UNITED KINGDOM DEBT MANAGEMENT OFFICE
BUSINESS PLAN 2001-2002

EXECUTIVE SUMMARY

Introduction (paragraphs 1-12)

1. The UK Debt Management Office (DMO) was established on 1 April 1998 with the aim "…to carry out the Government's debt management policy of minimising financing costs over the longer term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way."

2. This annual business plan continues the focus of last year's plan on the DMO's targets and objectives for 2001-02, and the strategies for achieving them. A review is also presented of 2000-01, a year during which the DMO not only took over responsibility for managing the Exchequer's daily cash needs, but also successfully handled the very large cash inflow from the auction of third generation mobile phone licences. The resulting cash surplus has had a number of consequences for the DMO's activities.

Aims, Objectives and Long Term Targets (paragraphs 13-26)

3. The starting point for the development of the DMO's targets is the strategic objectives given to the DMO in support of its aim. These have been amended slightly since last year to acknowledge specifically the need for effective management of the assets held on the Debt Management Account. Since only some of the strategic objectives can readily be translated into quantified targets for planning purposes, they have been bracketed into 6 "key objectives". These are the basis of long-term targets which, if achieved over a 3-5 year framework, would be seen as an unqualified success for the DMO. In order to formulate targets for the budget period and beyond, the DMO has further developed these objectives into a series of characteristics which must be realised if the DMO's strategic objectives are to be achieved; they are in turn the basis of high level longer term targets.

4. In developing these targets, the DMO has drawn on its own view of what it wants to achieve and how. This means meeting its objectives to a high standard and

maintaining its core values: being professional, goal oriented, responsive and outward looking, scrupulously fair, ready to take the initiative and providing a good place to work.

5. The plan also takes into account how the environment external to the DMO might change and the risks arising. The DMO must have the capability to respond to events and manage risks as they arise. Many of these uncertainties centre around the path of the CGNCR and its implications both for gilts sales and the Government's net cash position. The main planning conclusions are a need to maintain flexibility, an open culture, high quality of staff, and wide external contacts. The DMO must also have in place strategies to mitigate the risks that could affect its internal capabilities.

Targets and Resources in 2001-02 (paragraphs 27-40)

6. The DMO's targets for the year ahead are cascaded down to teams and hence to individuals. This is not entirely straightforward because some of the targets extend across more than one area. The DMO's functional organisation was changed during 2001, and its corporate governance arrangements further developed. There are now two main business areas: policy and markets, and operations and resources. However, the DMO is organised flexibly, and there is substantial working across the different areas to ensure that the relevant skills and resources are brought to bear.

7. The plan summarises the DMO's main targets under the key objectives, and also sets out its published performance targets.

8. The DMO's resource requirement is driven largely by the need to meet its responsibilities; and to secure skills and systems that are not readily elsewhere in Government. Training and development is central in ensuring that the DMO has the right skills available to a high standard. The business plan drives the identification of training and development needs at both team and individual level. The DMO intends to maintain its Investors in People (IiP) accreditation that it achieved in 2000.

UNITED KINGDOM DEBT MANAGEMENT OFFICE
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Introduction

1. The UK Debt Management Office (DMO) was established on 1 April 1998. Its main aim is "to carry out the Government's debt management policy of minimising the financing cost over the long term taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way…". This aim is qualified in two ways:

a) both debt and cash management policy must be consistent with the objectives of monetary policy;

b) the need to take account of any wider policy considerations (eg. providing for retail holdings of gilts).

2. The DMO's aim supports the Treasury's objective: "to arrange for cost effective management of the Government's debt and foreign currency reserves and the supply of notes and coins".

3. This is the DMO's fourth annual business plan. It continues the focus of last year's plan on the DMO's targets and objectives. After a brief review of 2000-01, the plan proceeds as follows:

a) from the DMO's aim and strategic objectives, a set of key objectives is developed;

b) these in turn are used to identify the DMO's targets, short and long term, but target formulation first requires further elaboration of what the DMO wants to achieve, the standards and values it should adopt, the planning uncertainties that it faces, and the practical strategies that it should adopt;

c) the targets are cascaded to teams and hence to individuals, and also underpin resource and training plans;

4. Annexes review the DMO's performance in 2000-01 as well as providing supporting detail.

5. After the major expansion of the DMO's responsibilities during 2000-01, the emphasis of the plan for 2001-02 is on maintaining and consolidating high quality policy and operational standards, risk reduction including business continuity planning, improving management information, and embedding systems and procedures. The DMO will also be relocating to new premises during the year.

Review of 2000-01

6. 2000-01 was a year of significant achievement for the DMO. Most of its objectives, and published targets were met in full. Details are in Annex B, which reviews performance generally, and in Annex C, showing achievement against targets.

7. The key event for the DMO in 2000 was the assumption of full responsibility for Exchequer cash management on 3 April 2000. This represented a significant development in the structure of the sterling money markets in London. The move completed the restructuring of Government debt and cash management foreshadowed in the Chancellor's statement of 6 May 1997, in which he announced that the responsibility for the setting of official interest rates was being transferred from the Treasury to the Bank of England.

8. The DMO's major operational challenge over the past year has been to deal with the Government's sizeable cash surplus – accentuated by the unexpectedly large proceeds from the auction of third generation mobile phone licences. The Government's surplus has had a direct impact across a range of the DMO's activities:

a) a reduced need to issue gilts, at a time of strong structural demand, in particular for longer dated gilts, and the implications of that for gilts market liquidity;

b) management of a large and growing government cash surplus including some very substantial daily cash movements;

c) planning for the management of the short-term assets being acquired as part of the Government's planned reduction in net short term debt.

9. In responding to these challenges the DMO has expanded the range of its gilt market transactions to include reverse gilt auctions, as part of a strategy to buy-back some £5 billion of debt from the market (the actual outturn was £5.7 billion). The purchases added to the financing requirement and permitted greater issuance of longer-dated maturity benchmark gilts and index-linked gilts than would otherwise have been the case. Purchases have also been made through secondary (gilts) market operations.

10. The DMO also extended the range of high quality short-term money market instruments in which it may transact on a bilateral basis for cash management purposes. This will also assist the management of the Government's short-term cash position, which is being managed as an extension to the DMO's daily cash management responsibilities (it is expected that the cash position will be run down over the next three financial years).

11. As part of its continuing commitment to encourage liquidity and transparency of the gilts market, the DMO consulted widely in 2000 about the possible impact of electronic trading systems on the secondary market for gilts and how the DMO's relationship with the GEMMs might change as a consequence. That work will continue during 2001 with a view to introducing in early 2002 an inter-GEMMs electronic market with mandatory quote obligations in the more liquid gilts.

12. In order to promote further transparency in the gilts market, in September 2000 the DMO introduced a real-time benchmark gilt price screen on its wire services showing indicative mid prices for a series of gilts derived from GEMMs published quotes. The DMO has been expanding and restructuring its web site: www.dmo.gov.uk on which all its publications appear.

The DMO's aim and objectives

13. The DMO's responsibilities have developed over the last year. It has had responsibility for debt management since it started operations, but the DMO's cash management responsibilities came into full effect only at the start of 2000-01. During the year, as described above, the DMO's range of capabilities has had to be developed further to manage effectively the Government's net short term cash position. In the light of these changes, Treasury Ministers have reviewed the DMO's strategic objectives. The revised objectives are published at Annex A. The key addition is the requirement to manage effectively assets held on the Debt Management Account. But the opportunity has also been taken to make some other amendments, in particular the DMO's role of providing advice and expertise to other Government departments is explicitly acknowledged.

