

## **DMO FINANCING REMIT 2018-19**

1. The DMO's financing remit for 2018-19 has been published today alongside Spring Statement 2018. The main points are summarised below.

### **DMO's Net Financing Requirement**

2. The Net Financing Requirement (NFR) for the DMO in 2018-19 is forecast to be £102.9 billion. This will be financed exclusively by gilt sales. A zero net contribution to financing by Treasury bills is planned.

### **Gilt sales**

3. Planned gilt sales of £102.9 billion will be met through a combination of:

a. £79.3 billion of issuance (77.1% of total sales) in 36 auctions, with a planned split as follows<sup>1</sup>:

○ Short conventional	£24.9 billion in 9 auctions
○ Medium conventional	£20.3 billion in 8 auctions
○ Long conventional	£20.4 billion in 9 auctions
○ Index-linked	£13.7 billion in 10 auctions

The implied initial average auction sizes in cash terms are:

○ Short conventional	£2.76 billion
○ Medium conventional	£2.54 billion
○ Long conventional	£2.26 billion
○ Index-linked	£1.37 billion

b. a minimum of £17.0 billion via syndications (16.5% of total sales), currently planned to raise:

- £9.0 billion of long conventional gilts in two transactions; and
- £8.0 billion of index-linked gilts in two transactions

c. £6.6 billion (6.4% of total sales) from an initially unallocated portion of issuance, which can be used to issue any type or maturity of gilt via any issuance method. It is expected that the unallocated portion will primarily be used to increase the size of syndicated offerings (where warranted by the size and quality of end-investor demand); and/or to increase average sizes of gilt auctions (for example if they are reduced by the take-up of the Post Auction Option Facility (PAOF) (see also paragraph 26 below)). The unallocated portion can also be used to schedule gilt tenders (see paragraphs 18-22 below).

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<sup>1</sup> Figures may not sum due to rounding.

4. The planned split of gilt issuance by method of issue is set out in Annex A. However, total financing achieved through each issuance method will be subject to market and demand conditions. Therefore, the amount of issuance via each method by the end of the financial year may depart from the initial plans published in the remit at Spring Statement 2018.

5. The overall split of issuance by maturity and type of gilt may be affected by the DMO's issuance decisions in-year, taking account of market feedback including on the initially unallocated portion of issuance. Hence, other things equal, the overall split of issuance by the end of the financial year may depart marginally from the initial plans published in the remit at Spring Statement 2018.

6. Any change in the breakdown of planned gilt issuance by type, maturity and issuance method will be reported in the normal way alongside updates to the financing remit (for example at Autumn Budget 2018) and at quarterly issuance calendar announcements (see also paragraph 12).

### **The gilt auction programme**

7. It is intended that gilt auctions in 2018-19 will be of a similar size to those in 2017-18, although the initial average sizes of short and medium conventional auctions have been increased slightly. The planned calendar of gilt sales by auction in 2018-19 is set out in Annex B.

8. The DMO will publish average auction sizes (in cash terms) by maturity and type in its quarterly issuance calendar announcement for April-June 2018 (at 7.30am on Friday 23 March 2018) and will re-publish planned average auction sizes after every auction on the DMO website<sup>2</sup>, in its regular auction size press releases and subsequent quarterly issuance calendar announcements. Any change in average auction sizes resulting from an adjustment in the amounts issued via different methods will also be reflected in these announcements.

9. The DMO may size each individual auction above or below the prevailing average (cash) size, taking into account the maturity of the gilt being sold and prevailing market conditions.

### **Changes to the planned gilt auction calendar**

10. The planned gilt auction calendar may be altered to accommodate the Chancellor's decisions on the fiscal event timetable and any significant data releases or market sensitive events announced subsequently. The DMO will provide the market with prior notice of any such alteration.

11. In order to facilitate the scheduling of a syndicated offering, the DMO may as necessary alter the scheduling of one or more auction(s), following consultation with the market. Any such change(s) may occur after the publication of the relevant quarterly issuance calendar but will be communicated to the market with sufficient advance notice.

