactions in the UK's National Accounts and Public Sector Finances. This process is set out in Annex A of the National Statistics Protocol on Statistical Integration and Classification available at:
<http://www.ons.gov.uk/about-statistics/ns-standard/cop/protocols/index.html>
3. The ONS role is of particular importance when defining the institutions that belong to general government or the public sector. This is because both the United Kingdom Government and the European Union base their fiscal policy frameworks on the National Accounts.
4. The Protocol provides for consultation with Eurostat, the Statistical Office of the European Union, to ensure consistency of interpretation of the international guidance. This applies in particular where a number of countries are taking similar measures and the arrangements being considered have features not covered satisfactorily by the existing guidance, as with some of the measures to support the banking industry. ONS, Eurostat and statistical offices in other member states are currently involved in discussions about the general statistical principles relating to government support and rescue operations. The public sector classification of the entities announced in this release is not part of these discussions.
5. ONS published a special background note explaining the ONS approach to the classification of the issues relating to the financial support for the banking industry on 16 October. The note is available here:
<http://www.statistics.gov.uk/pdfdir/fbc1008.pdf>

Release of information

6. Under the National Statistics Code of Practice, all important methodological decisions, and the reasons for them, are to be made publicly available in advance of the release of statistics based upon them. ONS places all sector classification committee decisions on the National Statistics website as soon as possible after the clearance of any confidentiality implications. The Sector Classification Guide, also published on the website, lists classification of entities for National Accounts purposes and is updated at the end of each month.

7. **National Statistics** are produced to high professional standards set out in the UK Statistics Authority Code of Practice. They undergo regular quality assurance reviews to ensure that they meet customer needs. They are produced free from any political interference. © Crown copyright 2009