14. The DMO's strategic objectives are the starting point for the development of the DMO's specific targets. However, only some of the strategic objectives can readily be translated into a series of quantified measures for planning purposes. Some have the character of means rather than ends. The DMO has therefore bracketed together some of the strategic objectives in defining 6 "key objectives". These are intended to be the basis of long-term targets which, if achieved over a 3-5 year framework, would be seen as an unqualified success.

15. The 6 key objectives are:

a) consistently meets the annual gilts (and TBills) remit, showing high regard for long term cost minimisation taking account of risk;

b) maintains a liquid competitive and orderly gilts market, with wide investor appeal;

c) consistently balances the NLF daily cash flow, and in a cost effective manner, with due regard for risk;

d) effectively and efficiently manages assets held on the DMA, taking account of risk;

e) meets high professional and operational standards and provides timely and authoritative advice or information inside or outside Government as relevant;

f) is managed internally with high regard to efficiency, value-for-money and risk minimisation; and to the motivation and effectiveness of its staff.

16. In order to set challenging targets for the forthcoming budget period and beyond, the DMO has further developed these objectives into a series of characteristics which must be realised if the DMO's strategic objectives are to be achieved. Some of these characteristics are set out in Annex D, against each of the key objectives summarised above; they are in turn the basis of high level longer term targets.

17. It is relevant to note that the DMO's aim has not been developed into an all-embracing quantitative target, for four reasons:

a) minimising debt interest costs over a short period could encourage opportunistic behaviour with potential damage to the long run objective. (A non-opportunistic approach to debt management reduces the long-term risk premium priced into gilt yields);

b) it is not straightforward to decide the interest rate risk that the Exchequer should take in its liability portfolio (given that it is not being matched against a portfolio of financial assets);

c) any benchmark is not independent of DMO's own actions and so could be altered to a degree by the DMO's decisions;

d) the DMO and Treasury do not want to be thought to be taking short-term views on interest rate changes, in order to maintain the separation of monetary policy decision-making and debt and cash management.

Vision and Values

18. The formulation of stretching targets and their subsequent achievement also requires the DMO to set high standards for itself. More specifically this requires:

a) capability: systems, analytical and operational skills across both debt and money markets;

b) best practice: analytical and operational, benchmarked where possible;

c) responsiveness: to changes in Government policy, to market events and other uncertainties;

d) innovation: an ability to be proactive and set the agenda.

19. Only through these means will the DMO be able to satisfy its main customers and stakeholders:

a) Ministers: by exceeding objectives and showing an ability to cope with risks and events;

b) markets and market bodies: national and international, by operating to high professional standards, and being seen as credible and innovative;

c) other Government Departments (OGDs); as a service provider achieving good value for money in delivery of timely expert advice and operational services;

d) DMO staff.

20. The DMO's core values continue to encapsulate this wider aspiration:

a) **professional**: it values skills and expertise, and is committed to training and improvement;

b) **goal oriented**: it gears its work to its objectives, is credible to its customers and meets its targets;

c) **responsive and outward looking**: it consults and listens, is responsive to criticism and ideas, and willing to explain;

d) **scrupulously fair** in its dealings with the market: information given in confidence is respected and no favour is given to one firm over another;

e) **taking the initiative**: a willingness to innovate, to take responsibility and to show leadership;

f) **a good place to work**: respecting people, with an open management culture and a common understanding of objectives and priorities.

21. This approach is also consistent with the key aims of both the Modernising Government agenda, in respect of joined-up and strategic policy-making, user-focus and high quality and efficiency; and that for reform of the Civil Service in terms of leadership, business planning, performance management, diversity, bringing on talent and a better deal for staff.

Planning Uncertainties

22. The business plan has to take into account how the external environment might change and the risks arising. The DMO must have the capability to respond to events and manage risks as they arise.

23. The main external events or trends, carrying risks (and in some cases opportunities) to which we may need to respond include:

a) fluctuations in the financing requirement: the debt market response is in terms of financing contingencies, and mechanisms (switch auctions, conversions etc) to sustain liquidity;

b) the financing requirement also affects Government's net cash position and hence the scale and mix of resources and infrastructure needed to support this area over the next 3 years;

c) the impact of electronic trading systems and networks in the gilt market, including of the proposed inter-GEMM quote obligations;

d) the extent to which Government departments are able to improve their cash flow forecasts, eg in response to incentives currently being piloted by HM Treasury;

e) the demands from other government departments for the DMO's expertise;

f) any changes in the tax regime applying to gilts and other instruments, including any arising from EU legislation;

g) the progress with dematerialisation of money market instruments and related reforms.

24. As well as external uncertainties, the DMO must also have in place strategies to mitigate the risks that could affect its internal capabilities. The key relevant areas are:

a) business capacity and resilience, and the associated need for business continuity planning and a disaster recovery site;

b) the inevitable reliance in a small organisation on key staff, particularly in specialist areas;

c) some of the budgetary, procedural, pay and other constraints arising from the DMO's status as part of central government;

d) internal procedures and controls meeting best practice standards of similar operational environments in the financial services sector.

25. The broad planning conclusions which underlie the projections of the DMO's resource requirements centre on the need for flexibility, an ability to redeploy staff without affecting day to day operational efficiency, an open innovative and professional culture, staff with necessary skills and training, wide external contacts, including with overseas debt offices, and close operational relationships with suppliers, customers and HM Treasury.

26. The practical strategies and behaviours that are necessary for the DMO to adopt to validate its longer term objectives are further set out in Annex D.

Targets and Organisation in 2001-02

27. The DMO's long term targets are the basis of the targets for the year ahead which are in turn cascaded down to teams and hence to individuals. However this process is not entirely straightforward for two reasons:

a) a number of the high level targets extend across more than one area of the DMO's activity;

b) the DMO is itself organised flexibly to ensure that resources are available as necessary for the respective tasks.

28. The DMO's functional organisation was changed during 2001, and its corporate governance arrangements further developed. There are now two main business areas in the DMO: policy and markets, and operations and resources. These areas are in turn split into a number of teams. The functional responsibilities are illustrated in Annex E. There is substantial working across teams to ensure that both policy and operational concerns are adequately met; that the relevant skills are bought to bear on tasks or problems; and that important operations are adequately resourced. All major operational and management decisions are considered by the DMO's Managing Committee. The Committee comprises the Chief Executive, together with the heads of the two business areas and of the main function teams.

29. The Managing Committee is now guided by an Advisory Board which comprises the Chief Executive, the Deputy Chief Executive (and head of policy and markets) and the head of operations and resources, together with non-executive members from outside the DMO: James Barclay, Colin Price and, from the Treasury, Paul Mills. James Barclay is also Chairman of the DMO's audit committee.

30. Within the DMO most business issues are considered by one of three cross-cutting committees: on debt strategy; cash strategy; and investment. They are supported by a credit and risk committee which also reports to Advisory Board.

31. The DMO's main operational and business targets in 2001-02 are summarised in Annex F. Although grouped broadly under the key objectives, the sub-headings have been aligned with a more task-oriented breakdown. The joint responsibility of teams to meet some of the targets is apparent.

32. The DMO's published performance targets are at Annex G. These follow the same categories as in earlier years, although in some cases they have been tightened somewhat; the list has also been extended.

Resources

33. The DMO's resource requirement is largely driven by the need to meet its responsibilities, reflecting also the strategic judgements above as well as the wider need within Government to maintain taut administrative budgets. Its budget has to reflect a need for both skills and systems that are not available elsewhere within Government.