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<sup>2</sup> [https://www.dmo.gov.uk/dmo\\_static\\_reports/currentremit.pdf](https://www.dmo.gov.uk/dmo_static_reports/currentremit.pdf)

12. The planned gilt auction calendar may also be changed on a quarterly basis following consultation with the market. Any such change(s) to the planned auction calendar for the forthcoming quarter would be set out as part of the quarterly issuance announcement. The reason(s) for any change(s) to the auction calendar may include an alteration to the assumed mix of issuance methods to deliver the planned financing by gilt type and maturity in the forthcoming quarter.

### **The syndication programme**

13. Any type and maturity of gilt can be sold through syndication. However, the DMO's current planning assumption is that the syndication programme in 2018-19 will be used to launch new long conventional and index-linked gilts and/or for re-openings of high duration gilts.

14. The DMO envisages holding four syndicated offerings (two each of index-linked gilts and long conventional gilts) in 2018-19. The DMO will announce updates on the progress of the syndication programme in press notices announcing the result of each transaction and in its quarterly issuance calendar announcements. Each syndicated offering will be sized having regard to the amount and quality of end-investor demand in the order book.

15. Where the unallocated portion of the gilt issuance programme is used to increase the size of syndicated offerings, the unallocated portion will be reduced accordingly.

16. The DMO will provide updates to the planning assumptions for the size of the syndication programme in each press release announcing the results of a syndicated offering and via the gilt sales versus remit table on the DMO website<sup>3</sup>.

17. In order to maintain the operational viability of syndicated offerings at the end of each programme, the overall size of the syndications (conventional and/or index-linked) may be increased by up to 10% (in cash terms) at the time of the final syndicated offering of each type. Scope to up-size the programme in this way would only be deployed if, at the time of the final operations for either or both types of gilt, the initially unallocated portion had been exhausted, whether as a consequence of the allocation of that amount to previous syndications, allocation to other issuance methods or as a part of the sizing decision at the final operation.

### **Gilt tenders**

18. Gilt tenders will continue to be available to provide a degree of responsiveness, at the margins, in the delivery of the financing remit in order to allow the programme to react to evolving market and demand conditions during the year. Gilt tenders may also be used for market management reasons.

19. The DMO will aim to announce the date, the choice of gilt to be sold and the maximum size of the gilt tender at least two business days in advance. Gilt tenders

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<sup>3</sup> [https://www.dmo.gov.uk/dmo\\_static\\_reports/currentremit.pdf](https://www.dmo.gov.uk/dmo_static_reports/currentremit.pdf)

may also be scheduled with shorter notice, as required, for market management reasons.

20. Gilt tenders may be used to issue any type and maturity of existing gilt. The DMO will seek market views on demand for issuance via gilt tenders including maturity/maturities and type(s) of gilt(s) for the period ahead at each quarterly consultation meeting. However, market participants may also approach the DMO at any time to advocate for the scheduling of a gilt tender in any maturity/type of gilt, in which case the DMO will seek wider views before making a decision.

21. The choice of gilt to be issued at any gilt tender will be determined on a case-by-case basis by the DMO, taking into account market demand. Gilt tenders will be sized by the DMO on an operation-by-operation basis, but will generally be smaller than an auction of a gilt of comparable maturity.

22. In scheduling gilt tenders, the DMO will avoid weeks in which a pre-announced auction of the same maturity/type of gilt has already been scheduled.

### **Post Auction Option Facility (PAOF)**

23. In 2018-19 the DMO will continue to offer successful auction bidders (both primary dealers and end-investors) an option to purchase additional stock via the PAOF. In 2018-19, the option will remain at 15% of the amount allocated to them at the average accepted price at conventional gilt auctions and at the clearing (or strike) price at index-linked gilt auctions. The PAOF will be available from midday to 2.00pm on the auction date.

24. Any amounts sold via the PAOF in 2018-19 will count towards auction sales targets in the remit on an auction-by-auction basis and will, other things equal, be used progressively to reduce the average sizes for the remaining auctions of the maturity/type of gilt in question throughout the financial year. Average auction sizes will be re-stated after each auction.

