

*United Kingdom*  
**Debt  
Management  
Office**

## BUSINESS PLAN 2009-2010



# UNITED KINGDOM DEBT MANAGEMENT OFFICE

## BUSINESS PLAN 2009-2010

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## **Introduction**

- 1 This is the UK Debt Management Office's ("DMO") 12<sup>th</sup> annual business plan since it was established as an executive agency of HM Treasury ("HMT") on 1 April 1998. The DMO's main aim continues to be "to carry out the Government's debt management policy of minimising its financing cost over the long-term taking account of risk, and to minimise the cost of offsetting the Government's net cash flows over time, while operating within a risk appetite approved by Ministers". The DMO's objectives are consistent with and support HM Treasury's objectives.

## **Key themes for the 2009-10 business plan**

- 2 The key business planning themes for 2009-10 remain consistent with previous years with a wide range of activities that reflect the DMO's responsibilities and functions. The DMO's plan for 2009-10 is primarily focussed on the continued delivery of its debt management, cash management, fund management, local authority lending and other functions to the highest standards of quality and cost-effectiveness. We fully recognise that the effective delivery of these functions and services is our overriding objective and intend to allocate our resources, skills, systems and development activities accordingly.
- 3 The DMO's business plan therefore includes the following key themes for 2009-10:
  - The delivery of the debt management remit – requiring some 58 gilt auctions along with gilt mini tenders and – following the consultation process on supplementary distribution methods for gilts - syndicated offerings.
  - The delivery of the cash management remit – which will need to manage the cash consequences of the gilt programme, along with other HMG cashflows, in as an efficient and cost-effective way as possible.
  - Continuing to consider further enhancements to facilitate the delivery of the debt and cash management remits. A specific area being considered in this respect, in addition to the supplementary distribution methods for the gilt programme, is the introduction of electronic bid capture for £ Treasury bill tenders.
  - Continuing to minimise operational risk by ensuring the DMO's business operations are fully supported by resilient and efficient systems and processes and managed within the budget envelope agreed with HMT.

- Continuing to play a key role in the development and operational delivery of the Credit Guarantee Scheme as extended to cover Asset-Backed Securities.
- Continuing to work closely with HMT and the Department of Energy and Climate Change (“DECC”) on the ongoing delivery and development of the UK’s auctions of EU Emission Trading Scheme allowances.
- Continuing to seek out operational process efficiencies with the intention of reducing cost and operational risk. In this respect we are intending to migrate the technology for the Public Works Loan Board’s loan processing system to the DMO’s core trade processing system.
- More generally, we intend to continue to review and where appropriate enhance the DMO’s risk management framework and systems.
- We also intend to continue to monitor the resource and skills required to deliver the DMO’s array of objectives and, in line with our commitment to Investors in People status, continue to develop staff to achieve their professional potential.

## Review of 2008-09

4 The DMO has delivered all of its 2008-09 key objectives and details of these will be published with its Report and Accounts for 2008-09 later in the year:

- Debt management - the gilt remit for 2008-09 was delivered with total gilt sales amounting to £146.5 billion (cash) raised through 58 auctions and 8 mini-tenders. The DMO's gilt sales target was increased twice in 2008-09, from an original £80.0 billion at Budget 2008 to £110.0 billion in October 2008 (to help finance banking sector recapitalisation in respect of the Finance Intervention Package) and again to £146.4 billion at PBR in November 2008. The DMO also provided advice to HMT on the formulation of a provisional remit for 2009-10 (published on 18 March 2009) required because the Budget in 2009 was presented in April rather than the usual month of March. In addition, the average publication times for gilt auctions reduced from 9.6 minutes in 2007-08 to 7.6 minutes.
- The cash management remit for 2008-09 was also delivered against the background of challenging market conditions. The DMO continues to measure and monitor the performance of its Exchequer cash management operations against a series of quantitative and qualitative indicators. A report of its performance against these key performance indicators was published in the DMO Annual Review 2007-08 in August 2008. In terms of cash management operations, the bilateral Treasury bill facility was used increasingly from autumn 2008 onwards reflecting the market's preference for "safe haven" investments. As a consequence the stock of Treasury bills outstanding in the market grew from £17.6 billion at end-March 2008 to a peak of £47.7 billion at end-October 2009 and ended the financial year at £44 billion.
- Lending to local authorities via the Public Works Loans Board ("PWLB") amounted to approximately £6.36 billion gross and £6.25 billion net in 2008-09 with the total loan book as at end-March 2009 standing at £50.8 billion.
- The DMO continues to manage the assets of certain public funds via the Commissioners for the Reduction of the National Debt ("CRND") function. Assets under management as at end-March 2009 stood at approximately £60 billion.
- The DMO continued to support additional issues of National Savings and Investments' (NS&I) Guaranteed Equity Bond (GEB) by hedging HMG's consequential exposure to the equity market.