34. The DMO's expenditure in 2000-01 was not very different from that in 1999-2000. Current expenditure was somewhat greater, reflecting the first year of cash management, including the full year impact of pay costs of the recruitments over the previous year and settlement and similar operational costs. Capital expenditure on the other hand was much lower, as systems were consolidated rather than extended. Expenditure in 2001-02 will be greater, reflecting both the expanded capability to manage effectively the Government's net cash position, and the need for greater operational resilience in some areas. Relocation to new premises will also add to expenditure.

35. The DMO's pay bill reflects its staff mix, and the need to cover specific skills whether by staff on contract or direct recruitment. Most new staff have been recruited from the private sector; and over half the DMO's staff now have a private sector background. Details of the DMO's recent budgets are at Annex H.

Training and Development

36. The DMO's training and development policy is central to ensuring that the right people with the right skills are in the right job at the right time; and to improving the skills base where developmental needs are identified. The key elements of policy are that:

a) all staff should have the necessary training to ensure their professional effectiveness; this includes their ability to contribute across teams and to cover for others;

b) training and development should be part of an internal culture that is open to new ideas and is able to assimilate them;

c) staff should have access to training and development opportunities to further their careers, as part of making the DMO an attractive place to work.

37. The business plan drives the identification of training and development needs at both team and individual level, and the preparation of a training and development plan. This is a process that operates across the office:

a) senior management is committed to the value of effective training and development, to evaluating its impact on knowledge, skills, attitudes, performance and achievement of objectives, and to making sure that resources are available to allow everyone to acquire the necessary skills;

b) DMO’s business services function provides routes to training advisers or providers, as well as co-ordinating the planning, monitoring and evaluation processes;

c) team leaders have a key role in helping individuals identify the skills and attributes needed for their specific responsibilities, and in ensuring that time is available for internal or external training;

d) individuals take personal responsibility to look for training and development opportunities, and to make sure that identified training requirements are met.

38. Every member of the Office prepares individual objectives and a personal development plan that flow from the targets and objectives identified in the plan. The individual performance review process, both during the year and in the annual review, coupled with feedback on training opportunities, provides the means of monitoring and evaluation.

39. A full, costed office-wide training and development plan will be derived from the Business Plan. That work is done in the first quarter of the new financial year, following the business planning process and in parallel to the annual performance appraisal process. There will be greater emphasis in 2001-02 on management development and IT skills training.

40. Reflecting its commitment, both to the value of training and development, and to the underlying processes that secure it, the DMO achieved Investors in People (IiP) accreditation in the course of 2000-01. It intends to maintain that accreditation in future reviews.

ANNEX A

DMO: STRATEGIC OBJECTIVES

1. To meet the annual remit set by Treasury Ministers for the sale and purchase of gilts, with high regard to long term cost minimisation taking account of risk.

2. To offset, through its market operations, the expected outturn cash flow into or out of the NLF, on every business day; and in a cost-effective manner with due regard for credit risk management.

3. To manage effectively, in accordance with objectives set by Treasury Ministers, any assets held on the Debt Management Account.

4. To advise Ministers on setting the remit to meet the Government's objectives under 1-3 above; and to report to Ministers on the DMO's performance against its remit, objectives and targets.

5. To develop policy on and promote advances in new instruments, issuance techniques and structural changes to the debt and Treasury bill markets that may help to enhance the efficiency and lower the cost of debt and cash management, liaising as appropriate with the relevant bodies; to keep abreast of developments in debt and cash management policy and practice; and to provide policy advice to Treasury Ministers and officials accordingly.

6. To conduct its market operations, liaising as necessary with the relevant bodies, with a view to maintaining or promoting an orderly, efficient and liquid market for gilts.

7. To provide, including in liaison with the Bank of England and CRESTCo, a high quality and efficient service to investors in Government debt, and to deal fairly and professionally with market participants in the gilt and money markets, consistent with achieving low cost issuance and an efficient market.

8. To contribute to the Treasury's work on the development of the strategy for managing the Government's financial assets and liabilities.

9. To make information publicly available on the debt and Treasury bill markets and DMO policies where that contributes through openness and predictability to efficient markets and lower costs of issuance.

10. To provide advice and expertise to other Government departments (and other governments) as required, and consistently with meeting the objectives 1-3 above.

11. To resource, staff and manage the Office to deliver its objectives effectively and efficiently and to ensure value for money in its administrative expenditure.

12. To develop appropriate management, information and control systems with high regard to risk minimisation; and to ensure full and accurate presentation of accounting and other information.

ANNEX B

A REVIEW OF DMO'S PERFORMANCE IN 2000-01

This annex summarises the DMO's main achievements in 2000-01. They are grouped under the broad headings of the strategic objectives that applied in 2000-01. More detailed information on outturn against published targets can be found in Annex C.

1. To meet the annual remit set by Treasury Ministers for the sale of gilts, with high regard to long term cost minimisation, taking account of risk.

- This has been successfully achieved.

- Gilt sales targets have been met through the conduct of eight outright auctions (four conventional and four index-linked). Outright gilt sales were £10.0 billion (cash) as planned, split between £6.5 billion (long conventional) and £3.5 billion (index-linked)

- The published debt buy-back target has been successfully met through a combination of six reverse gilt auctions and secondary market purchases. The published target for buy-backs was increased in-year from £3.5 billion (cash) to £5.0 billion (cash), although the DMO was able, with the Treasury's agreement, to exceed this total. Buy-backs totalled £5.7 billion in 2000-01 (to which reverse auctions contributed £4.1 billion).

2. To offset, through its market operations, the expected net cash flow into or out of the NLF, on every business day; and in a cost-effective manner.

- This has been successfully achieved.

- The DMO assumed full responsibility for Exchequer cash management on 3 April 2000 and has been fully operational every business day since.

- A major operational challenge has been to deal with the Government's sizeable cash surplus and some very substantial daily cash movements – for example the net cash flow was on 7 December 2000, as a result of gilt coupon payments and the redemption of 8% Treasury Stock 2000 was nearly £15 billion.

- The DMO liaised successfully with the Bank of England, the Radiocommunications Agency and market participants to facilitate the smooth handling of the very large cash receipts from the third generation mobile phone licence auction. Total receipts from the auction were £22.5 billion, with approximately £12 billion being received in May 2000 and a further £10 billion in September 2000.

- Cost effectiveness has been promoted. The DMO has established effective dealing relationships with a wide range of counterparties and has extended the range of instruments it may use in its operations. A variety of operations, primarily bilateral dealing and structured Treasury bill tenders, have been used and these have been well supported.

3. To advise Ministers on setting the remit to meet the Government's debt management objectives, and on any future modification to the Government's cash management objectives; and to report to Ministers on the DMO's performance against its remit, objectives and targets.

- The DMO contributed specific advice in a number of areas of the 2000-01 remit:

  i) the extent to which gilt issuance should be split between conventional and index-liked gilts; the extent of the bias toward long-dated issuance, including the maturity of a new long dated stock; and the range of contingencies in the event of changes in the Government's financing requirement (which were implemented as a result of the significantly increased cash surplus following the spectrum auction);

ii) size and timing of auctions;

iii) switch auction candidates;

iv) the scope for debt buybacks to increase the size of the financing requirement, thereby allowing more room for the issuance of long-dated gilts;

v) the scope of an inaugural cash management remit;

vi) in the course of 2000-01, the establishment of a regime to manage the Government's short-term cash position, as an extension to cash management operations.

