



HM TREASURY

1 Horse Guards Road
London
SW1A 2HQ

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Mr Lee Edwardes
Request-66538-
d6097159@whatdotheyknow.com

Information Rights Unit

Tel: 0207 270 4558

Fax: 0207 270 4861

www.hm-treasury.gov.uk

FOI.responses@hmtreasury.gsi.gov.uk

Ref: 11/762

Dear Mr Edwardes

FREEDOM OF INFORMATION ACT 2000 REQUEST

Thank you for your email dated 8th September about Government debt, the Bank of England and money.

You asked a number of questions. We consider that only one was a request for recorded information under the FOI Act, but have answered all your questions below as best we can.

- *Does the interest that Government pays on what it borrows go to the Queen?*
- *Where does all the tax for alcohol and cigarettes go - to Government or the Queen?*
- *Please can you show me evidence under the FOI Act 2000 that proves that all stock was 'handed' over in 1946, why this happened and handed over by whom?*
- *Can Government print their own money?*

The interest the Government pays on the debt it borrows is paid to the lender, not to Her Majesty the Queen. The majority of Government borrowing is undertaken by selling bonds (or "Gilts") to investors. Bonds are effectively IOUs that pay interest on a semi-annual basis. UK Government bonds are owned by pension funds, insurance companies, banks, individuals and foreign governments and central banks, amongst others.

You then asked where the tax on cigarettes and alcohol goes. Tax revenues collected by HMRC are paid into the Consolidated Fund. The Consolidated Fund was set up in 1787 as 'one fund into which shall flow every stream of public revenue...'. The Consolidated Fund can be regarded as Central Government's current account. The Consolidated Fund funds Government departments at levels approved by Parliament and meets the standing services (exempt from parliamentary approval).

The funding for the monarchy is completely separate to the issues of taxation and of how the Government borrows its money.

You asked about the transfer of stock from the Bank of England.

The Bank of England is the central bank of the whole of the UK and was established as a corporate body by Royal Charter under the Bank of England Act 1694. The Bank was nationalised on 1 March 1946. For evidence of this see the relevant statutory provisions set out in section 1 (1)(a) of the Bank of England Act 1946, which states:

(1) On the appointed day – (a) the whole of the existing capital stock of the Bank (hereinafter referred to as “Bank stock”) shall, by virtue of this section, be transferred, free of all trusts, liabilities and incumbrances, to such person as the Treasury may by order nominate,(3) to be held by that person on behalf of the Treasury;

You can view a copy of the Act at www.legislation.gov.uk.

The Bank is now a public sector institution wholly owned by the Government – the entire capital of the Bank is, in fact, held by the Treasury Solicitor on behalf of HM Treasury. Each year, the Bank is required to submit its Report and Accounts to Parliament, via the Chancellor of the Exchequer. The Bank’s Annual Report and Accounts’ can be found at: www.bankofengland.co.uk/publications/annualreport/index.htm

From 1694 to 1946, the Bank of England had private shareholders, both individual and corporate. Under the Bank of England Act 1946, however, ownership of all Bank of England stock was transferred into the name of the Treasury Solicitor and former holders of the Bank stock were compensated with holdings of 3% Government (or “Treasury”) stock, redeemable on after 5 April 1966. The Treasury stock was designed to yield an equivalent income to the dividends they received from the bank before it was nationalised.

The Bank of England Act 1946 provides that, instead of paying dividends to its shareholders (i.e. the Government), the Bank of England must pay to the Treasury, twice a year, a sum equal to 25% of its net profits for its previous financial year, or such other sum as the Treasury and the Bank may agree.

This money is paid to the Treasury; it is not dedicated to the payment of the interest due on the Treasury stock that paid for nationalisation or in any way paid to the holders of that stock.

Your final question was whether the Government is able to print its own money, which it can and does. The Bank of England is responsible for printing and issuing its banknotes. The Treasury is responsible for the issuance of coinage in the United Kingdom, which are produced by the Royal Mint under a commercially negotiated contract.

If you have any queries about this letter, please contact me. It will be helpful to us if you remember to quote the reference number above in any future communications.

Information Rights Unit

Your right to complain under the Freedom of Information Act 2000

If you are not happy with this reply, you may request a review in writing to HM Treasury, Information Rights Unit, 2/S2, 1 Horse Guards Road, London SW1A 2HQ. Email FOI.responses@hmtreasury.gov.uk

Any review request must be made within 2 months of the date of this letter.

It would assist our review if you set out which aspects of the reply concern you and why you are dissatisfied.

If you are not content with the outcome your complaint, you may apply directly to the Information Commissioner for a decision. Generally, the ICO cannot make a decision unless you have exhausted the complaints procedure provided by the Treasury. The Information Commissioner can be contacted at: The Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire SK9 5AF.

