United Kingdom
Debt Management
Office

Annual Report and Accounts 2012-2013

of the United Kingdom Debt Management Office

and the Debt Management Account

United Kingdom Debt Management Office
Annual Report and Accounts 2012 – 2013

Presented to the House of Commons pursuant to
Section 7 of the Government Resources and Accounts Act 2000
Presented to the House of Lords by Command of Her Majesty

and

Debt Management Account
Annual Report and Accounts 2012 – 2013

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Introduction

The DMO's 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 ensuring sustainable public finances.

What this document covers

This document presents the Annual Report and Accounts of the United Kingdom Debt Management Office (DMO) and the Annual Report and Accounts of the Debt Management Account (DMA) for the year ended 31 March 2013.

The **DMO** is an executive agency of HM Treasury. Its main aims are:

- to carry out HM Government's debt management policy of minimising its financing cost over the long-term, taking account of risk;
- to minimise the cost of offsetting HM Government's net cash flows over time, while operating within a risk appetite approved by Ministers;
- to provide loans to local authorities for capital purposes;
- to manage the funds of selected public sector bodies; and
- to advise and support HM Treasury's financial stability measures and initiatives aimed at helping UK small businesses.

The **DMA** is one of the central Exchequer accounts (others include the National Loans Fund and the Consolidated Fund managed by HM Treasury and the Exchange Equalisation Account managed by the Bank of England for HM Treasury). The DMA records the assets, liabilities and other transactions that arise from the DMO's debt management (except for gilts issued by the DMO, which are liabilities of the NLF), cash management and other activities that support Government initiatives.

The following sections of this document apply to both the DMO and the DMA:

The following sections are specific to the DMO:

The following section is specific to the DMA:

Chief Executive's statement

In 2012-2013, the DMO again successfully delivered the Government's gilt financing programme in challenging and volatile financial market conditions, which saw gilt yields fall to record lows. The DMO raised £165.1 billion of gilt financing in 2012-2013, which was the fifth year in succession that the gilt sales programme exceeded £140 billion, over which period the size of the gilt market has quadrupled to almost £1.2 trillion.

The DMO continued to use supplementary distribution methods, principally syndicated gilt offerings and also mini-tenders, to support the core gilt auction programme. This facilitated the sale of large amounts of long-dated conventional and index-linked gilts as well as helping to target our core domestic investor base more directly.

A programme of eight syndicated gilt offerings raised £32.8 billion in 2012-2013. Of these, five index-linked gilt syndications raised £19.7 billion and three long-dated conventional gilt syndications raised £13.1 billion. A programme of four mini-tenders raised £6.3 billion via sales of short-dated and medium-dated conventional gilts. In all, the DMO held 56 gilt financing operations (including 44 auctions), which was four fewer than in the previous financial year.

I was encouraged by the highly efficient way in which the gilt market continued to absorb the high level of issuance. There seemed to be widespread recognition and appreciation, including from overseas investors, of increased liquidity in the gilt market. Aggregate average daily turnover in 2012-2013 was £28.8 billion, which was an 89% increase on five years ago.

The DMO performed strongly in 2012-2013 in carrying out its cash management function. All related objectives were met, despite challenging money market conditions.

The DMO saw strong demand for Treasury bills from an increased number of investors, during a period which saw record low yields at the weekly tenders and also via bilateral sales. As with gilts, Treasury bills continued to attract significant overseas investor interest, with around 49% of the market being held by such investors at the end of 2012.

During the year, total loans outstanding from the Public Works Loan Board increased by £2 billion to £64 billion. This increase included 311 applications for £3 billion of new loans.

The DMO again successfully provided a cost-effective service to its clients through the fund management operations of the Commissioners for the Reduction of the National Debt. The market value of these funds was £34.4 billion as at 31 March 2013.

During the year, the DMO successfully executed the final five auctions of EU Allowances for the UK's Emissions Trading System in Phase II of the Scheme. This concluded the DMO's responsibility for conducting these auctions since being appointed to this role by the Department of Energy and Climate Change in 2008.

In summary, the DMO has performed strongly this year across its range of activities and operations. It is therefore with confidence that I can look forward to the challenges of 2013-2014.

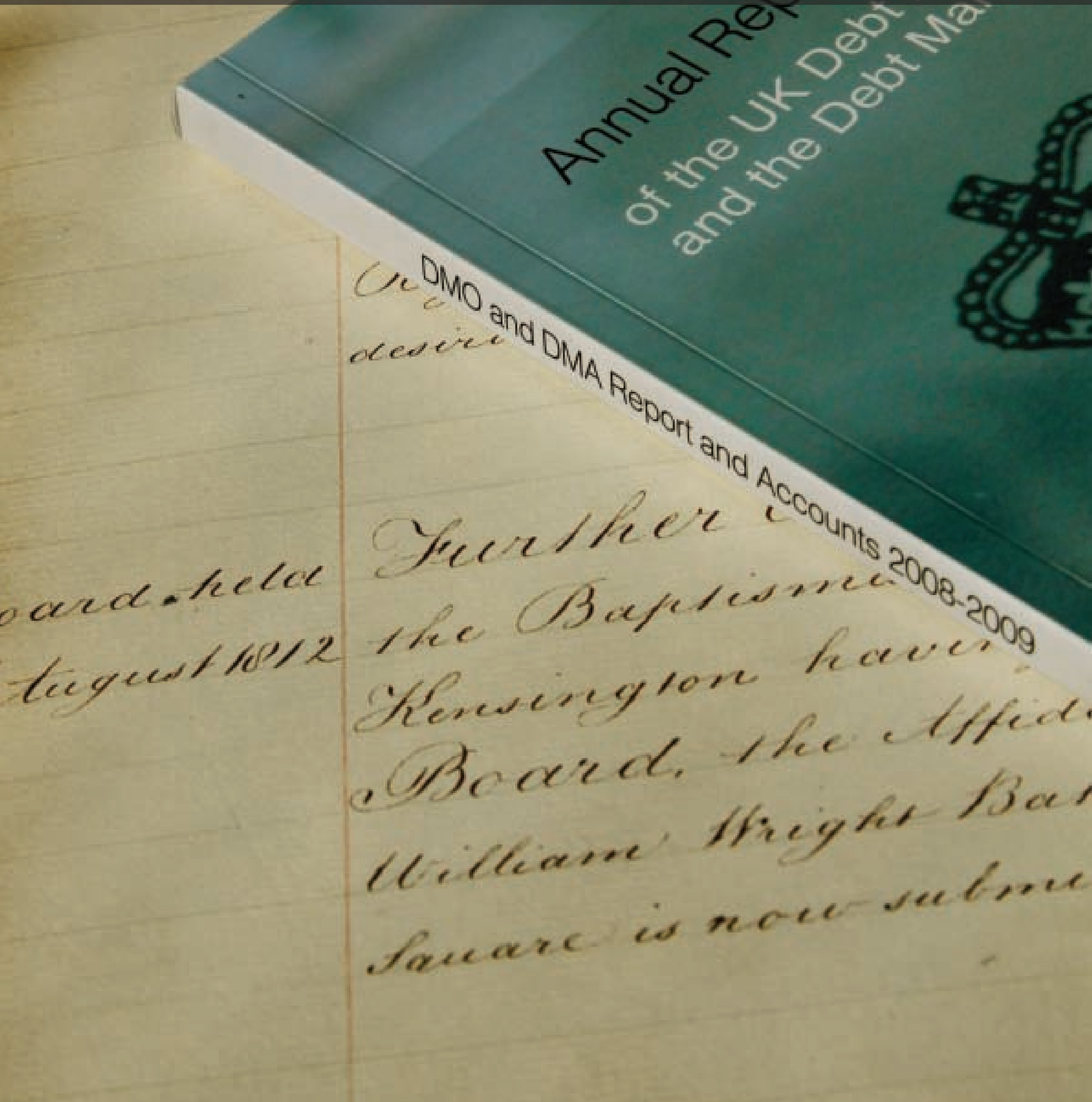
Looking ahead, the DMO's remit for 2013-2014, as revised on 23 April 2013 in the Central Government Net Cash Requirement Outturn 2012-2013, requires gilt sales of £155.7 billion, £9.4 billion less than in 2012-2013. The DMO also plans to increase the Treasury bill stock by £12.8 billion to £70.0 billion by 31 March 2014.