- The DMO also contributed substantially to the preparation of the "*Debt and Reserves Management Report 2001-02*", including the DMO remit for 2001-02. Particular issues that were addressed included:

i) planning ahead for the conventional gilt market including the need for a new medium maturity conventional gilt;

ii) the split of conventional gilt issuance between medium and long maturities, and the split between conventional and index-linked issuance;

iii) the size of a continuing buy-back programme and the need for further reverse auctions;

iv) planning ahead for the strips market including the introduction of a second set of strippable gilt coupon dates;

v) planning ahead for the index-linked market including switch auctions and instrument design;

vi) the balance between the volume of planned gilt issuance and the level of short term debt sales; in particular the size of the desired increase in the stock of Treasury bills; and the rate at which the DMO short term asset position should be wound down.

- The DMO reported performance against the remit to the Treasury on a monthly basis, and on developments in the gilt portfolio and compliance against individual published targets on a quarterly basis. (The annual summary of performance against these targets is published in Annex C of this plan).

- The DMO submitted a number of memoranda to, and DMO officials appeared a number of times before, the House of Commons Treasury Committee inquiry “Government’s Cash and Debt Management”.

4. To develop policy on and promote advances in new instruments, issuance techniques and structural changes to the debt markets that will help to lower the cost of debt management, liaising as appropriate with the Bank of England, Financial Services Authority, London Stock Exchange, and other bodies; and to provide policy advice to Treasury Ministers and senior officials accordingly.

- The DMO published proposals for the conduct of reverse gilt auctions and a proposed extension to the scope of its secondary market purchase operations on 26 April 2000. The new operations were part of the government’s strategy to buy back debt from the market. The original target was £3.5 billion (cash) but this was increased to £5.0 billion on 9 November 2000. Following consultation with the market, the DMO published its response on 14 June 2000 and the first reverse gilt auction was successfully held on 20 July 2000.

- The DMO has continued to consult widely about the possible impact of electronic trading systems on the secondary market for gilts and how the DMO’s relationship with the GEMMs might change as a consequence. On 23 June 2000 the DMO announced a proposal to introduce an inter-GEMM market with quote obligations in a designated set of stocks, but that it wished to consult further about the nature of the means of delivery of the market. Discussions on the means of delivery have continued with the GEMMs, and a decision is expected early in the Summer of 2001.

- The DMO also extended the range of financial instruments in which it may transact on a bilateral basis for cash management purposes – including selected commercial paper and bank bills and other high quality short term debt instruments. This will also assist the management of the Government’s short-term cash position, which will be managed separately from, but as an adjunct to, the DMO’s daily cash management responsibilities.

- The DMO introduced a standing repo facility on 1 June 2000 for the purpose of managing actual or potential dislocations in the gilt repo market. The facility was used for the first time on 29 December 2000 and subsequently three times in early January 2001 and again in early March 2001.

- On 12 March 2001, the DMO launched a consultation exercise on the introduction of index-linked switch auctions.

- The DMO's new remit for 2001-02 was published with the Budget Statement on 7 March 2001. At the same time the DMO undertook to consult the market about a possible redesign of index-linked gilts – a decision to issue will depend on the outcome of the consultation, but the DMO would not envisage introducing any re-designed index-linked gilt before the 2002-03 financial year.

5. To conduct its market operations, liaising as necessary with regulatory and other bodies, with a view to maintaining orderly and efficient markets and promoting a liquid market for gilts.

- In view of the limited scope for issuance of new benchmark stocks, given the Governments sizeable cash surplus in 2000-01, the DMO has concentrated issuance where demand was strongest at the long-end of the curve. Outright gilt auctions have been supplemented by a series of three switch auctions out of 8% Treasury Stock 2015 into the new ultra-long benchmark 4¼% Treasury Stock 2032. The switch auctions added £6.8 billion nominal to the amount outstanding of 4¼% Treasury Stock 2032 – helping to take it to £13.6 billion by the end of its first year in issue.

- The DMO conducts its market operations in accordance with its operational market notices. It published a revised gilt market operational notice in September 2000 (primarily to accommodate reverse auctions). Subsequent amendments to the gilt operational notice were made in November 2000 and March 2001 and updated on the electronic version published on the DMO website. The DMO also issued a notice in November 2000 expanding the range of instruments which it may use for cash management purposes.

6. To provide, including in liaison with the Bank of England and CRESTCo, a high quality efficient service to investors in Government debt, and to deal fairly and professionally with market participants in the gilt and money markets, consistent with achieving low cost issuance.

- In order to further promote transparency in the gilts market, in September 2000 the DMO also introduced a real-time benchmark gilt price screen on its wire services showing indicative mid prices for a series of gilts derived from GEMMs published quotes.

- The Royal Bank of Canada (RBC) became a Gilt-edged Market Maker (GEMM) in November 2000, taking the number of GEMMs to 17. The DMO also recognised RBC as a specialist index-linked gilt-edged market maker (IG GEMM). Later in November the DMO recognised UBS Warburg as an IG GEMM, taking their number to 11. Société Générale ceased to be a GEMM in October 2000.

7. To contribute to the Treasury's work on the development of the strategy for the debt portfolio.

- Preliminary research on this project has tested a number of techniques that could be used to measure the risk/return trade-off between different issuance strategies. Work is proposed that builds on one aspect of this work, namely the Monte Carlo simulation approach.

- The DMO is planning the development and research work needed to take this forward.

8. To make information publicly available on the debt markets and DMO policies where that contributes through openness and predictability to efficient markets and lower costs of debt issuance.

- The DMO has also been expanding and restructuring its web site: www.dmo.gov.uk on which all its publications appear. New areas covering retail involvement in the gilts market, index-linked gilts and the DMO's cash management operations have been added to the site. The DMO has also used its web site to provide access for gilts market participants to Government issues which range wider than the DMO's own policy responsibility but impact on the gilts market (eg Minimum Funding Requirement and Myners Review announcements).

- The DMO has produced an e-strategy statement which includes the aim of making non-commercial information relating to its activities available electronically.

- The DMO published its regular annual review of developments in the gilt market *"The Gilt Review 2000*" on 4 August 2000; this was expanded to include references to the DMO's new cash management role. The DMO has also continued to publish and refine its Quarterly Review. There was a comprehensive revision of the Quarterly Review in the first quarter of financial year 2001.

- The DMO has liaised with Bank of England Registrar's Department on the production of a second edition of the booklet "*Investing in Gilts: the private investor's guide to British Government Stock*" which was published in February 2001.

9. To resource, staff and manage the Office to deliver its objectives effectively and efficiently and to ensure value of money in its administrative expenditure.

- The DMO received "*Investors in People"* accreditation on 8 June 2000.

- The DMO's annual report and audited accounts for 1999-2000 were published on 26 July 2000.

- The DMO has kept within its cash budget despite a major challenge to prepare for the management of the Government's surplus cash position.

- Business continuity plans, including a remote disaster site are being progressively reviewed to take account of the DMO's developing role.

- An electronic records management system has been procured and operational implementation began in March 2001.

10. To develop appropriate management, information and control systems with high regard to risk minimisation; and to ensure full and accurate presentation of accounting and other information.

- A new structure of corporate governance has been introduced to assist the Chief Executive in carrying out his responsibilities. This comprises a high-level Advisory Board, supported by a Managing Committee, a Risk Committee and strategy groups for each key business area. Two external non-Executive Directors, James Barclay and Colin Price have joined the Advisory Board, together with Paul Mills of HM Treasury; James Barclay also chairs the DMO's Audit Committee;

- A Risk Unit has been established to develop best practice disciplines covering the DMO's credit, market, compliance, legal and operational activities.