25. The PAOF might be triggered consistently during the financial year with the effect of significantly reducing average auction sizes in any sector (short, medium, long or index-linked). In these circumstances, the DMO may decide to transfer financing from the unallocated portion of issuance into the auction programme of the relevant sector, which would have the effect of increasing average auction sizes in that sector.

26. If exercised consistently, proceeds from the PAOF may also allow for the cancellation of future auctions. Any such cancellation(s) would be announced well in advance as part of the regular issuance calendar announcements and/or at Autumn Budget 2018.

## Treasury bill sales

- **Debt management**

27. At Autumn Budget 2017 it was anticipated that net Treasury bill sales would make a negative net contribution of £9.5 billion to meeting the NFR in 2017-18: this remains the case, implying a stock of Treasury bills for debt management purposes at end-March 2018 of £60.0 billion.

28. The outturn amount that net Treasury bill issuance has contributed to debt financing in 2017-18 will be reported by the DMO in April 2018.

29. It is currently anticipated that Treasury bill issuance will make a zero net contribution to financing the NFR in 2018-19. Any changes to this plan would be announced as part of any future remit revision (e.g. at Autumn Budget 2018). The outturn net contribution of Treasury bills to debt financing in 2018-19 will be reported by the DMO in April 2019.

- **Exchequer cash management**

30. Treasury bills issued for cash management purposes will not contribute to the stock of Treasury bills issued to meet the NFR. Outturn information on the total stock of outstanding Treasury bills will continue to be published on the DMO website alongside information about the outturn stock of Treasury bills for debt financing purposes.

## Changes to the financing requirement

31. The Debt Management Report (DMR) 2018-19 includes the Office for Budget Responsibility's revised forecasts for the Central Government Net Cash Requirement (excluding Northern Rock (Asset Management) (NRAM), Bradford and Bingley (B&B) and Network Rail (NR)) in 2017-18 and 2018-19 of £40.3 billion and £40.6 billion respectively. The new forecast for 2017-18 is £3.1 billion lower than the forecast published at Autumn Budget 2017, whilst the forecast for 2018-19 is £4.8 billion lower.

32. The other main change impacting on financing in 2017-18 since Autumn Budget 2017 is a forecast £2.2 billion higher net contribution to financing from NS&I (taking their forecast net contribution to £10.2 billion).

33. The projected level of the DMO's net cash balance at 31 March 2018 is £5.0 billion, £4.5 billion higher than that projected at Autumn Budget 2017. The level will be reduced to £0.5 billion as shown by the financing adjustment carried forward from previous financial years in the financing arithmetic and this will reduce the NFR in 2018-19 accordingly.

## Supplementary Information

34. The planned split of gilt issuance by type, maturity and issuance method is published at Annex A.
35. The planned gilt auction calendar for 2018-19 is published at Annex B.
36. The financing arithmetic for 2017-18 and 2018-19 is published at Annex C.
37. Illustrative gross financing projections to 2022-23 are published at Annex D.

### Annex A. Initially planned split of gilt issuance by type, maturity and issuance method

	Auction	Syndication	Gilt tender	Unallocated	Total
<b>Short conventional</b>					
£ billion	<b>24.9</b>				<b>24.9</b>
Per cent					24.2%
<b>Medium conventional</b>					
£ billion	<b>20.3</b>				<b>20.3</b>
Per cent					19.7%
<b>Long conventional</b>					
£ billion	<b>20.4</b>	<b>9.0</b>			<b>29.4</b>
Per cent					28.5%
<b>Index-linked</b>					
£ billion	<b>13.7</b>	<b>8.0</b>			<b>21.7</b>
Per cent					21.1%
<b>Unallocated</b>					
£ billion				<b>6.6</b>	<b>6.6</b>
Per cent					6.4%
<b>Total £ billion</b>	<b>79.3</b>	<b>17.0</b>	<b>0.0</b>	<b>6.6</b>	<b>102.9</b>
<b>Total per cent</b>	<b>77.1%</b>	<b>16.5%</b>	<b>0.0%</b>	<b>6.4%</b>	
<i>Figures may not sum due to rounding</i>					