Once again I would like to express my sincere appreciation to all DMO staff, to colleagues at HM Treasury and at the Bank of England, and to our market counterparties for their professionalism, commitment and hard work throughout the year. I would also like to give special thanks to Sam Beckett for her 5 years of service to the DMO's Managing Board, as the non-executive HM Treasury representative, and welcome James Richardson as her successor. The success of the DMO would not have been possible without their combined contribution.

Robert Stheeman
Chief Executive
1 July 2013

Foreword

The 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'.*



Principal activities of the United Kingdom Debt Management Office

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 ensuring sustainable public finances.

The DMO is legally and constitutionally part of HM Treasury, but as an executive agency, it operates at arm's length from Ministers. The Chancellor of the Exchequer determines the policy and operational framework within which the DMO operates, but delegates to the Chief Executive operational decisions on debt and cash management and day-to-day management of the office.

The responsibilities of the Chancellor and other HM Treasury Ministers, the Permanent Secretary to HM Treasury and the DMO's Chief Executive are set out in a published Framework Document, available on the DMO website at www.dmo.gov.uk, which also sets out the DMO's objectives and lines of accountability. The Chief Executive is accountable to Parliament for the DMO's performance and operations, both in respect of its administrative expenditure and the Debt Management Account.

HM Treasury has specific objectives for debt management and cash management. The DMO is given annual remits by HM Treasury for its debt management and cash management. The remits are published in the Debt and Reserves Management Report, usually issued as part of the Budget announcements each spring. The DMO conducts its operations for the forthcoming financial year within the scope of these remits and in order to meet its specified objectives and targets.

Debt management

HM Government's debt management objective is "to minimise, over the long term, the cost of meeting the Government's financing needs, taking into account risk, while ensuring that debt management policy is consistent with the aims of monetary policy". The DMO advises HM Treasury on the development of an appropriate debt issuance strategy.

HM Government seeks to minimise the costs of servicing its debt over the long-term and tries to ensure that the chosen policy is robust in a wide range of economic conditions.

The composition of debt issued is the primary means by which HM Government adjusts the nature and maturity of its debt portfolio. In order to determine this composition, the Government takes into account, among other things, investor demand for gilts, its own appetite for risk, the shape of the yield curves and the expected effects of issuance.

The DMO's main debt management activity is the issuance of gilt-edged securities (gilts) on behalf of the National Loans Fund (NLF). The DMO additionally issues Treasury bills.

The financing remit set by HM Treasury Ministers specifies the planned annual total of gilt sales in cash terms, the split between conventional and index-linked gilt sales and within conventional gilts the split by maturity band. The dates of scheduled outright auctions are also specified. The remit also provides the basis for the conduct of mini-tenders, syndications, post auction options, switch, conversion or buy-back operations in a particular year. The DMO decides the size of gilt auctions and the choice of gilts to be auctioned, together with the size and choice of gilts to be issued via syndications and mini-tenders in accordance with the terms set out in the remit for the financial year. The DMO also decides the size and maturity breakdown of Treasury bill tenders.

The DMO publishes Operational Notices describing how it acts in the gilt and sterling money markets – copies of these documents are available on the DMO website at www.dmo.gov.uk.

In addition to gilt issuance, the DMO contributes to the development of an efficient and liquid

secondary market for gilts, by means that include the stewardship of the Gilt-edged Market Makers (GEMMs) system.

Under an agreement with the DMO, GEMMs provide a secondary market in all non-rump gilts, and are the point of access for institutional investors who wish to take part in the DMO's gilt auctions.

For various operational reasons, the DMO may redeem gilt holdings bought from the market by selling them back to the NLF at market rates prior to maturity.

Cash management

The DMO's cash management objective is "to minimise the cost of offsetting the Government's net cash flows over time, while operating to a risk appetite approved by Ministers".

Meeting these net cash flow requirements for HM Government is achieved through a combination of regular weekly Treasury bill tenders and bilateral dealing with market counterparties.

The DMO's remit includes information on the planned approach to Treasury bill issuance and the planned stock of Treasury bills at the end of the financial year.

Public Works Loan Board (PWLB)

The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

The PWLB produces its own annual report and accounts.

Commissioners for the Reduction of the National Debt (CRND)

The principal function of the CRND is managing the investment portfolios of certain public funds.

Each fund produces its own annual accounts.

Gilt purchase and sale service

The DMO offers a gilt purchase and sale service to those registered on the approved group of investors database, maintained by Computershare Investor Services PLC, on behalf of the DMO. This service enables members of the public to undertake secondary market transactions in gilts, on an execution only basis.

Hedging of NS&I's Guaranteed Equity Bonds

Since March 2002, National Savings & Investments (NS&I) has issued Guaranteed Equity Bonds to investors. On behalf of NS&I, the DMA hedges the equity index exposure resulting from the sale of these products by entering into derivative contracts with market counterparties to receive amounts based on equity index increases and pay amounts based on floating interest rates. Taking account of the position of both the DMA and NS&I, HM Government has no material exposure to equity index risk as a result of the issue of Guaranteed Equity Bonds.

Emissions Trading System

The EU Emissions Trading System allocates emissions 'allowances' to industry, which can then be traded. The DMO was appointed by the Department of Energy and Climate Change (DECC) to conduct the auction of Phase II EU Allowances in the UK and the final auction in this phase was conducted on 25 October 2012. The auction proceeds and related accounting are recorded in DECC's accounts.

Credit Guarantee Scheme

On 8 October 2008, HM Government announced the Credit Guarantee Scheme as part of a comprehensive package of measures to address the stress in the financial markets. The principle of the scheme was that HM Treasury guaranteed debt issued by banks and building societies that met prescribed criteria. The DMO administered this operation on behalf of HM Treasury up until closure of the scheme on 26 October 2012. The financial guarantee liability and related fee income are recorded in HM Treasury's accounts.

Discount Window Facility

On 20 October 2008, the Bank of England launched the Discount Window Facility. The purpose of the Discount Window Facility is to provide liquidity insurance to the banking system. The DMO facilitates this operation by purchasing gilts issued by the NLF and lending them to the Bank of England when required.

National Loan Guarantee Scheme

On 29 November 2011, HM Government announced the National Loan Guarantee Scheme as part of a series of new initiatives aimed at helping UK small businesses. Under the scheme, HM Treasury guarantees debt issued by banks that meet prescribed criteria. Banks are then required to pass through the benefit of cheaper funding by way of loans to small businesses. The DMO administers this operation on behalf of HM Treasury. The financial guarantee liability and related fee income are recorded in HM Treasury's accounts.

Funding for Lending Scheme

On 13 July 2012, the Bank of England and HM Treasury launched the Funding for Lending Scheme. The scheme was designed to reduce funding costs for banks and building societies so that they could make loans cheaper and more easily available to UK households and non-financial companies. The DMO facilitates this operation by purchasing Treasury bills issued by the NLF and lending them to the Bank of England when required.

Relationship of the Debt Management Account to the National Loans Fund

The NLF is HM Government's principal borrowing and lending account and is administered by HM Treasury. The DMA's principal role is to meet the financing needs of the NLF. These include long-term requirements (debt management), short-term requirements, and day-to-day cash needs (cash management).

In its debt management role, the DMA issues gilts on behalf of the NLF. This requires the DMA to purchase newly created gilts from the NLF, which it then sells to the market. In this way, gilts issued are liabilities of the NLF and the responsibility for paying gilt coupons and redeeming the debt on maturity lies with the NLF. The DMA regularly undertakes secondary market gilt transactions in small volumes.

The DMA issues sterling Treasury bills as part of both its debt and cash management operations, however, this type of financial instrument may also be issued by the NLF in certain circumstances.

The DMA transacts with the financial markets, on behalf of the NLF, for the purpose of managing HM Government's cash requirements. In this role, the DMA undertakes day-to-day borrowing and lending with the market, largely in the form of Treasury bill issuance, sale and repurchase agreements (repos) and reverse sale and repurchase agreements (reverse repos). The repos and reverse repos of the DMA are usually collateralised with gilts. For this purpose the DMA holds a large gilt portfolio bought from the NLF.