- Internal reporting arrangements have been formalised to help the Chief Executive to meet his internal control responsibilities as required under the Turnbull Guidelines.

- Charters were approved for the DMO's Audit Committee, internal audit and compliance functions;

- The DMO's internal audit function is well established; an audit programme has been produced to ensure appropriate audit coverage for the DMO’s key business activities.

ANNEX C

DMO PERFORMANCE AGAINST TARGETS 2000-01

1. To ensure full compliance with the Government's remit for the DMO as set out in the Debt Management Report, within the tolerances and subject to the review triggers notified separately to the Office and consistently with the objectives of monetary policy.

The DMO has complied fully with the remit for 2000-01, including the two revisions published to it on 12 June 2000 and 8 November (the Pre-Budget Report). In the June revision the volume of planned gross gilt sales was reduced from £12.2 to £10.0 billion (cash) and the medium conventional gilt auction scheduled for September 2000 was cancelled (as a result of the higher than anticipated proceeds from the mobile phone licences auction). In the November 2000 revision, the volume of planned debt buybacks was increased from £3.5 to £5.0 billion. Planned gross gilt sales remained unchanged at £10.0 billion (£6.5 billion long conventional and £3.5 billion index-linked).

Seven outright gilt auctions have been held under the 2000-01 remit – three conventional (all of the new 4¼% Treasury Stock 2032) and four index-linked (of the 2013, 2020, 2030 and 2016 maturities). Gross gilt sales at the end of the financial year were£10.0 billion (£6.5 billion long conventional and £3.5 billion index-linked).

The DMO launched its schedule of reverse gilt auctions – as part of the plan to buy back debt from the market to the value of approximately £5.0 billion. A total of £4.1 billion cash has been bought back at six reverse auctions held on 20 July 2000, 21 September 2000, 11 October 2000, 23 November 2000, 18 January 2001 and 22 February 2001. In addition, £1.6 billion (cash) of gilts was bought-in through secondary market net purchases – taking the buyback total (with HM Treasury agreement) to £5.7 billion by the end of the financial year.

A series of three switch auctions have held from 8% Treasury Stock 2015 into 4¼% Treasury Stock 2032 on 22 June 2000, 27 September 2000 and 6 December 2000. £5.0 billion nominal of 8% Treasury Stock 2015 was switched in these operations, creating £6.8 billion (nominal) of 4¼% Treasury Stock 2032, and helping to increase the size of that stock to £13.58 billion (nominal) at the end of the financial year (the second largest gilt in issue).

2. To ensure that the maximum time taken to issue the results of gilt auctions and Treasury bill tenders does not exceed 40 minutes whilst achieving complete accuracy.

This was successfully achieved. The gilt auction result release times were:

3 May: 2½% IL 2020	26 minutes
24 May: 4¼% 2032	30 minutes
21 June: Switch auction	27 minutes
20 July: Reverse auction	37 minutes
26 July: 2½% IL 2013	22 minutes
21 September: Reverse auction	25 minutes
27 September: switch auction	33 minutes
11 October: reverse auction	32 minutes
20 October: 4 1/8% IL 2030	26 minutes
21 November: 4¼% 2032	37 minutes
23 November: reverse auction	25 minutes
6 December: switch auction	29 minutes
18 January: reverse auction	22 minutes
24 January: 2½% IL 2016	27 minutes
22 February: reverse auction	28 minutes
28 March: 4¼% 2032	37 minutes

The release times for the results of the 52 structured bill tenders held during the financial year ranged from 7 to 20 minutes and averaged 13 minutes.

3. To ensure that the maximum time taken to issue the results of ad hoc Treasury bill or other tenders does not exceed 15 minutes.

This was successfully achieved. The release times for the result of the 4 ad hoc and reverse repo tenders ranged from 5 to 13 minutes and averaged 8 minutes.

4. ***To achieve complete accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the Debt Management Account and in delivering money (and reconciling payments) to the NLF***.

All transactions going through the DMA have met the required standards. NLF balances are reconciled and agreed with the Treasury on a daily basis.

5. ***To acknowledge all letters and e-mail inquiries from the public within 8 working days and for at least 95 per cent to be sent a substantive reply within 3 weeks.***

This was achieved. 76 inquires were received from the public by letter and e-mail in the year to date. The longest response time was 7 working days and average response time was 2 working days.

6. To achieve less than 10 breaches of operational market notices (excluding any breaches which the Treasury accept were beyond the control of the Office).

There was one technical breach of the gilt operational notice on 6 December 2000 when a switch auction from 8% Treasury Stock 2015 into 4¼% Treasury Stock 2032 was held 15 days after the outright auction of 4¼% Treasury Stock 2032. The gilt operational notice had said that the DMO will not hold a switch auction into a stock that had been auctioned outright less than 21 days earlier. This provision had been intended to reassure the market that the DMO would not decide to announce a switch into a newly auctioned stock at short notice. This issue did not arise in this case because the DMO had announced – in the 30 September 2000 auction calendar press release - its intention to auction the 2032 stock on 21 November 2000 and switch into it on 6 December 2000. The gilt operational notice was subsequently revised to bring the wording into line with the underlying policy intention.

7. ***To ensure that the qualifications that the NAO have made in respect of the Gilt-Edged Official Operations Account are satisfactorily addressed in the running and presentation of the Debt Management Account.***

See response to target 4 above.

8. To ensure that the statutory constraint on DMO market borrowing (not to exceed its deposits with the NLF and Bank of England) is always met.

Achieved.

9. To ensure that, where there is a late change in the forecast, any necessary use of end of day borrowing or lending facilities is notified by the due time.

Achieved, all required notifications to the Bank of England have been made in due time.

10. To achieve a minimum of 99% (by value) successful settlement of agreed trades on the due date.

Achieved. Turnover in the first financial year was some £475 billion. Trades totalling 0.2% of turnover (£0.945 billion) failed as a result of circumstances within (or partly within) the DMO’s control. Successful settlement of trades by value over the year on this measure was therefore 99.8%.

If trades which failed as a result of circumstances outside the DMO’s control, are included, the total of fails rises to 0.96% of total turnover (to £4.540 billion).

ANNEX D

KEY OBJECTIVES AND HIGH LEVEL TARGETS

The DMO's key objectives are summarised below, with cross references to the strategic objectives set out in Annex A.

1. Consistently meets the annual gilts (and TBills) remit, showing high regard for long term cost minimisation taking account of risk; S*trategic Objective 1*

2. Maintains a liquid competitive and orderly gilts market, with wide investor appeal; *Strategic Objective 1,4, 5, 6 & 7*

3. Consistently balances the NLF daily cash flow, and in a cost effective manner, with due regard for risk; S*trategic Objective 2*

4. Effectively manages assets held on the DMA, taking account of risk; S*trategic Objective 3*

5. Meets high professional and operational standards and provides timely and authoritative advice or information inside or outside Government as relevant; S*trategic Objective 4, 8, 9,10 &11*

6. Is managed internally with high regard to efficiency, value-for-money and risk minimisation; and to the motivation and effectiveness of its staff; S*trategic Objective 11 & 12*

These objectives can be elaborated into a number of characteristics of the DMO in the longer term, which must be realised if the objectives are to be achieved. These aspirational objectives, summarised below, are the basis of more specific longer term targets.

