

## **DMO FINANCING REMIT 2019-20**

1. The DMO's financing remit for 2019-20 has been published today alongside Spring Statement 2019. The main points, including operational aspects, are summarised below.

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

2. The Net Financing Requirement (NFR) for the DMO in 2019-20 is forecast to be £118.1 billion. This will be financed by:

- a. gross gilt sales of £114.1 billion.
- b. a net contribution to financing by Treasury bills of £4.0 billion.

### **Gilt sales**

3. Planned gilt sales of £114.1 billion will be met through a combination of:

a. £85.8 billion of issuance (75.2% of total sales) in 37 auctions, with a planned split as follows<sup>1</sup>:

- |                       |                              |
|-----------------------|------------------------------|
| ○ Short conventional  | £29.4 billion in 10 auctions |
| ○ Medium conventional | £24.8 billion in 9 auctions  |
| ○ Long conventional   | £17.8 billion in 8 auctions  |
| ○ Index-linked        | £13.8 billion in 10 auctions |

The implied initial average auction sizes in cash terms for Q1 2019-20 are:

- |                       |               |
|-----------------------|---------------|
| ○ Short conventional  | £2.94 billion |
| ○ Medium conventional | £2.76 billion |
| ○ Long conventional   | £2.23 billion |
| ○ Index-linked        | £1.38 billion |

b. a current plan for £21.0 billion via syndications (18.4% of total sales) to be raised via:

- £13.0 billion of long conventional gilts in three transactions; and
- £8.0 billion of index-linked gilts in two transactions

c. £7.3 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. The unallocated portion of issuance is intended to facilitate remit delivery by permitting gilt supply to be tailored more responsively in-year to developments in the gilt market.

---

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

4. The initially planned split of gilt issuance by type, maturity and issuance method is set out in Annex A. However, total financing achieved through each issuance method will be subject to market and demand conditions. The overall split of issuance by maturity and type of gilt is, therefore, likely to be affected by the DMO's issuance decisions in-year, taking account of market feedback, and the use of the initially unallocated portion of issuance. Consequently, the overall split of issuance by the end of the financial year may depart from the initial plans published in the remit at Spring Statement 2019.

5. 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 2019) and at quarterly intervals (see also paragraphs 7 and 21).

### **The gilt auction programme**

6. It is intended that gilt auctions in 2019-20 will, on average, be slightly larger than those in 2018-19, particularly for short and medium conventional gilt auctions. The planned gilt auction calendar in 2019-20 is set out in Annex B.

7. The DMO will publish average auction size assumptions (in cash terms) by maturity and type in its quarterly issuance calendar announcement for April-June 2019. Assumptions for average auction sizes will be updated for July-September and October-December following the final auction of the preceding quarter in each case, and may involve transfers from the unallocated portion of issuance to the auction programme.

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

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

9. The DMO's general intention will be to implement the planned auction calendar as published alongside Spring Statement 2019, whilst recognising the importance of allowing, through in-year adjustments to the calendar, scope to respond appropriately to unforeseen or changing circumstances. Hence, the planned gilt auction calendar may be altered, for example, to accommodate the Chancellor's decisions on the fiscal event timetable, any significant data releases or market sensitive events announced subsequently and/or to accommodate the scheduling of a syndicated offering. The DMO will provide the market with prior notice of any such alteration.

10. 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**

11. Any type and maturity of gilt can be sold through syndication and the DMO will announce on a quarterly basis its planned syndication programme, which may include short and medium conventional gilt issuance if judged appropriate by the DMO. However, the DMO's current planning assumption is that the syndication programme in 2019-20 will be used to launch new long conventional and index-linked gilts and/or for re-openings of high duration gilts.

12. Any impact on the mix of distribution methods used to deliver the financing programme will be reported by the DMO.

13. The DMO's initial planning assumption is that it will hold five syndicated offerings (three of long conventional gilts and two of index-linked gilts) in 2019-20. 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.

14. 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.

15. In order to maintain the operational viability of syndicated offerings at the end of each programme, the overall size of the syndication programmes (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.

## **Gilt tenders**

16. Gilt tenders may be used to assist with delivery of the financing remit. Gilt tenders may also be used for market management reasons.

