

AUTUMN BUDGET 2018: REVISION TO THE DMO'S FINANCING REMIT 2018-19

1. The DMO's financing remit for 2018-19 has been revised today alongside the Autumn Budget 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 fall by £12.4 billion compared with that published at the April 2018 remit revision¹, to £93.5 billion².

3. This decrease will be managed by:

- Reducing gilt sales by £8.5 billion to £97.5 billion; and
- Reducing net sales of Treasury bills for debt management purposes by £4.0 billion, implying a stock at end-March 2019 of £56.0 billion.

Gilt sales

4. The reduction of £8.5 billion in planned gilt sales will be met through a combination of:

- A reduction of £2.1 billion in the balance of the unallocated portion of gilt issuance, leaving a residual balance after the Autumn Budget of £1.5 billion³;
- A reduction of £5.7 billion in gilt sales via auctions, reducing total planned sales via auctions to £77.1 billion. The reduction will be achieved by lowering the average sizes of auctions; no auctions are being cancelled. The reductions to the individual programmes at the Autumn Budget are as follows:

- Short: £1.2 billion
- Medium: £1.3 billion
- Long: £2.0 billion
- Index-linked: £1.2 billion

¹ <https://www.dmo.gov.uk/media/15447/sa240418.pdf>

² Figures may not sum due to rounding. The published rounded NFR change is from £106.0bn to £93.5bn, optically a reduction of £12.5bn. The unrounded change is from £105.960bn to £93.525bn, a reduction of £12.435bn.

³ The original size of the unallocated portion of issuance in 2018-19 was £6.6 billion. The size was increased to £6.7 billion at the remit revision in April and, prior to the Autumn Budget, had subsequently been reduced to £3.6 billion as a result of transfers to the syndication and conventional gilt auction programmes.

- A reduction of £0.7 billion in the planned size of the index-linked gilt syndication programme, implying a currently assumed size for the index-linked gilt syndication in the final quarter of this financial year of £3.6 billion (cash).

5. The split of planned reductions in gilt sales, together with the implications for the skew of issuance and the average sizes of gilt auctions is shown in the table below. The table also incorporates the year-to-date effect of allocations from the unallocated portion of issuance in the original remit.

Planned gilt issuance skews	2018-19					
	Spring Statement 2018	April 2018 revision	Position pre-AB18 revision	Autumn Budget 2018	Changes Autumn Budget versus position pre-AB18 revision	Changes Autumn Budget versus April 2018 revision
(£bn)						
Short	24.9	25.6	26.1	24.9	-1.2	-0.7
Medium	20.3	21.0	21.6	20.3	-1.3	-0.7
Long	29.4	30.3	31.7	29.7	-2.0	-0.6
Index-linked	21.7	22.4	23.0	21.1	-1.9	-1.3
Unallocated	6.6	6.7	3.6	1.5	-2.1	-5.2
Total	102.9	106.0	106.0	97.5	-8.5	-8.5
(%)						
Short	24.2%	24.2%	24.6%	25.5%	0.9%	1.3%
Medium	19.7%	19.8%	20.4%	20.8%	0.4%	1.0%
Long	28.5%	28.6%	29.9%	30.5%	0.6%	1.9%
Index-linked	21.1%	21.1%	21.7%	21.6%	-0.1%	0.5%
Unallocated	6.4%	6.3%	3.4%	1.5%	-1.9%	-4.8%
Average auction sizes (£mn cash)						
Short	2,767	2,862	2,885	2,485	-400	-377
Medium	2,537	2,642	2,685	2,252	-433	-390
Long	2,267	2,320	2,306	1,906	-400	-414
Index-linked	1,370	1,390	1,322	1,022	-300	-368
<i>Figures may not sum due to rounding</i>						

6. As usual, however, total financing achieved through each issuance method will be dependent on market and demand conditions. Hence, other things equal, the total amount issued via each method may, at the end of the financial year, vary from the revised plans published today.

7. The overall split of issuance by maturity and type of gilt may also be affected by the DMO's decisions in the remainder of the financial year on future transfers from the unallocated portion of issuance (such transfers may be made to any type and maturity of gilt, and to any gilt issuance method).

8. 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 a quarterly calendar announcement or following a syndication.

Treasury bill sales

- **Debt management**

9. At Spring Statement 2018 it was anticipated that net Treasury bill sales for debt management purposes would make no contribution to financing the NFR in 2018-19. As a result of the remit revisions announced today, £4.0 billion of the reduction in the NFR will be implemented via a reduction in net sales of Treasury bills for debt management purposes, implying a stock of such Treasury bills at end-March 2019 of £56.0 billion.

10. The outturn amount that net Treasury bill issuance has contributed to debt financing in 2018-19 will be reported by the DMO in April 2019.