The DMA actively manages its daily target float to ensure that the NLF has a zero cash balance at the end of each day. This is the means by which the DMA balances the daily financing needs of the NLF. The DMA pays interest, at the Bank Rate, on any advance from the NLF. The DMA receives interest on any daily deposit made with the NLF at the same rate.

Under the terms of the Finance Act 1998, the NLF made a cash advance of £6 billion to the DMA at inception in order to establish the account. Subsequent cash advances and repayments have been made from time to time as required so that at 31 March 2012, the advance was £52 billion. By 31 March 2013, the advance had risen to £88 billion. This increase was principally due to the DMA's need to purchase collateral from the NLF to facilitate its role in the Funding for Lending Scheme.

While the DMA pays interest on funds advanced to it from the NLF at the Bank Rate, it receives interest from the gilts and Treasury bills purchased from the NLF. Changes in the advance from the NLF to the DMA are transactions internal to HM Government and do not constitute part of overall government borrowing.

Retained surpluses and deficits of the DMA are assets or liabilities of the NLF. In the case of a retained surplus, HM Treasury may make a payment from the DMA to the NLF (equal to all or part of the surplus) thereby reducing the liability of the DMA. In the case of a retained deficit, HM Treasury may make a payment to the DMA from the NLF (equal to all or part of the deficit). The DMA paid £11,010 million of its retained surplus to the NLF on 22 November 2012, following the DMA's £11,010 million gain on disposal of Royal Mail gilts. The DMA made this gain on disposal while facilitating the cancellation of these Royal Mail gilts on behalf of HM Government.

Relationship of the Debt Management Account to the Commissioners for the Reduction of the National Debt

The Commissioners for the Reduction of the National Debt (CRND) is a statutory entity within the DMO that performs a fund management service for public sector clients.

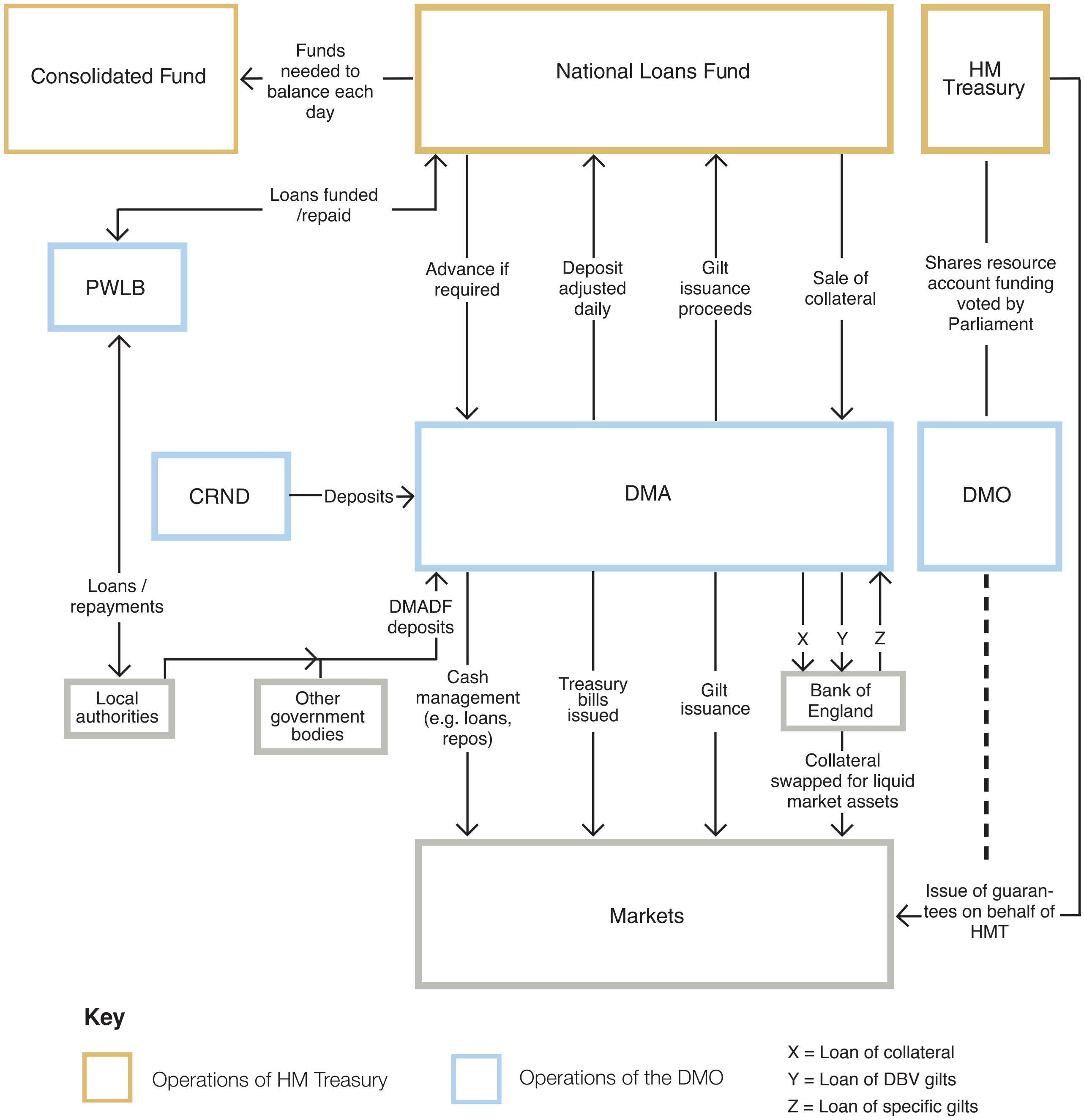
The Secretary and Comptroller General of the CRND is also the Deputy Chief Executive of the DMO.

The CRND's client mandates authorise the investment of funds under management into gilts, deposits or both. The DMA transacts non-marketable gilts on behalf of the CRND's funds and trades these back-to-back with the NLF. These transactions are carried out on an arm's length basis and in line with a Memorandum of Understanding between the DMO and CRND. As at 31 March 2013, all CRND client funds were invested in short-term deposits with the DMA.

The value of the CRND's deposits with the DMA at 31 March 2013 was £34.4 billion (31 March 2012: £44.9 billion).

Key relationships of the DMO and DMA

This diagram sets out the principal relationships of the DMO and DMA with other organisations and funds. It is intended for illustrative purposes only.



Note:

1) The DMO also uses the Bank of England for custody and settlement functions.

Other organisational arrangements

Equal opportunities

The DMO is an equal opportunities employer. Policies are in place to ensure that no job applicant or member of staff receives less favourable treatment on grounds of gender, gender re-assignment, marital or family status, colour, racial origin, sexual orientation, age, background, religion, disability, trade union membership or by any other condition or requirement.

Employee relations

A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been effective as a conduit for wider communication and consultation with all staff. Union arrangements also continue for staff transferred to the DMO in 2002 under TUPE principles. Staff may join a trade union of their choice.

Improving good practice and investment in people

The DMO was re-accredited as an Investor in People again in November 2011. The DMO's training and development policy aims to ensure that its staff have the right skills to meet its objectives. The DMO provides targeted training and support for professional studies to enhance the skills base of its employees.

Staff sickness absence

Recorded working days lost due to DMO staff sickness absence in 2012-2013 were 1,018 or 3.8 per cent of the total available (2011-2012: 601.5 or 2.5 per cent of the total available).

Pension liabilities

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in the Remuneration Report on page 42 to 48. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of these elements over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

Supplier payment policy

All the DMO's supplier invoices are processed for payment by HM Treasury, which during the year was committed to the government-wide prompt payment target of 5 working days for all valid invoices not in dispute. The HM Treasury group applied this target to all suppliers irrespective of size and paid 85% of valid invoices within this target.

HM Treasury services

HM Treasury continues to provide several support services to the DMO, including purchase order processing, invoice processing and payment, payroll processing and some financial accounting services.