17. The DMO will aim to announce the date, the choice of gilt to be sold and the maximum size of any gilt tenders at least two business days in advance. Gilt tenders may also be scheduled with shorter notice, as required, for market management reasons.

18. Gilt tenders may be used to issue any type and maturity of gilt and may be scheduled ad hoc or as part of a programme.

19. 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 feedback. 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.

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

20. In 2019-20 the DMO will continue to offer successful auction bidders (both primary dealers and end-investors) an option to purchase additional stock via the PAOF. Full details are set out in the gilt market Operational Notice<sup>2</sup>.

21. Any amounts sold via the PAOF in 2019-20 will, other things equal, reduce the average sizes of auctions quarter-by-quarter but the DMO may choose to offset some or all of any such reduction by transfers from the unallocated portion of issuance. The impact on average auction sizes of gilt sales via the PAOF and any associated transfer(s) from the unallocated portion of issuance to the auction programme will be taken into account on a quarterly basis, with average sizes of auctions for the next quarter re-stated after the final auction of each of the first three quarters.

22. If exercised consistently, proceeds from the PAOF may allow for the cancellation of auctions later in the financial year. Any such cancellation(s) would be announced well in advance as part of issuance calendar announcements.

## **Treasury bill sales**

- **Debt management**

23. At Autumn Budget 2018 it was anticipated that net Treasury bill sales would make a negative net contribution of £4.0 billion to meeting the NFR in 2018-19: this remains the case, implying a stock of Treasury bills for debt management purposes at end-March 2019 of £56.0 billion.

24. 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.

25. It is currently anticipated that Treasury bill issuance will make a net contribution of £4.0 billion to meeting the NFR in 2019-20. Any changes to this plan would be announced as part of any future remit revision (e.g. at Autumn Budget 2019). The outturn net contribution of Treasury bills to debt financing in 2019-20 will be reported by the DMO in April 2020.

- **Exchequer cash management**

26. 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.

---

<sup>2</sup> <https://www.dmo.gov.uk/media/15792/gilt-market-operational-notice-2018.pdf>

## Changes to the financing requirement

27. The Debt Management Report (DMR) 2019-20 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 2018-19 and 2019-20 of £34.0 billion and £23.7 billion respectively. The new forecast for 2018-19 is £2.9 billion higher than the forecast published at Autumn Budget 2018, whilst the forecast for 2019-20 is £3.9 billion lower<sup>3</sup>.

28. The other main changes impacting on financing in 2018-19 since Autumn Budget 2018 are:

- a forecast £2.0 billion higher net contribution to financing from NS&I (taking their forecast net contribution to £11.0 billion); and
- an increase of £0.8 billion in planned gilt sales in 2018-19 (to £98.3 billion), reflecting take-up of the PAOF.

29. The projected level of the DMO's net cash balance at 31 March 2019 is £0.2 billion, £0.3 billion lower than that projected at Autumn Budget 2018. The level will be increased to £0.5 billion as shown by the financing adjustment carried forward from previous financial years in the financing arithmetic, and this will increase the NFR in 2019-20 accordingly.

## Supplementary Information

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

31. The planned gilt auction calendar for 2019-20 is published at Annex B.

32. The financing arithmetic for 2018-19 and 2019-20 is published at Annex C.

33. Illustrative gross financing projections to 2023-24 are published at Annex D.

---

<sup>3</sup> Figures may not sum due to rounding.

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

	<b>Auction</b>	<b>Syndication</b>	<b>Gilt tender</b>	<b>Unallocated</b>	<b>Total</b>
<b>Short conventional</b> £ billion	<b>29.4</b>				<b>29.4</b> 25.8%
<b>Medium conventional</b> £ billion	<b>24.8</b>				<b>24.8</b> 21.7%
<b>Long conventional</b> £ billion	<b>17.8</b>	<b>13.0</b>			<b>30.8</b> 27.0%
<b>Index-linked</b> £ billion	<b>13.8</b>	<b>8.0</b>			<b>21.8</b> 19.1%
<b>Unallocated</b> £ billion				<b>7.3</b>	<b>7.3</b> 6.4%
<b>Total £ billion</b>	<b>85.8</b>	<b>21.0</b>	<b>0.0</b>	<b>7.3</b>	<b>114.1</b>
<b>Total per cent</b>	75.2%	18.4%	0.0%	6.4%	
<i>Figures may not sum due to rounding</i>					