1. DMO running HMG's financing programme, within the given policy framework; K*ey Objective 1*

2. Seen as responsive and innovative by market customers, investors, counterparties, regulatory bodies and infrastructure providers, providing a high quality efficient service and dealing fairly and professionally; *Key Objective 2*

3. The Treasury's treasury – balancing the NLF day by day, in a range of instruments, and promoting confidence in the Exchequer's cash flow forecasts; *Key Objective 3*

4. In debt and cash management responsibilities, respected internationally, and giving high value to research, analysis and knowledge base; *Key Objective 5*

5. Managing HMG financial assets as required to high standards, and taking account of risk; *Key Objective 4*

6. The key provider of advice to Ministers across relevant financing and related asset liability management issues. Offering capability to actively manage interest rate and credit risk exposure across whole balance sheet; *Key Objective 5*

7. Authoritative source of advice on financial markets and related policy issues to Government departments, with high credibility; *Key Objective 5*

8. Publications and information widely seen as meeting highest standards, including internationally. Making information available publicly wherever possible and ensuring accessibility by a range of user-friendly means – including electronically; *Key Objective 5*

9. A model executive agency, and seen as an excellent place to work; discharging responsibilities efficiently, cost effectively, and innovatively;

meetings its core values; and with a capability of bringing operations and activities in-house where appropriate. A market leader within HMG in areas of risk management, maintaining unqualified accounts and meeting best corporate governance practice in relation to internal control; *Key Objective 6*

Strategies

To meet these longer term objectives, a number of practical strategies have been identified for the year ahead, ie the behaviours necessary if the DMO is to validate the medium term vision. They are summarised below:

1. Consolidating and sustaining business performance:
   - Meeting high professional standards, and achieving zero error in operations;
   - Being sensitive to market requirements;
   - Maintaining the sustainability and flexibility of cash operations, including by extending range of products and counterparties;
   - Develop capability to manage the Government's net cash position;
   - Sustaining systems, policies and procedures (embedding project management skills, investment in systems, knowledge and people).

2. Enhancing performance and meeting new challenges:
   - Underpinning policy and initiatives with strong research and analysis
   - Taking forward policy design on eg auctions, new instruments, and MIS
   - Upgrading performance measurement, internal and external
   - Development the training and knowledge base
   - Specifically, consulting on the design of a new IG.

3. Confirming corporate identity:

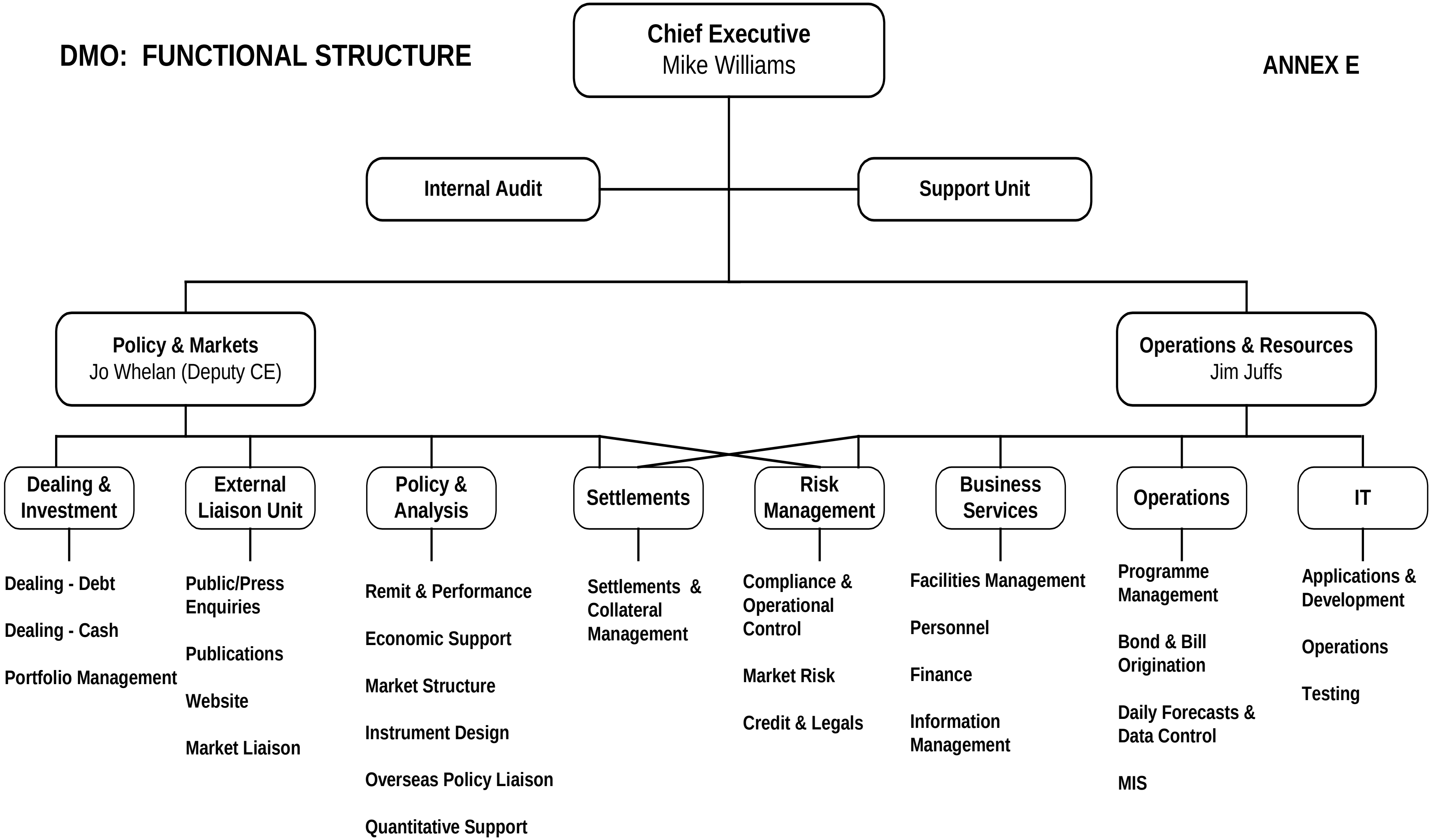
- Enhancing external engagement;
- Developing the DMO’s profile in HMG and internationally.

4. Staffing and efficiency:

- Leveraging on success and rewarding excellence;
- Maintain an open culture; promoting flexibility & teamworking;
- Benchmarking practices and process eg with the EFQM model; maintaining IiP accreditation;
- Improve business resilience – in the arrangements for cover, multi-skilling and succession planning;
- Further developing the IT strategy.

DMO: FUNCTIONAL STRUCTURE

ANNEX E



ANNEX F

MAIN TARGETS BY OBJECTIVE: 2001–02

Key Planning Objective Number 1

“Consistently meets the annual gilts (and TBills) remit, showing high regard for long term cost minimisation taking account of risk”.