Sustainable development

The DMO exceeded the Government's objectives on Sustainable Development including the Prime Minister's 10% carbon reduction commitment across the Government estate which was announced in May 2010 (completed within 12 months) by achieving a 25.8% carbon reduction.

Improvements during 2012-2013 included, in co-operation with the DMO's landlord and other partners, the following projects:

- monitoring targeted metering;
- landlord area lighting upgrades; and
- improving draught seals and insulation.

Auditors

The Comptroller and Auditor General is responsible for auditing the DMO and DMA accounts, as specified by the Government Resource Accounts Act 2000 and the National Loans Act 1968 respectively.

I have taken all of the necessary steps to ensure that the auditors are aware of any relevant information.

Reporting of personal data related incidents

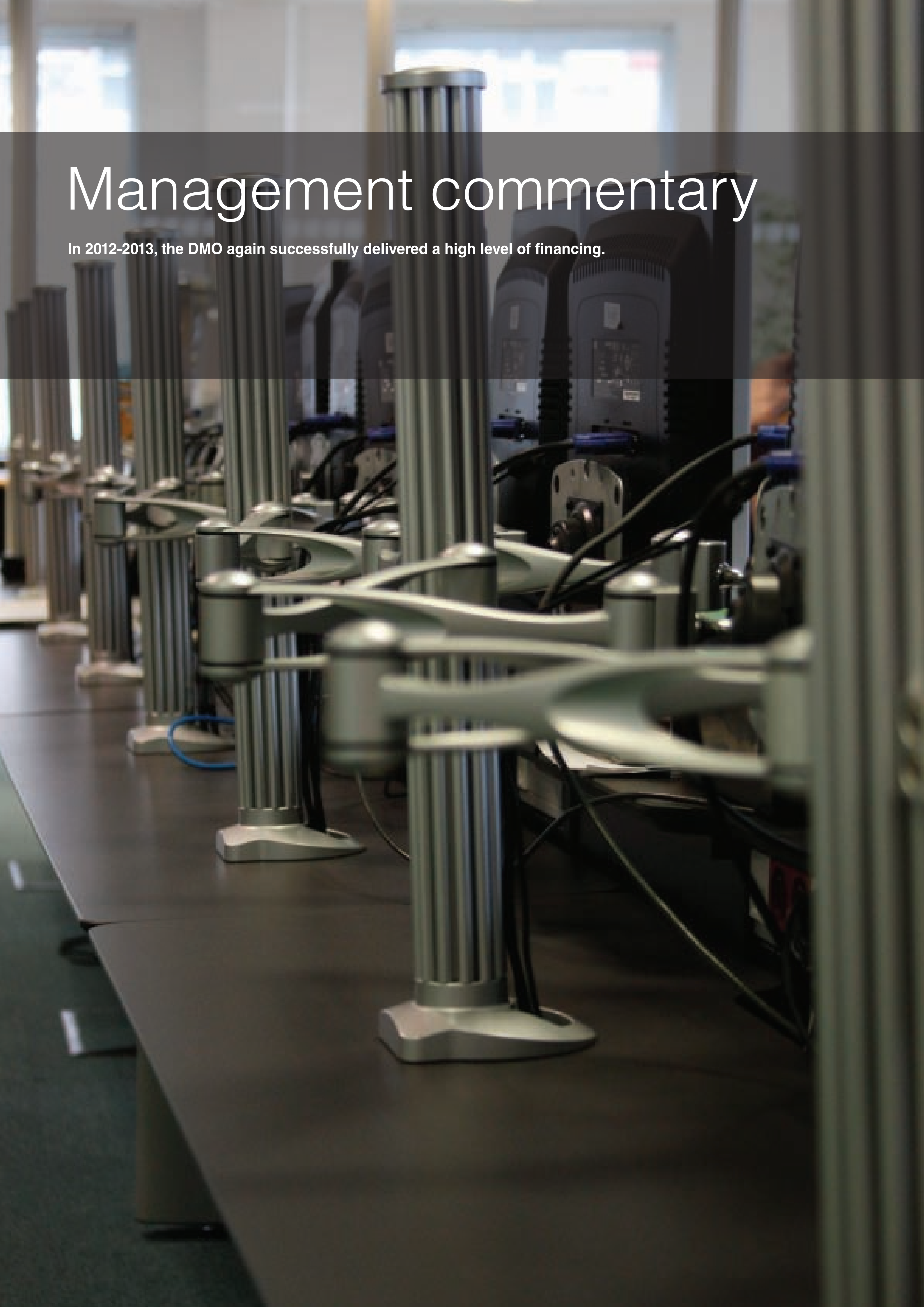
The DMO had no protected personal data related incidents during 2012-2013, nor during any previous period.

Robert Stheeman
Chief Executive
1 July 2013


United Kingdom
Debt Management Office

Management commentary

In 2012-2013, the DMO again successfully delivered a high level of financing.



Review of activities in 2012-2013

2012-2013 was a successful year for the DMO, which met its debt and cash management remits, its strategic objectives and published targets. A full account of these is given on page 26 to 31.

Debt management

Debt issuance

In 2012-2013, the DMO again delivered a large gilt sales programme, as required to meet HM Government's financing requirement. The DMO's gilt sales target started the year at £167.7 billion, as announced in the Budget on 21 March 2012. This was later revised down to £164.4 billion, following the outturn for Central Government's Net Cash Requirement for 2011-2012 on 24 April 2012, and marginally reduced to £164.2 billion at the Autumn Statement on 5 December 2012. This challenging remit was successfully delivered, with overall gilt sales of £165.1 billion.

A total of 44 gilt auctions were held in 2012-2013, and the average release time for auction results fell to 4 minutes (2011-2012: 5 minutes). Gilt auctions remained the core of the financing programme, raising £126.0 billion (76.3%) of total gilt sales.

The DMO sold £32.8 billion of long-dated conventional and index-linked gilts in a programme of eight syndicated offerings in 2012-2013. Mini-tenders of gilts were again used to support the syndication programme by providing operational flexibility to accommodate unexpected variances in the proceeds from individual syndications. In practice, as the sizes of some of the syndicated offerings were increased, mini-tenders were cancelled. Only four tenders were held, raising £6.3 billion (compared to original plans for approximately six tenders, expected to raise £7.0 billion).

The Post Auction Option Facility (PAOF) continued to be available, through which successful bidders at gilt auctions had the right to acquire up to an additional 10% of their auction allocation between 12pm and 2pm on the day of the auction, at the average accepted/strike price of the auction. In 2012-2013 the PAOF was activated 35 times out of 44 auctions, raising an additional £7.5 billion.

The gilt issuance profile remained similar to that of 2011-2012. The need to deliver a large financing programme again led the DMO to plan the largest proportion of its issuance in the deepest and most liquid part of the market (and consequently that part with lowest execution risk), short-dated conventional gilts. The size and proportion of the short-dated conventional gilt programme was £55.8 billion (33.8%) in the remit for 2012-2013. This compared to £60.6 billion (33.8%) in 2011-2012. Index-linked gilt sales fell in absolute terms by £3.2 billion to £35.8 billion, but in relative terms remained steady compared to 2011-2012 at 21.8%.

Gilt market turnover and liquidity rose marginally compared to 2011-2012. Average daily turnover in 2012-2013 was £28.8 billion, compared to £28.4 billion in the previous financial year. Maintaining market liquidity is a key factor in addressing the needs of a diversified investor base.

The DMO received its remit for 2013-2014 on 20 March 2013, which showed planned gilt sales of £151.0 billion, a reduction of 8.5% on the total in 2012-2013. This remit was revised up on 22 April 2013 to £155.7 billion.

Gilt holdings

In addition to holding gilts for use as collateral in its cash management operations, as described in the section below, and for lending to the Bank of England to facilitate the Discount Window Facility, the DMA continues to hold relatively small portfolios of gilts for other purposes:

- Purchase and sale service (fair value of £15 million at 31 March 2013) - this portfolio of gilts is used for purchase and sale transactions with retail investors.
- Rump stocks (fair value of £5 million at 31 March 2013) - these are gilts in which the DMO will make a bid price upon request from a GEMM. GEMMs are not required to make a market in such gilts, due to the small nominal values outstanding.
- Other tradable gilts (fair value of £391 million at 31 March 2013) - this portfolio comprises a residual from each gilt auction. A small amount of each gilt auction may be retained due to rounding the allotment of gilts to successful bidders. Gilts are also retained in the case of an uncovered gilt auction. The portfolio may additionally include any gilts bought by the DMO in the secondary market for other reasons.