## Annex B. Planned gilt auction calendar 2019-20

Date	Type
02-Apr-19	Conventional
09-Apr-19	Conventional
16-Apr-19	Conventional
09-May-19	Conventional
23-May-19	Index-linked
04-Jun-19	Conventional
12-Jun-19	Index-linked
18-Jun-19	Conventional
25-Jun-19	Conventional
02-Jul-19	Conventional
16-Jul-19	Conventional
23-Jul-19	Conventional
06-Aug-19	Conventional
13-Aug-19	Conventional
20-Aug-19	Index-linked
03-Sep-19	Conventional
05-Sep-19	Conventional
24-Sep-19	Index-linked
01-Oct-19	Conventional
08-Oct-19	Index-linked
15-Oct-19	Conventional
22-Oct-19	Conventional
29-Oct-19	Index-linked
05-Nov-19	Conventional
14-Nov-19	Conventional
26-Nov-19	Conventional
03-Dec-19	Conventional
11-Dec-19	Index-linked
07-Jan-20	Conventional
09-Jan-20	Index-linked
14-Jan-20	Conventional
21-Jan-20	Conventional
04-Feb-20	Index-linked
25-Feb-20	Conventional
04-Mar-20	Conventional
12-Mar-20	Index-linked
17-Mar-20	Conventional

## Annex C. Financing arithmetic 2018-19 and 2019-20

(£ billions)	2018-19	2019-20
CGNCR (ex NRAM, B&B and NR) <sup>1</sup>	34.0	23.7
Gilt redemptions	66.7	98.9
Redemption of the sovereign Sukuk	0.0	0.2
Planned financing for the Official Reserves	6.0	6.0
Financing adjustment carried forward from previous financial years	-1.4	0.3
<b>Gross Financing Requirement</b>	<b>105.4</b>	<b>129.1</b>
<i>Less:</i>		
NS&I net financing	11.0	11.0
Other financing <sup>2</sup>	-0.2	0.0
<b>Net Financing Requirement (NFR) for the DMO</b>	<b>94.6</b>	<b>118.1</b>
DMO's NFR will be financed through:		
<b>Gilt sales, through sales of:</b>		
- Short conventional gilts	26.2	29.4
- Medium conventional gilts	21.2	24.8
- Long conventional gilts	29.7	30.8
- Index-linked gilts	21.3	21.8
- Unallocated amount of gilts	0.0	7.3
<b>Total gilt sales for debt financing</b>	<b>98.3</b>	<b>114.1</b>
<b>Total net contribution of Treasury bills for debt financing</b>	<b>-4.0</b>	<b>4.0</b>
<b>Total financing</b>	<b>94.3</b>	<b>118.1</b>
DMO net cash position	0.2	0.5
<i>Figures may not sum due to rounding</i>		
<sup>1</sup> Central Government Net Cash Requirement (excluding Northern Rock (Asset Management) (NRAM), Bradford & Bingley (B&B) and Network Rail (NR)).		
<sup>2</sup> Prior to publication of the end-year outturn in April each year, this financing item will usually mainly comprise estimated revenue from coinage. For 2018-19, the estimate also reflects near-maturity purchases of gilts redeeming in 2019-20 by the DMO in January 2019, which has resulted in an offsetting reduction of £0.2 billion in gilt redemptions in 2019-20.		

## Annex D: Illustrative gross financing projections to 2023-24

£ billion	2020-21	2021-22	2022-23	2023-24
CGNCR (ex NRAM, B&B and NR)	47.2	41.2	40.7	36.6
Gilt redemptions	97.6	79.3	73.3	71.8
<b>Total illustrative gross financing requirement (IGFR)</b>	<b>144.8</b>	<b>120.5</b>	<b>114.0</b>	<b>108.3</b>
<i>Figures may not sum due to rounding</i>				

The table above shows annual illustrative gross financing projections from 2020-21 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 and NS&I both make a zero net contribution to financing.