- In October 2008, as indicated above, HMT announced a Financial Intervention Package one of the components of which was the Credit Guarantee Scheme 2008. This scheme is administered by the DMO as agent for HMT and was successfully set up and operational within a few days of its announcement. By the end of 2008 approximately £100bn of guaranteed bank debt had been issued under the scheme. Additionally in January 2009, HMT announced further initiatives including the then planned introduction of a scheme to guarantee the issue of certain Asset-Backed Securities. The details of this scheme were duly announced as part of the Budget earlier this year and it is now operational and being administered by the DMO.
- The DMO continued to manage the gilt registration contract with Computershare Investor Services PLC on behalf of HMT. It also continued to manage the gilt purchase and sale service for retail investors which is carried out in association with Computershare as the DMO's agent.
- The DMO successfully conducted, on behalf of DECC, the first auction of EU Emissions Trading Scheme Allowances ("EUA") in November 2008. The DMO subsequently auctioned a further amount in March 2009 - taking the total amount of EUAs auctioned in 2008/09 to 8 million.
- The DMO's commitment to the progress and development of its staff continues with the regular three yearly review of our Investors in People status in September 2008 confirming our re-accreditation. The DMO has maintained its Investors in People status continuously since June 2000.

## Corporate governance

- 5 The DMO is an executive agency of HMT, and therefore legally indistinguishable from the latter. The nature of its status together with other details relating to its responsibilities and remit as an executive agency are contained in its Framework Document, which was last updated and issued in April 2005.

## Chief Executive

- 6 The DMO's Chief Executive and Accounting Officer for the Debt Management Account ("DMA") and the agency, Robert Stheeman, reports to the Chancellor of the Exchequer and is accountable to Parliament in discharging his responsibilities.

## Managing Board

- 7 The DMO has a senior management team that comprises Robert Stheeman; Jo Whelan, Deputy Chief Executive and Joint Head of Policy & Markets; Joanne Perez Joint Head of Policy & Markets and Jim Juffs, Chief Operating Officer and Head of Operations and Resources. Together with a representative from HMT, Sam Beckett, Director of Fiscal Policy, and non-executives Colin Price and Brian Larkman, they make up the DMO's Managing Board - the agency's senior management team. A sub-committee of the Managing Board, together with the DMO's senior managers, usually meets weekly.

## Exchequer Funds Audit Committee

- 8 The Exchequer Funds Audit Committee ("EFAC") is one of two HMT Group-wide audit committees<sup>1</sup> and covers issues of risk, internal control, governance and associated assurance in respect of the "Exchequer Funds"<sup>1</sup> for which the Group's Accounting Officers are responsible. Colin Price chairs the EFAC and is supported by Brian Larkman and Mark Clarke as the independent members of that Committee. Mike Davidge – the Head of the Exchequer Funds Internal Audit function – is secretary to the Committee. Those who attend EFAC meetings, as necessary, include Robert Stheeman, Jo Whelan, Joanne Perez and Jim Juffs, representatives from the DMO's teams, other HMT Accounting Officers or their representatives, HMT's internal audit team and the National Audit Office.

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<sup>1</sup> The other Audit Committee being the Group Resource Audit Committee with a remit to cover issues relating to the Group's resource accounts.

### Staffing complement

9 In 2008-09, the DMO had a complement of around 90 full time equivalent members of staff.

### Values

10 The DMO seeks to conduct itself and deliver its objectives using the highest possible standards. Its values are as follows:

- To promote and achieve professional excellence
- To be communicative, consultative and collaborative
- To be innovative, flexible and responsive
- To add value
- To be delivery focussed
- To be scrupulously fair
- To be an excellent place to work.

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<sup>2</sup> Debt Management Account, Public Works Loan Board, Commissioners for the Reduction of the National Debt, Exchange Equalisation Account, National Loans Fund, Consolidated Fund and the Contingencies Fund.



## **Vision, objectives and responsibilities**

11 The DMO's vision, agency objectives and responsibilities are set out below.

### **Vision statement**

The DMO aims to be a centre of excellence for HM Treasury in the provision of policy advice on and the delivery of the government's financing needs and to act as a key gateway for government to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objective of maintaining sound public finances.

### **Agency objectives**

1. To develop, provide advice on and implement HMG's debt management strategy.
2. To develop, provide advice on and implement HMG's cash management requirements.
3. To provide advice and operational services to HMT on issues relating to the management of HMG's balance sheet.
4. To provide advice and operational services to HMG departments on wholesale markets-related issues and activities (eg Credit Guarantee Scheme, Emissions Trading Scheme etc).
5. To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.
6. To provide a cost-effective lending service to local authorities through the Public Works Loan Board.
7. To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.
8. To manage, operate and develop an appropriate risk and control framework.

12 As indicated above, in the delivery of these objectives, the DMO seeks to support primarily HMT's objective to "maintain sound public finances".

### **Key Planning Themes – for the period to 2011-12**

13 The key planning themes reflect the need for the DMO to continue to deliver its core operational objectives to the highest standards; to develop further initiatives that advance its effectiveness and reduce cost and risk; and to continue to be efficient in the stewardship of the agency. The objectives within each key planning theme are set out below.