Cash management

The DMO successfully delivered its cash management remit for 2012-2013. The DMO monitored and assessed its performance using a range of key performance indicators, details of which are reported in the DMO Annual Review 2012-2013.

During the year, the DMO continued to meet Exchequer borrowing requirements by raising cash primarily through the sterling repo market, although there remained a strong market demand to buy Treasury bills at tender and through bilateral agreement. The Debt Management Account Deposit Facility (DMADF) continued to take cash deposits from local authorities and Government agencies, which can place surplus funds with the DMA for up to six months. Deposit levels remained fairly stable throughout the year.

Repos and reverse repos were the DMO's principal tools for carrying out its cash management operations. Throughout 2012-2013, the DMO held gilts for use as collateral in repo transactions. The collateral is held in the DMA on a continuing basis and has been purchased on various occasions since 3 February 2000. At 31 March 2013, gilts held specifically for use as cash management collateral had a carrying value of £108.3 billion.

PWLB

Throughout the year, the PWLB continued to provide local government capital finance and aimed to meet all local authorities' needs for long-term borrowing.

During this period, the PWLB agreed 311 applications for loans totalling £3.2 billion (2012: £16.1 billion). This decrease in appetite for new advances by PWLB borrowers was principally due to the introduction of the Housing Self-financing scheme by the Department for Communities and Local Government (DCLG) in the previous year. This required certain local authorities to pay a lump sum to DCLG, the funds for which could be borrowed from the PWLB on 28 March 2012.

The reduction in new advances by the PWLB resulted in a corresponding decrease in fee income for the PWLB to £1 million (2012: £6 million).

In total, 191 local authorities applied for advances.

At 31 March 2013, the overall level of nominal debt outstanding to the PWLB amounted to £63.5 billion (31 March 2012: £61.9 billion).

Additional information on the PWLB's activities, including its Annual Report and Accounts and lending arrangements, can be found on the PWLB section of the DMO website at www.dmo.gov.uk.

CRND

During the year CRND continued to provide an efficient value for money service to its clients, with the main investment objectives being to maintain sufficient liquidity to meet withdrawals and to protect the capital value of the funds under management.

Gilt purchase and sale service

The DMO continued to offer a gilt purchase and sale service to those registered on the approved group of investors database, maintained by Computershare Investor Services PLC, on behalf of the DMO.

During 2012-2013, this service transacted 4,082 gilt sales with a value of £49 million and 1,256 gilt purchases with a value of £23 million.

Hedging of NS&I's Guaranteed Equity Bonds

The DMA held a number of equity derivatives in the year. These had an aggregate nominal value of £172 million at 31 March 2013 (31 March 2012: £229 million). Both NS&I's equity index exposure and the DMA's hedge are reported at fair value on the respective statements of financial position. The net fair value of the derivatives in the DMA accounts was £35 million at 31 March 2013 (31 March 2012: £17 million).

Emissions Trading System

During 2012-2013, the DMO conducted five (2011-2012: seven) successful auctions of EU Allowances for carbon emissions. In December 2012, the DMO conducted the last of its auctions, which marked the conclusion of Phase II of the scheme.

Over Phase II, the DMO has conducted 30 successful competitive auctions, selling approximately 122.8 million EU allowances and raising around £1.3 billion for the Government.

The transactions are reported in the Trust statement prepared by the Department of Energy and Climate Change.

Credit Guarantee Scheme

In 2012-2013, the DMO continued to administer the operational elements of the 2008 Credit Guarantee Scheme, on behalf of HM Treasury. The scheme closed on 26 October 2012 following the maturity of the last guarantee. The DMO's activities this year principally involved collecting fees payable by the participating banks, and accounting.

The related assets, liabilities and income arising from these guarantees are recorded in the accounts of HM Treasury.

Discount Window Facility

Under the Discount Window Facility, the DMO may lend gilt-edged securities to the Bank of England for a fee, so that it may swap them with participating banks for eligible collateral. Further information on this operation, including usage data, is available on the Bank of England website at www.bankofengland.co.uk.

National Loan Guarantee Scheme

The National Loan Guarantee Scheme was launched on 20 March 2012, aimed at helping businesses access cheaper finance by reducing the cost of bank loans. During the year, the DMO administered the scheme on behalf of HM Treasury and worked with the participating banks to confirm that the debt instruments that they proposed to issue, in order to raise funds to finance loans under the scheme, met the legal and other requirements to qualify for a government guarantee.

The related assets, liabilities, income and expense arising from these guarantees are recorded in the accounts of HM Treasury.

Funding for Lending Scheme

Under the Funding for Lending Scheme, the DMO may lend Treasury bills to the Bank of England for a fee. The DMO establishes, and subsequently refreshes monthly, the stock of Treasury bills available for this scheme by purchasing specially created Treasury bills from the NLF in quantities informed by the Bank of England's estimates of future demand.

Held by the DMA, the Treasury bills earn interest from the NLF. Treasury bills loaned to the Bank of England are returned on or before the due date. By agreement with HM Treasury, stock lending fees received from the Bank of England, less recovery of costs to cover HM Treasury and DMO involvement in the scheme, are paid to the DMA.

As at 31 March 2013, the DMA held Treasury bills to facilitate this scheme with a nominal value of £35.3 billion. Further information on this operation, including usage data, is available on the Bank of England website at www.bankofengland.co.uk.

Asset Purchase Facility

The DMO met the funding requirements of the part of the Bank of England's Asset Purchase Facility used to purchase high-quality private sector assets.

During 2012-2013, the Bank of England lent to the DMA specific gilts purchased via the Asset Purchase Facility in return for other gilts of the same value in delivery by value (DBV) transactions.

Further information on these operations, including usage data, is available on the Bank of England website at www.bankofengland.co.uk.

Royal Mail gilts

Under the Postal Services Act 2011, the Government transferred the assets and liabilities of the Royal Mail Pension Plan (RMPP), a private sector pension scheme, into public ownership. The assets of the RMPP included £7,293 million (nominal) of gilts, which the Government stated its intention to cancel in the Budget 2012. In order to facilitate the cancellation, on 22 November 2012, these gilts were transferred from within the Exchequer to the DMA for nil consideration and then sold on to the NLF for cancellation. Statute required the DMA to transact with the NLF at market value, therefore the NLF paid £11,010 million to the DMA for the purchase of these gilts. This resulted in a gain on disposal of £11,010 million, which the DMA paid to the NLF via a reduction in its retained surplus.

Additionally, £683 million (nominal) of gilts, held by Royal Mail Holdings against any deficit in the RMPP, were cancelled following the transfer of the RMPP liabilities to the Government. The DMA facilitated the cancellation by purchasing these gilts (from outside the Exchequer) on 22 November 2012 for £988 million and then selling them on the same day for the same consideration to the NLF for cancellation. This resulted in no gain or loss on disposal for the DMA.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Achievements against objectives

HM Treasury Ministers set the DMO's objectives, which are published in the DMO's business plan and its Framework Document. The objectives for 2012-2013 and the DMO's performance against them is summarised below.

1. To develop, provide advice on and implement the Government's debt management strategy.

The DMO provided analysis and advice to HM Treasury in connection with the preparation of its financing remit for 2012-2013 against the backdrop of a continued high forecast financing requirement, albeit slightly lower than 2011-2012. International capital markets continued to be volatile, but the gilt market backdrop remained substantially the same as in the preceding year. There was perceived to be on-going structural demand for long-dated and index-linked gilts (particularly from the UK pension and insurance industries) and for shorter-dated gilts in particular from overseas investors.

This backdrop led to a very similar financing remit structure to 2011-2012 with the planned split of issuance broadly maintained. The auction programme remained the core means by which gilts were sold (accounting for over 75% of total planned sales). Auctions were again supplemented by sales of long-dated conventional and index-linked gilts via syndicated offerings (20% of sales) and by mini-tenders (5% of sales). The use of mini-tenders was extended to include all types and maturities of gilt for the first time.