Activity	Target
Remit	Meet annual published and confidential remit (published target). Maintain ability and flexibility to identify and manage changes to the remit
Performance review	Develop research on cost at risk measures; communicate approach to risk in terms of portfolio
Strips market	Ensure capability to handle a second set of strip dates before end Q2 2001
T Bills	Achieve reliable, consistent and strong support of T Bill tenders Watching brief on dematerialisation, identifying as appropriate any requirements to ensure smooth transition.
Timescale of operations	Gilt auction results to be published (without error) within 40 mins of the close of offer, structured TBill tenders within 30 mins, and ad hoc tenders within 15 mins (published target)
Auction structure	Continue to use and develop auction structures that secure lowest cost financing.
Index-linked gilts	Carry out consultation on possible IL redesign Plan for having in place capability to issue any new design index-linked stock, in 2002-03 or later, depending on market view. To include internal system changes if relevant.
Accuracy of operations	Ensure fewer than 8 breaches of the debt and cash management operational notices. (Published target – aim to be well within). Prepare legal, press advertisements, press notices and other relevant documentation for debt management operational announcements in a timely manner, with zero error. Ensure that the processing of all auction bids is made accurately, results of auctions are published within the set timescale and the correct amounts of stock are allocated to the correct counterparties in 100% of cases.

Systems	Improve the efficiency and robustness of systems used to process auction and tender applications Develop efficiency of gilt MIS Review yield curve estimation methodology

Key Planning Objective Number 2

"Maintains a liquid competitive and orderly gilts market, with wide investor appeal".

Activity	Target
Standing repo and other secondary market operations	Ensure facilities aimed at promoting gilt market liquidity are effective and achieve value for money
Maintain and encourage liquidity, competitiveness, orderliness.	Provide good quality reference prices to market and CREST in a timely manner and in accordance with CREST SLA . Conduct a review of the quality and frequency of GEMM pricing contributions in each sector (conventionals, IGs and strips) by end Q2 2001. Monitor market liquidity and GEMM performance so as to inform policy review and development Work with FTSE to ensure common understanding of gilt index rules and accurate and timely co-ordination of operations where this is relevant.
Electronic inter-GEMM market	Work with GEMMA to identify technological solution that is acceptable to market and DMO. Introduce inter-GEMM market with mandatory quote obligations in early 2002.
Rump pricing	Review methodology of pricing rump stocks; adapt policy and systems if appropriate (by end 2001).

Key Planning Objective Number 3

"Consistently balances the NLF daily cash flow, and in a cost effective manner, with due regard for risk".

Activity	Target
Daily cash management Objective	Implement agreed CM strategies, taking account of cost, VFM and risk / reward and with minimal market impact, to ensure NLF is forecast to be in balance by close of business. Notify any end of day requirement by due time (published target).
Performance review	Review CM one year on with view to identifying optimal strategy for subsequent years. Continue to develop suite of relevant performance indicators.
Counterparty relationships	Manage on a consolidated basis counterparty relationships across money market area.
Range of instruments	Continue to explore range of instruments used in operations, including as collateral and subject to credit and systems constraints, to enhance cost effectiveness of operations.
Settlement	Settle the DMO's business in a timely and efficient manner, with the minimum of error. Ensure 99% of trades by value settle on the required day (published target). Complete daily reconciliation with NLF accurately and in a timely manner (published target).
Risk management	Ensure full identification of any risks associated with the settlements function; introduce procedures to manage those risks to an acceptable level and promote enhancements as necessary.
Cashflow capture	Ensure NLF daily forecast is managed effectively in data capture and reconciliation.

Key Planning Objective Number 4

"Effectively and efficiently manages assets held on the DMA, taking account of risk".

Activity	Target
VFM management of assets	Make effective use of assets held on the DMA by seeking out cost effective application, within policy and risk parameters.
Counterparty relationships	Manage on a consolidated basis counterparty relationships across money market area – see also Obj 3.
Range of instruments	Continue to explore range of instruments used in operations, including as collateral and subject to credit and systems constraints, to enhance cost effectiveness of operations – see also Obj 3.
Settlement	Settle the DMO's business in a timely and efficient manner, with the minimum of error. Ensure 99% of trades by value settle on the required day (published target) – see also Obj 3.
Management reporting	Ensure the accurate presentation of relevant financial and performance statements prepared for DMO and HMT use.

Key Planning Objective Number 5

"Meets high professional and operational standards and provides timely and authoritative advice or information inside or outside Government as relevant".

Activity	Target
Information management	Raise the profile of information management within the DMO. Successful implementation and bedding in of an electronic records management system within agreed timescales. Establish and maintain a Vital Records Programme (relationship with Business Continuity Planning).
Library	Improve library services including access to HMTCABLIS.
Reporting on DMO's activities	Produce relevant publications to a high standard. Ensure 100% accuracy in (DMO's) material on DMO web site (published target) Review and develop the contents of the web site to provide a comprehensive and accurate record of the DMO's business activities and meet user expectations.
Representation at external bodies	Represent the DMO's interests (and those of the TBill and gilt markets) in relevant market organisations and committees. Maintain effective networking internationally through participation in OECD and EU meetings.
Support requests from other govt departments	Within budgetary constraints, sustain capability to respond to requests for advice.
Public enquiries	Ensure there is a professional and timely service to public enquiries that also meets the published target.

Key Planning Objective Number 6

"Is managed internally with high regard to efficiency, value for money and risk minimisation; and to the motivation and effectiveness of its staff".

Activity	Target
Risk management	Maintain, develop and update the DMO's risk policies. Ensure that senior management is informed of all key financial risks on a timely basis and that there are unqualified audit and compliance reports. Operate risk management effectively so that no default related losses are incurred on the DMA Further develop analytical tools to support portfolio modelling and risk measurement needs. Ensure full identification of any risks associated with the settlements function; introduce procedures to manage those risks to an acceptable level and promote enhancements as necessary.
Legals	Ensure there are effective legal agreements put in place with all counterparties and that new business is supported through timely and accurate completion of documentation.
Procedures and controls	Ensure all key procedures and controls are fully documented. Ensure compliance with all relevant money laundering legislation. Operate full year in a Turnbull compliant manner achieving an unqualified statement of internal control for 2001-02
IT applications & operations	Establish an internally agreed IT strategy to include clear definition of the implications for business users. Develop a plan of implementation. Set performance targets for support items. Ensure adequate availability of DMO's IT infrastructure throughout year to meet business requirements
Project management	Ensure that planned projects produce deliverables on time by further developing appropriate project management procedures and implementing them for all projects.
HR function	Further develop procedures to ensure recruitment is timely, effective and in accordance with the requirements of the Civil Service Commissioners' Recruitment Code; and that exits are managed without creating operational risks. Develop HR capability to meet business planning and operational needs in context of growth of the office. Implement agreed work programme following HR consultant's report
Training and development	Develop office training plan for 2001-02, evaluation of training in 2000-01.

	Maintain IiP accreditation
Financial reporting	Prepare and publish DMO agency and DMA accounts efficiently and effectively. Administrative Accounts laid before Parliament within required time scale; and DMA Accounts to National Audit Office by the statutory deadline (published target). Annual accounts meet requirements of National Audit Office and are passed with true and fair view statements (published target). Ensure that there is no breach of the DMA “cap” (published target).
Audit	Production and delivery of an annual audit work plan that is derived from a risk assessment of the DMO’s activities. Implement agreed audit recommendations effectively and in a timely manner.
MIS development	In accordance with the agreed work programme.
Business continuity (and Disaster recovery)	Put in place a revised Business Continuity Plan and arrangements to meet the current business requirements of the DMO. Establish credible and proven disaster recovery processes capable of restoring minimum services required to support operations that need immediate recovery.
Relocation	By end Q2 2001. Relocate the DMO to a new office.

ANNEX G

DMO's PUBLISHED TARGETS 2001-02

1. To ensure full compliance with the Government's remit for the DMO as set out in the Debt and Reserves Management Report 2001-02, within the tolerances and subject to the review triggers notified separately to the Office and consistent with the objectives of monetary policy.