#### **To continue to deliver the DMO's core operations and activities to the excellent standard required.**

This will include the following:

- Delivering the debt and cash management remits for 2009-10 adapting as necessary to changes in market and other conditions.
- Developing in due course the debt and cash management remits for 2010-11.
- Delivering the Public Works Loan Board's ("PWLB") lending objectives for local authorities; developing and refining where appropriate efficiencies and enhancements to the service; and, where feasible, and desirable, reducing cost and risk to the Exchequer.
- Managing the funds of the Commissioners for the Reduction of the National Debt ("CRND") in accordance with the mandates from clients.
- Delivering the gilt purchase and sale service for retail investors efficiently and effectively.
- Managing the registration contract with Computershare, on behalf of HMT, in an effective and efficient way.
- Continuing to manage hedging transactions to meet NS&I's requirements in respect of its financing programme.
- Delivering the ongoing capability to execute and develop Emissions Trading Scheme auctions on behalf of the Department of Energy & Climate Change ("DECC").
- Managing the administration of the Credit Guarantee Scheme, together with the Asset-Backed Securities component, on behalf of HMT, in an effective and efficient way.
- Producing the report and accounts for the DMO as an agency, the Debt Management Account, the PWLB and CRND funds to the highest standards of quality and timeliness.
- Ensuring that the DMO's website, publications and information are managed effectively and are available to stakeholders when required.

**To further the development of debt and cash management strategy and contribute to initiatives that support the objectives of HMT and HMG.**

This will include the following:

- Where necessary, working with HMT on the development of pragmatic solutions relating to HM Government schemes and initiatives.
- Developing further analytical expertise, tools and techniques that help inform and contribute to the delivery of the debt and cash management remits.
- Developing further our understanding of the composition of, drivers for and issues relating to the investor base for gilts and Treasury bills.
- Developing enhancements to the delivery and measurement of the effectiveness of cash management operations.

**To improve efficiency and to reduce operational risk where possible.**

This will include the following:

- Delivering the DMO's operations within the budget "envelope" agreed with HMT.
- Reviewing further the DMO's banking and settlement arrangements with the intention of identifying efficiencies and where possible advances in operational effectiveness.
- Reviewing and implementing any necessary changes to banking and operational arrangements arising from the transfer of certain payment processing responsibilities from the Bank of England as part of the Government Banking Service.
- Developing and enhancing the DMO's business delivery capability to improve the operational efficiency of the agency.
- Enhancing the DMO's risk management analytical and reporting framework and capability.
- Reviewing and where necessary enhancing business continuity arrangements to develop further the DMO's operational resilience.
- Continuing to implement a programme of strategic Information Technology work to enhance the DMO's core infrastructure and applications.
- Developing further the management information produced to support the DMO's business and agency functions.
- Continuing to manage information effectively and efficiently taking due account of the Freedom of Information Act requirements.

**To ensure the core values of the DMO continue to make it an excellent place to work.**

This will include the following:

- As accredited Investors in People, continuing to develop the DMO staff's skills to meet the DMO's business needs and to maximise their professional potential.
- Continuing to integrate and embed the DMO's core values into all aspects of the DMO's operations.
- Developing further the use of the DMO's Staff Council as a means of enhancing communication with DMO staff.
- Identifying and implementing where appropriate more effective ways of working.

**Planning Uncertainties**

14 In view of the size and scale of the debt and cash management remits and the challenging market conditions, the DMO will need to retain the flexibility and capability to adapt quickly to changing market conditions and where necessary re-order priorities in the plan.

## **Operational targets 2009-10**

1. To ensure full compliance with HMG's remit for the DMO (which is primarily set out in the Debt and Reserves Management Report 2009-10).
2. To ensure that the maximum time taken to issue the results of auctions and mini-tenders of gilts, Treasury bill tenders (weekly and ad hoc) and EU ETS auctions does not exceed 20 minutes – although the DMO will aim to publish the results of gilt and EU ETS auctions/mini-tenders within 10 minutes and Treasury bill tenders within 15 minutes of the close of offer - whilst achieving complete accuracy.
3. To achieve accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and in delivering money (and reconciling payments) to the NLF and to meet the required deadlines for the publication and submission for audit of the annual reports of the DMO, DMA, the Public Works Loan Board and the Commissioners for the Reduction of the National Debt.
4. To acknowledge all letters and e-mail enquiries from the public within 4 working days and for at least 95 per cent to be sent a substantive reply within 2 weeks. Furthermore, the DMO will respond to enquiries under the Freedom of Information Act within the statutory timeframe.
5. To avoid breaches of the DMO's operational market notices.
6. To ensure that, for cash management purposes, target weekly balances and expected daily variations are notified according to the agreed schedule.
7. To ensure that settlement instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through settlement is effective, so that the DMO successfully settles at least 99% (by value) of agreed trades on the due date.
8. To avoid factual errors in the publication of all market sensitive data and to make announcements in a timely manner.
9. To process all loan and early settlement applications from local authorities within two working days (between the date of the agreement and the completion of the transaction).

10. To ensure that the gilts purchase and sales service is operated according to its published terms and conditions.
  
11. To administer the Credit Guarantee Scheme, together with the Asset-Backed Securities component, on behalf of HMT in accordance with the relevant Scheme's published rules.