Planned gilt sales of £167.7 billion were announced in the DMO remit published alongside the Budget in March 2012, this was a reduction of £11.7 billion (6.5%) on the previous year's total. Planned issuance at auctions comprised £51.6 billion in short-dated conventional gilts, £34.9 billion in medium-dated conventional gilts, £23.6 billion in long-dated conventional gilts, and £16.6 billion of index-linked gilts. Issuance by syndicated offerings was expected to raise £33.5 billion (of long-dated conventional and index-linked gilts) and mini-tenders £7.5 billion. A reduction in net Treasury bill sales of £1.3 billion was also planned.

Planned gilt sales fell by £3.3 billion to £164.4 billion following the publication of the outturn Central Government Net Cash Requirement for 2011-2012 in April 2012, with one auction being cancelled. Net Treasury bill sales were reduced by £0.6 billion. Planned gilt sales were further reduced to £164.2 billion at the Autumn Statement 2012, when the bulk of the reduction in the financing requirement was reflected in Treasury bills, net sales of which were reduced by £15.0 billion, consistent with their role as a buffer to protect the gilt sales programme.

The DMO successfully delivered the financing remit with gilt sales of £165.1 billion. This was slightly above the planned target, reflecting in part the impact of the Post Auction Option Facility[1], total proceeds from which were £7.5 billion in 2012-2013.

2. To develop, provide advice on and implement the Government's cash management requirements.

The DMO successfully delivered its cash management objectives for 2012-2013 despite on-going challenging market conditions prevalent throughout the period.

The DMO monitored and assessed its overall performance in meeting the Government's objectives in cash management using a number of key performance indicators. A full account of cash management performance will be included within the DMO's Annual Review 2012-2013.

3. To provide advice and operational services to HM Treasury on issues relating to the management of the Government's balance sheet.

The DMO has continued to provide advice and analysis to HM Treasury to support the management of the wider balance sheet for the Government,

[1] See page 21 for details of the operation of this facility.

including in relation to the administration of the National Loans Guarantee Scheme.

4. To provide advice and operational services to government departments on whole markets-related issues and activities.

The DMO continued to work with the Department for Energy and Climate Change (DECC) to implement the Government's sale by auction of EU allowances in the UK for Phase II of the EU Emission Trading Scheme (EU ETS). The DMO successfully conducted the final five Phase II EU ETS auctions for the scheme in 2012-2013.

5. To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.

The DMO continued to provide a cost-effective service to client funds through the Commissioners for the Reduction of the National Debt. The DMO charged £0.6 million in 2012-2013 for services relating to the management of funds with a value exceeding £34.4 billion at 31 March 2013.

The operating cost of the CRND in 2012-2013 is disclosed in note 6 to the accounts of the DMO, page 78.

6. To provide a cost-effective lending service to local authorities through the Public Works Loan Board.

The Public Works Loan Board agreed £3.2 billion of new loans to borrowers in 2012-2013. The DMO charged £1.1 million in 2012-2013 for services relating to this lending.

The operating cost of the PWLB in 2012-2013 is disclosed in note 6 to the accounts of the DMO, page 78. Full details of the PWLB's operations appear in the PWLB's Report and Accounts 2012-2013.

7. To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.

During 2012-2013, the DMO employed an average of 120 whole-time equivalent staff, of which 87 were permanent civil servants and 33 were short-term contract staff.

The DMO was re-accredited as an "Investor in People" in November 2011 and continues to work to maintain this status.

The DMO's training programme, complemented by additional specialist and individual training and support for ongoing professional studies, continues to maintain and enhance the skills base of its employees to the required level.

8. To manage, operate and develop an appropriate risk and control framework.

The DMO continued to operate an effective risk and control framework throughout the year as detailed in the governance statement on page 52 to 61.

Performance against targets

1. To ensure full compliance with HM Government's remit for the DMO (which is set out in the Debt and Reserves Management Report 2012-2013).

Achieved. The DMO complied fully with the financing remit in 2012-13.

The gilt sales outturn was £165.1 billion (cash) relative to the revised target of £164.2 billion, as restated in the Autumn Statement 2012. Sales were achieved through the conduct of 44 auctions (33 conventional and 11 index-linked), 8 syndicated offerings and 4 mini-tenders. All syndications were of long-dated conventional gilts or index-linked gilts.

Outright gilt sales of £167.7 billion had initially been planned for 2012-2013, as announced at the Budget in March 2012. This comprised a programme of £126.7 billion via 45 auctions and a supplementary distribution programme of £41.0 billion, including £33.5 billion via up to 8 syndicated offerings and £7.5 billion via mini-tenders. In addition, the use of the Post Auction Option Facility was continued. The gilt sales requirement was reduced by £3.9 billion to £162.5 billion on 24 April 2012, reflecting the outturn Central Government Net Cash Requirement for 2011-2012.

In December 2012, the gilt sales requirement was further reduced by £0.2 billion to the final revised target of £164.2 billion, along with a reduction in the planned sales of Treasury bills by £15.0 billion, as a result of the revision to the fiscal aggregates announced by the Office of Budgetary Responsibility at the time of the Autumn Statement. The evolution of planned and actual issuance by maturity and type through 2012-2013 is presented in the table below.

The auction results throughout the year were satisfactory and were achieved against a back-drop of challenging market conditions. Cover, the ratio of the total amount of bids to the amount of gilts on offer at an auction, ranged from 2.91 times at the auction of 4% Treasury Gilt 2022 on 22 January 2013 to 1.28 times at the auction of 1% Treasury Stock 2017 on 12 June 2012. The average cover ratio at gilt auctions in 2012-2013 was 1.86 compared to 1.83 in 2011-2012.

2012-2013 Gilt sales

	Conventional gilts (£bn)			Index-linked	Mini-	Total
	Short-dated	Medium-dated	Long-dated	gilts (£bn)	tenders (£bn)	(£bn)
Remit	51.6	34.9	37.6	36.1	7.5	167.7
April revision	50.4	34.5	37.2	35.3	7.0	164.4
Autumn Statement	50.4	34.5	37.2	35.8	6.3	164.2
Gilt sales at 31 March 2013	**55.8**	**36.0**	**37.5**	**35.9**	**-**	**165.1**

2. To ensure that the maximum time taken to issue the results of gilt operations, Treasury bill tenders and ETS auctions does not exceed 15 minutes – with the aim of publishing the results within 10 minutes of the close of offer whilst achieving complete accuracy.

Achieved on all but one occasion.

The release time for the 44 auctions held during the financial year ranged from 4 to 8 minutes and averaged 4 minutes (2011-2012: 5 minutes).

The release time for the four mini-tenders held during the year ranged from 4 to 5 minutes and averaged 4 minutes.

The release time for the 5 EU ETS auctions held during the financial year ranged from 6 to 20 minutes and averaged 9 minutes. The breach in the release time at the 5 July 2012 auction was attributed to technical issues at the headquarters of the primary auction bid system provider, which were beyond the control of the DMO.

The release time for the 51 weekly Treasury bill tenders conducted during the financial year ranged from 5 to 11 minutes and averaged 7 minutes.

There were no ad hoc or other Treasury bill tenders.