2. To ensure that the maximum time taken to issue the results of gilt auctions does not exceed 40 minutes, that for structured Treasury Bill tenders does not exceed 30 minutes, and that for ad hoc Treasury Bill or other tenders does not exceed 15 minutes, while achieving complete accuracy.

3. To achieve complete accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the Debt Management Account (DMA), and in delivering money (and reconciling payments) to the National Loans Fund (NLF).

4. To acknowledge all letters and e-mail enquiries from the public within 5 working days and for at least 95 % to be sent a substantive reply within 2 weeks.

5. To achieve less than 8 breaches of the operational market notices (excluding any breaches that the Treasury accept were beyond control of the Office).

6. To ensure that the qualifications that the National Audit Office (NAO) have made in respect of the accounts of the Gilt-edged Official Operations Account are satisfactorily addressed in the running and presentation of the DMA; and that the 1999-2001 DMA accounts are presented to the NAO by the statutory deadline.

7. To ensure that the statutory constraint on DMO market borrowing (not to exceed its deposits with the NLF and Bank of England) is always met.

8. To ensure that, when there is a late change in the forecast, any necessary use of end-of-day borrowing or lending facilities is notified by the due time.

9. To ensure that instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through to settlement is effective, so that DMO achieves at least 99% (by value) successful settlement of agreed trades on the due date.

10. To achieve 100% accuracy in material published on the DMO web site (insofar as the material is under the control of the DMO and not third parties).

ANNEX H

DMO BUDGET AND RESOURCES

Budget

The DMO's budget profile is set out below.

£000s

	1999-00	2000-01	Notes
Pay	1,724	1,898	1
Accommodation	320	260	
IT Current	910	570	
Other running costs	1,103	1,838	2
Total running costs	4,057	4,566	
Operational services	120	1,037	3
Capital	2,085	1,083	
Total	6,262	6,686	
Other current	500	700	4

Notes:

Figures for 1999-2000 are outturns; and those for 2000-01 are the revised cash budget for that financial year.

1. Includes Bank of England secondees.
2. Includes consultancy, legal, publishing and miscellaneous other costs.
3. Primarily Bank of England settlement, banking and associated services.
4. Auction advertising and Stock Exchange listing fees, both of which are reimbursed from the National Loans Fund. This reimbursement and other miscellaneous receipts are not shown in the table.

Resources

1. **Staff**

At the end of March 2001 the DMO had 43 staff (excluding contractors, but including those on loan or secondment from the Bank of England or HM Treasury).

2. **Premises**

The DMO currently occupies 5,500 sq. ft. of modern office accommodation in the City of London, but will relocate within the City in the course of 2001-02.

GLOSSARY AND ACRONYMS

Basis point (bp)	One hundredth of 1%
Benchmarks	Informal term for liquid, stocks, usually with a large outstanding amount and a coupon in line with the prevailing level of interest rates, which are used by participants in other markets to price other instruments of corresponding maturity, such as corporate bonds
CGO	Central Gilts Office, which used to settle gilts transactions. Now merged into CREST. Accessed by CSG within the Bank of England.
CGNCR	Central government net cash requirement.
CMO	Central Moneymarkets Office which settles transactions in Treasury Bills and other money markets instruments, and provides a depository. Managed by CRESTCo. Accessed by CSG within the Bank of England.
Coupon	Annual interest paid on gilt holdings, usually in two, semi-annual instalments. Expressed as a percentage of £100 nominal
CREST	Electronic settlement system for shares and other corporate securities in the UK, owned by CRESTCo.
CRND	Commissioners for the Reduction of the National Debt, formally responsible for investment of funds held within the public sector e.g. National Insurance Fund.
CSG	Custodial Services Group, the Bank of England office which provides settlement and banking services to the DMO and other customers of the Bank.
DMA	Debt Management Account, through which the DMO's debt and cash transactions flow.
DRM	Debt and Reserves Management team in the Treasury
EFA	Exchequer Funds and Accounts team in the Treasury.
EMU	Economic and Monetary Union.
Estimates	Proposals presented to Parliament of annual departmental expenditure.
Floating Rate Gilt	Gilt issued with an interest rate adjusted periodically in line with market rates (the only current outstanding such gilt matures on 10 July 2001).
Framework Document	Sets out the DMO's responsibility, objectives and targets, its relationship with the rest of the Treasury and its accountability.

FSA	Financial Services Authority.
GEMMs (IGGEMMs)	Gilt-edged Market Makers, primary gilts dealers. (A subset of the GEMMs, who also make markets in index-linked gilts).
Gilt	A UK Government liability in sterling, listed on the London Stock Exchange, and issued by HM Treasury with an initial maturity of over 365 days when issued. The term “gilt” (or gilt-edged) is a reference to the primary characteristic of gilts as an investment: their security
(Index-linked gilt)	A gilt on which the nominal amount outstanding and the coupons are adjusted to compensate the holder for inflation (as measured by the RPI).
GILTSWAN	Gilts Wide Area Network - the IT system used by the DMO to collect market information from the GEMMs.
GSI	The government secure intranet
HMTCABLIS	HM Treasury and Cabinet Office Library and Information Services
IDBs	Inter Dealer Brokers, in this context brokers that provide facilities for dealing in gilts between the GEMMs.
IGs	Index-Linked Gilts whose coupons and final redemption payment are related to movements in the Retail Price Index (RPI).
IG Tap	The issue by tapping of an index-linked stock.
Investors in People,(IiP)	A national standard which sets a level of good practice for the training and development of people to achieve organisational goals.
LIFFE	London International Financial Futures and Options Exchange.
LSE	London Stock Exchange.
MIS	Management Information System, the Gilts MIS is the DMO’s internal system for gilts and related data.
MOU	Memorandum of Understanding.
NAO	National Audit Office.
NLF	National Loans Fund, the account which brings together all Government lending and borrowing.
Nominal amount/ value	The face value or amount of a gilt, ie the amount the holder receives when the gilt redeems

Nominal amount/ value (uplifted)	Applicable to index-linked gilts: This is the nominal amount uplifted by inflation since the gilt was issued.
Operational Market Notice	Which sets out the DMO's operations and procedures, whether for the gilts or cash markets.
Redemption Yield	The rate of interest at which all future payments (coupons and redemption) on a bond are discounted so that their total equals the current price of the bond (inversely related to price.)
Redenomination	A change in the currency unit in which the nominal value of a security is expressed (in context, from sterling to euro)
Repo	Sale and Repurchase Agreement, a combined transaction providing for the sale and subsequent repurchase of a financial instrument.
Reverse repo	As repo but providing for the purchase and subsequent resale of a financial instrument.
SLA	Service Level Agreement, in this context between the DMO and service suppliers in the Bank and HM Treasury.
STRIPS, strips	Separate Trading Registered Interest and Principal Securities; for some ("strippable") gilts, the coupon and principal can be traded separately.
Tapping	The issue of stock in response for market management and not on a pre-announced schedule.
Treasury Bill	A sterling denominated instrument of up to 12 months' maturity when issued, but normally less, issued by HM Treasury at a discount and redeemed at par, with no interest payable.
Treasury FAMIS	Financial and Management Information System, the Treasury's internal management accounting system.
Treasury Vote	The Parliamentary authority for Treasury's annual expenditure.
Undated gilts	Gilts for which there is no final date on which the gilt must be redeemed.
Yield Curve	The mathematical relationship computed across all gilts between yield and maturity.