## Annex B. Planned gilt auction calendar 2018-19

Date	Type
04 April 2018	Conventional
10 April 2018	Conventional
19 April 2018	Conventional
24 April 2018	Index-linked
03 May 2018	Conventional
09 May 2018	Conventional
24 May 2018	Index-linked
06 June 2018	Conventional
20 June 2018	Index-linked
26 June 2018	Conventional
03 July 2018	Conventional
19 July 2018	Conventional
24 July 2018	Conventional
08 August 2018	Conventional
21 August 2018	Index-linked
06 September 2018	Conventional
11 September 2018	Conventional
20 September 2018	Conventional
25 September 2018	Index-linked
04 October 2018	Conventional
23 October 2018	Index-linked
06 November 2018	Conventional
15 November 2018	Conventional
20 November 2018	Index-linked
04 December 2018	Conventional
06 December 2018	Conventional
12 December 2018	Index-linked
08 January 2019	Conventional
17 January 2019	Conventional
22 January 2019	Conventional
14 February 2019	Conventional
21 February 2019	Conventional
26 February 2019	Index-linked
06 March 2019	Conventional
14 March 2019	Conventional
26 March 2019	Index-linked

## Annex C. Financing arithmetic 2017-18 and 2018-19

£ billion	2017-18	2018-19
CGNCR (ex NRAM, B&B and NR) <sup>1</sup>	40.3	40.6
Gilt redemptions	80.0	66.7
Planned financing for the Official Reserves	6.0	6.0
Financing adjustment carried forward from previous financial years	-15.2	-4.5
<b>Gross Financing Requirement</b>	<b>111.0</b>	<b>108.9</b>
<i>Less:</i>		
NS&I net financing	10.2	6.0
Other financing <sup>2</sup>	-0.2	0.0
<b>Net Financing Requirement (NFR) for the DMO</b>	<b>101.1</b>	<b>102.9</b>
DMO's NFR will be financed through:		
<b>Gilt sales, through sales of:</b>		
- Short conventional gilts	29.3	24.9
- Medium conventional gilts	23.4	20.3
- Long conventional gilts	34.0	29.4
- Index-linked gilts	28.4	21.7
- Unallocated amount of gilts	0.0	6.6
<b>Total gilt sales for debt financing</b>	<b>115.1</b>	<b>102.9</b>
<b>Total net contribution of Treasury bills for debt financing</b>	<b>-9.5</b>	<b>0.0</b>
<b>Total financing</b>	<b>105.6</b>	<b>102.9</b>
DMO net cash position	5.0	0.5
<i>Figures may not sum due to rounding</i>		
<sup>1</sup> Central Government Net Cash Requirement (excluding NRAM plc, Bradford and Bingley and Network Rail)		
<sup>2</sup> Prior to publication of the end-year outturn in April each year, this financing item will mainly comprise estimated revenue from coinage		

## Annex D: Illustrative gross financing projections

£ billion	2019-20	2020-21	2021-22	2022-23
CGNCR (ex NRAM, B&B and NR)	42.3	52.5	48.6	50.4
Gilt redemptions	99.1	97.6	79.3	73.3
Planned financing for the Official Reserves	6.0	0.0	0.0	0.0
<b>Total illustrative gross financing requirement</b>	<b>147.4</b>	<b>150.1</b>	<b>127.9</b>	<b>123.8</b>
<i>Figures may not sum due to rounding</i>				

The table above shows annual illustrative gross financing projections from 2019-20 to 2022-23 using updated projections of the CGNCR (ex NRAM, B&B and NR), together with the latest estimate of gilt redemptions in these years. These are not forecasts of future gilt sales. Rather, they are a broad indication of future gilt sales on the assumption that Treasury bills and NS&I both make a zero net contribution to financing.