Gilt operations Date	Gilt	Proceeds (£m)	Release time (mins)
03 Apr 12	4% Treasury Gilt 2022	4,136	5
11 Apr 12	1% Treasury Gilt 2017	4,465	5
12 Apr 12	4¼% Treasury Gilt 2032	2,371	4
19 Apr 12	0 1/8% Index-linked Treasury Gilt 2029	1,529	4
24 Apr 12	3¾% Treasury Gilt 2052	5,053	N/A*
01 May 12	4½% Treasury Gilt 2019	4,928	4
03 May 12	0¾% Index-linked Treasury Gilt 2034	1,429	4
09 May 12	4½% Treasury Gilt 2042	2,741	7
15 May 12	5% Treasury Stock 2025	3,788	5
29 May 12	0 3/8% Index-linked Treasury Gilt 2062	4,750	N/A*
12 Jun 12	1% Treasury Gilt 2017	4,767	5
14 Jun 12	4% Treasury Gilt 2060	1,934	5
21 Jun 12	1¾% Treasury Gilt 2022	3,519	5
26 Jun 12	0 1/8% Index-linked Treasury Gilt 2029	1,449	5
03 Jul 12	4¾% Treasury Gilt 2030	2,525	4
04 Jul 12	1% Treasury Gilt 2017	4,607	5
10 Jul 12	0½% Index-linked Treasury Gilt 2050	1,211	4
12 Jul 12	1¾% Treasury Gilt 2022	3,859	4
19 Jul 12	3¾% Treasury Gilt 2052	2,030	4
24 Jul 12	0 1/8% Index-linked Treasury Gilt 2044	4,004	N/A*
16 Aug 12	4½% Treasury Gilt 2034	2,112	5
21 Aug 12	0 1/8% Index-linked Treasury Gilt 2029	1,355	4
23 Aug 12	5% Treasury Gilt 2018	4,988	4
05 Sep 12	4½% Treasury Gilt 2042	2,289	5
11 Sep 12	0¾% Index-linked Treasury Gilt 2034	1,587	4
13 Sep 12	1¾% Treasury Gilt 2022	3,804	5
20 Sep 12	1% Treasury Gilt 2017	4,973	4
25 Sep 12	0¼% Index-linked Treasury Gilt 2052	3,833	N/A*
02 Oct 12	1¾% Treasury Gilt 2022	3,837	5
09 Oct 12	4¼% Treasury Gilt 2032	2,185	4
11 Oct 12	0 1/8% Index-linked Treasury Gilt 2024	1,758	4
18 Oct 12	4½% Treasury Gilt 2019	4,894	4
23 Oct 12	3¼% Treasury Gilt 2044	4,225	N/A*
01 Nov 12	0¾% Index-linked Treasury Gilt 2047	1,212	4
06 Nov 12	1¾% Treasury Gilt 2022	3,554	4
15 Nov 12	3¾% Treasury Gilt 2052	2,459	4

Date	Gilt	Proceeds (£m)	Release time (mins
20 Nov 12	1% Treasury Gilt 2017	4,544	5
22 Nov 12	0 1/8% Index-linked Treasury Gilt 2044	3,064	N/A*
11 Dec 12	1¾% Treasury Gilt 2022	3,512	4
13 Dec 12	0 1/8% Index-linked Treasury Gilt 2024	1,235	5
03 Jan 13	1% Treasury Gilt 2017	3,751	4
08 Jan 13	4¾% Treasury Gilt 2030	2,103	4
17 Jan 13	0 1/8% Index-linked Treasury Gilt 2029	1,119	4
22 Jan 13	4% Treasury Gilt 2022	2,259	4
29 Jan 13	3¼% Treasury Gilt 2044	3,865	N/A*
05 Feb 13	0 1/8% Index-linked Treasury Gilt 2024	1,246	4
14 Feb 13	1¼% Treasury Gilt 2018	4,393	4
21 Feb 13	1¾% Treasury Gilt 2022	2,386	8
26 Feb 13	0¼% Index-linked Treasury Gilt 2052	4,018	N/A*
05 Mar 13	1¼% Treasury Gilt 2018	4,443	3
13 Mar 12	3¾% Treasury Gilt 2052	1,621	4
21 Mar 12	0 1/8% Index-linked Treasury Gilt 2044	1,054	4
		158,773	

*Operations for which the release time is shown as n/a were syndications, which are not included in the release target.

3. To achieve accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and meeting the required deadlines for the publication and submission for audit of the annual reports of the DMO, DMA, the PWLB and CRND.

Achieved. Management accounts and other internal control procedures did not identify any significant errors. The Comptroller and Auditor General certified that the 2011-2012 financial statements of the DMO, the DMA, the PWLB, and the CRND investment accounts each give a true and fair view.

The Annual Report and Accounts of the DMO and DMA were laid before Parliament on 12 July 2012. The relevant Annual Report and Accounts of the other entities were also laid.

4. To ensure that the DMO responds to enquiries under the Freedom of Information Act within the statutory timeframe.

Achieved. All of the DMO's responses to Freedom of Information Act requests were within the statutory 20 day limit.

5. To avoid breaches of the DMO's operational market notices.

Achieved. There were no breaches of the operational market notices in 2012-2013.

6. To ensure that, for cash management purposes, target weekly balances and expected daily variations are notified according to the agreed schedule.

Achieved. All weekly targets were notified to the Bank of England 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.

Achieved. 99.9% of trades (by value) were successfully settled on the due date. During the year, trades with a total value of £4,425 million (0.14% of all trades by value) failed as a result of external circumstances outside the DMO's control. All failed trades were due to market counterparties having insufficient securities to meet their traded obligations.

8. To ensure factual accuracy in the publication of all market sensitive data and to make announcements in a timely manner.

Not achieved. There were 13 factual errors in the publication of market sensitive data, comprising six website errors and seven errors in published material. All announcements but one were made in a timely manner. The exception was the publication of consultation minutes on the DMO website three minutes prior to their intended release.

The DMO continues to take targeted steps to minimise the risk of recurrence.

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).

Achieved. During 2012-2013, all loan or early settlement applications from local authorities were processed within two working days.

10. To ensure that the gilts purchase and sales service is operated according to its published terms and conditions.

Achieved. During 2012-2013, the gilt purchase and sale service was conducted fully in line with its terms and conditions. The pattern of sales and purchases in the financial year is shown in the following table.

	Sales	Purchases	Aggregate retail sales	Aggregate retail purchases
	(transactions)	(transactions)	£m	£m
Apr-Jun 2012	948	413	10.6	7.6
Jul-Sep 2012	1,072	390	14.4	5.0
Oct-Dec 2012	948	179	12.0	3.9
Jan-Mar 2013	1,114	274	11.5	6.9
Total	**4,082**	**1,256**	**48.5**	**23.4**

11. To administer the Credit Guarantee Scheme on behalf of HM Treasury in accordance with the relevant Scheme's published rules.

Achieved. The Credit Guarantee Scheme was administered by the DMO fully in accordance with the scheme's published rules until its closure on 26 October 2012.

12. To administer the National Loan Guarantee Scheme on behalf of HM Treasury in accordance with the relevant Scheme's published rules.

Achieved. The National Loan Guarantee Scheme was administered by the DMO fully in accordance with the scheme's published rules.

Financial results of the United Kingdom Debt Management Office

The DMO is financed through an allocation of HM Treasury's net funding approved by Parliament.

The DMO's net operating cost for 2012-2013 was £16.2 million (2011-2012: £11.3 million). This increase of £4.9 million is due to:

	£m
Decrease in gross administration costs	(0.3)
Decrease in administration income	4.7
Increase in gross programme costs	0.1
Increase in programme income	0.4
	4.9

These changes are explained below.

Administration costs

Administration expenditure primarily includes payroll and staff-related costs, IT infrastructure, accommodation, business services and depreciation.

During 2012-2013, gross administration expenditure amounted to £14.6 million (2011-2012: £14.9 million). The decrease of £0.3 million is the result of a net decrease in other administrative costs due to lower IT related expenditure following the one-off costs incurred in 2011-2012 on upgrading desktop infrastructure, and lower legal expenditure following the costs incurred in 2011-2012 relating to the implementation of the National Loans Guarantee Scheme (NLGS). This cost reduction was partly off-set by increased charges for depreciation due to a larger asset base and increased accommodation expenditure relating to the exit of the Asset Protection Agency (APA) from office space leased by the DMO.

Parliament approves an annual limit on income that the DMO may off-set against its gross expenditure. This income is known as appropriations-in-aid. Income received by the DMO principally comprised fees charged for issuing new loans to PWLB customers and for the provision of fund management services to other Government clients of CRND. In addition, the DMO recovered costs associated with various other activities it undertakes on behalf of others, including acting as an agent for the Department of Environment and Climate Change (DECC) for auctions of allowances under the Emissions Trading Scheme.