- **Exchequer cash management**

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

Changes to the DMO's net financing requirement

12. The Office for Budget Responsibility's (OBR) October 2018 "Economic and fiscal outlook" (EFO) includes their revised forecast for the Central Government Net Cash Requirement (excluding Northern Rock (Asset Management) (NRAM), Bradford & Bingley (B&B) and Network Rail (NR)) (CGNCR (ex NRAM, B&B and NR) in 2018-19 of £31.2 billion. The new forecast is £9.4 billion lower than that published at Spring Statement 2018.

13. The other change impacting the DMO's NFR in 2018-19 since Spring Statement 2018 is a revision up to NS&I's Net Financing target by £3.0 billion, from £6.0 billion to £9.0 billion.

Supplementary Information

14. The currently planned split of gilt issuance by type, maturity and issuance method is published at Annex A.

15. The financing arithmetic for 2018-19 is published at Annex B.

16. The current progress of gilt sales in 2018-19 relative to the revised remit targets is published at Annex C.

17. Revised illustrative gross financing projections to 2023-24 are published at Annex D.

18. HM Treasury has also today published details of the government's financing programme in Annex A to the Autumn Budget 2018.

Annex A: Currently planned split of gilt issuance by type, maturity and issuance method

	Auction	Syndication	Gilt tender	Unallocated	Total
Short conventional £ billion	24.9				24.9 25.5%
Medium conventional £ billion	20.3				20.3 20.8%
Long conventional £ billion	19.2	10.5			29.7 30.5%
Index-linked £ billion	12.7	8.4			21.1 21.6%
Unallocated £ billion				1.5	1.5 1.5%
Total £ billion	77.1	18.9	0.0	1.5	97.5
Total per cent	79.1%	19.4%	0.0%	1.5%	

Figures may not sum due to rounding

Annex B: Financing arithmetic for 2018-19 (£ billion)

	Spring Statement 2018	April 2018 revision	Autumn Budget 2018
CGNCR (ex NRAM, B&B and NR) ¹	40.6	40.6	31.2
Gilt redemptions	66.7	66.7	66.7
Planned financing for the Official Reserves	6.0	6.0	6.0
Financing adjustment carried forward from previous financial years	-4.5	-1.4	-1.4
Gross Financing Requirement	108.9	112.0	102.5
<i>Less:</i>			
NS&I net financing	6.0	6.0	9.0
Other financing ²	0.0	0.0	0.0
Net Financing Requirement (NFR) for the DMO	102.9	106.0	93.5
DMO's NFR will be financed through:			
Gilt sales, through sales of:			
- Short conventional gilts	24.9	25.6	24.9
- Medium conventional gilts	20.3	21.0	20.3
- Long conventional gilts	29.4	30.3	29.7
- Index-linked gilts	21.7	22.4	21.1
- Unallocated amount of gilts	6.6	6.7	1.5
Total gilt sales for debt financing	102.9	106.0	97.5
Total net contribution of Treasury bills for debt financing	0.0	0.0	-4.0
Total financing	102.9	106.0	93.5
DMO net cash position	0.5	0.5	0.5

Figures may not sum due to rounding

¹ Central Government Net Cash Requirement (excluding Northern Rock (Asset Management) (NRAM), Bradford & Bingley (B&B) and Network Rail (NR)).

² Prior to publication of the end-year outturn in April each year, this financing item will mainly comprise estimated revenue from coinage.

Annex C: Gilt sales in 2018-19 relative to the revised remit targets

	Conventional Gilts			Index-linked gilts	Total
	Short	Medium	Long		
Auction proceeds to-date	17,025	13,103	8,832	8,123	47,083
PAOF proceeds to-date	419	442	839	488	2,187
Auction and PAOF proceeds to-date	17,444	13,545	9,671	8,610	49,270
Syndication sales to-date	0	0	10,562	4,835	15,397
Gilt tender sales to date	0	0	0	0	0
Total gilt sales to date	17,444	13,545	20,233	13,445	64,668
Auction sales required to meet plans	7,456	6,755	9,529	4,090	27,830
Number of auctions remaining	3	3	5	4	15
Current average auction sizes	2,485	2,252	1,906	1,022	
Planned gilt sales at auctions	24,900	20,300	19,200	12,700	77,100
Number of auctions scheduled	9	8	9	10	36
Syndication sales plans	-	-	10,500	8,400	18,900
Syndication sales required to meet plans	-	-	-62	3,565	3,503
Remaining unallocated sales					1,500
Total planned supplementary gilt sales					20,400
Total planned gilt sales					97,500
Required gilt sales remaining					32,832

Annex D: Illustrative gross financing projections

£ billion	2019-20	2020-21	2021-22	2022-23	2023-24
CGNCR (ex NRAM, B&B and NR)	27.6	49.1	43.7	43.1	32.6
Gilt redemptions	99.1	97.6	79.3	73.3	71.8
Planned financing for the Official Reserves	6.0	0.0	0.0	0.0	0.0
Total illustrative gross financing requirement	132.7	146.7	123.0	116.5	104.4
<i>Figures may not sum due to rounding</i>					

The table above shows annual illustrative gross financing projections from 2019-20 to 2023-24 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 issued for debt management purposes and NS&I both make a zero net contribution to financing.