During 2012-2013, administration income decreased by £4.7 million to £2.4 million (2011-2012: £7.1 million). The main reason for this was a decrease in fee income generated by the PWLB. In 2011-2012, the PWLB worked with the Department for Communities and Local Government (DCLG) on the Housing Self-financing initiative. This was not repeated in 2012-2013. Other factors in the decrease were reduced accommodation recoveries due to the vacant occupancy period of four months between the APA's departure and HM Treasury's tenure (see note 15), and reduced recoveries from DECC in support of the Emissions Trading Scheme following the end of the DMO participation in the scheme.

Programme costs

Programme expenditure covers the DMO's trading and gilt issuance activities. These include settlement and custodial charges, brokerage fees and the cost of acting as an agent for the National Loans Fund (NLF) in issuing government backed securities.

During 2012-2013, gross programme expenditure increased by £0.1 million to £4.9 million (2011-

2012: £4.8 million). The change was due to the increased expenditure incurred for the operational requirements of the NLGS, which was partly off-set by reduced cost of trading activity over the course of the financial year.

The DMO also has Parliamentary approval to off-set programme expenditure with associated income. During 2012-2013, the DMO received £0.9 million (2011-2012: £1.3 million), a decrease of £0.4 million. This is due to lower commission received from Computershare Investor Services for secondary market trading activity in the gilt purchase and sale service.


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Financial results of the Debt Management Account

Income statement

The DMA's operations for the financial year 2012-2013 gave rise to **net interest income of £4,721 million** (2012: £5,011 million), **gains from the sale of Royal Mail Pension Plan gilts of £11,010 million** (2012: nil), **other gains of £14 million** (2012: other gains of £1 million), **fee income of less than £1 million** (2012: £5 million) and a **fee expense of £1 million** (2012: less than £1 million). This resulted in an **income statement surplus for the year of £15,744 million** (2012: £5,017 million). **Net unrealised gains on investment securities recorded in the revaluation reserve were £3,266 million** (2012: net unrealised gains of £13,202 million).

Net interest income £4,721 million

	£m
Income net of associated cost of funds	
Cash management (excluding non-interest gains and losses)	30
Facilitation of HM Treasury and Bank of England schemes	
Gilts held for the Discount Window Facility	1,769
Treasury bills held for the Funding for Lending Scheme	(14)
Other interest income	
Collateral pool	3,224
Deposit at National Loans Fund (part not allocated as cost of funds)	133
Other	14
Other interest expense	
Deposits from CRND funds	(191)
Treasury bills	(185)
Advance from National Loans Fund (part not allocated as cost of funds)	(59)
	4,721

Net interest income was generated mainly by the DMA's holding of **collateral gilts** for cash management operations (£3,224 million) and involvement in the **Discount Window Facility** (£1,769 million). These holdings resulted in net interest income because interest income on gilts for use as collateral or for lending to the Bank of England to facilitate the Discount Window Facility, was greater than the interest expense on the liabilities that funded these assets.

Interest income from the DMA's gilts reflected the yields available when they were purchased from the NLF. The Bank Rate was 5.25 per cent when the DMA purchased the majority of the Discount Window Facility gilts and was significantly higher than the present Bank Rate when the DMA purchased the majority of the collateral gilts, so their yields reflected relatively high prevailing market rates. These asset yields were greater than the average rates that the DMA paid on the corresponding liabilities during 2012-2013.

Net interest expense was incurred on the DMA's holding of Treasury bills for lending to the Bank of England to facilitate the Funding for Lending Scheme (FLS). The yields on Treasury bills for the FLS reflected the relatively low market rates at the time of issue.

The DMA funds its purchase of such gilts and Treasury bills with an advance from the NLF, which incurs interest at the Bank Rate. The Bank Rate decreased to 0.5 per cent on 5 March 2009, and remained at this historic low level throughout 2012-2013.

The total carrying value of collateral gilts for cash management and Discount Window Facility gilts at 31 March 2013 was £159,162 million (31 March 2012: £149,166 million) and the carrying value of Funding for Lending Scheme Treasury bills at 31 March 2013 was £35,267 million.

Interest income was also generated by the **deposit at the NLF**, which earned interest at the Bank Rate, and by **loans and advances to banks**, which yielded money market rates. Interest expense was also generated by **deposits taken from other government departments**, which incurred interest at rates related to the Bank Rate, by **deposits by banks**, and by **Treasury bills in issue**, which generally incurred money market rates.

The DMO uses gilt collateral for its cash management operations. The amount of collateral required is influenced by the daily cash requirements of HM Government and the transactions undertaken by the DMO to satisfy these requirements. The size and composition of the DMA's statement of financial position during the year, and the maturity of the DMO's money market transactions, are influenced by the seasonal pattern of HM Government's cash flows.

Relative to HM Government's marginal cost of funds, cash management operations achieved a net interest surplus. Details of the DMO's cash management performance can be found in the DMO Annual Review 2012-2013.

The DMA did not seek to achieve a particular yield by timing its purchases of gilts and Treasury bills, for use as collateral or for lending to the Bank of England to facilitate the Discount Window Facility or Funding for Lending Scheme. Similarly, the DMA also did not seek to affect its funding rate – it incurred the Bank Rate on its advance from the NLF. As a result, the net interest income from these operations did not reflect the performance of the DMA. In addition, both the interest income and the interest expense which arose from these operations were internal to Government, so HM Government incurred net interest income of zero from these operations.

Gains from the sale of Royal Mail Pension Plan gilts £11,010 million

Under the Postal Services Act 2011, the Government transferred £7,293 million (nominal) of Royal Mail Pension Plan gilts from within the Exchequer to the DMA for nil consideration on 22 November 2012. These gilts were then sold to the NLF at market value for cancellation. This resulted in a gain on disposal of £11,010 million, which the DMA paid to the NLF via a reduction in its retained surplus.

Other gains and losses £14 million gain

The DMA holds derivatives to hedge foreign exchange risk and HM Government's exposure to equity index risk relating to Guaranteed Equity Bonds issued by National Savings & Investments (NS&I). Valuation changes net of realised gains on the equity index / interest rate derivatives used for hedging the Guaranteed Equity Bonds resulted in net income of £13 million (2012: £3 million) in the DMA, largely due to a rise in the FTSE 100 index in the year to 31 March 2013. The gain incurred by the DMA is mirrored by higher borrowing costs incurred by NS&I. Taking account of the positions of both the DMA and NS&I, HM Government incurred no material gain or loss.

The DMA holds gilts and Treasury bills as collateral. Disposal of these assets resulted in £2 million of net expense in the year (2012: £1 million of net expense). The DMA also holds assets as part of its cash management operations. Changes in the value of these assets resulted in net income of £3 million (2012: net expense of £1 million).

Unrealised gains on investment securities due to revaluation £3,266 million

Falling yields on gilts and Treasury bills, held by the DMA for use as collateral in its cash management operations and for use in the Discount Window Facility and Funding for Lending Scheme reflected the increase in value of these instruments. Demand for HM Government gilts and Treasury bills increased as a result of improved sentiment about the UK credit rating relative to its peers, as well as other economic factors. This increased demand for HM Government gilts and Treasury bills caused the price of these instruments to increase.

Because of their classification as investment securities available-for-sale, changes in the fair value of the gilt collateral pool, Discount Window Facility gilts and Funding for Lending Scheme Treasury bills are not reflected as gains and losses in the income statement, but in the revaluation reserve. During 2012-2013, the revaluation reserve increased by £3,266 million (2012: £13,202 million).

Fee income less than £1 million

The DMA received a fee of less than £1 million (2012: £5 million) in relation to the Funding for Lending Scheme.

Fee expense £1 million

The DMA incurred a fee expense of £1 million (2012: less than £1 million) from activities that included lending to the Bank of England in order to facilitate the Asset Purchase Facility.

Composition of the statement of financial position

Investment securities classified as available-for-sale had a fair value of £194,429 million at 31 March 2013 (31 March 2012: £149,166 million). This increase was principally due to the net purchase of £35,345 million (nominal) of Treasury bills in relation to the Funding for Lending scheme. At 31 March 2013, the DMA's remaining investment securities comprised gilts held for use as collateral and gilts held to facilitate the Discount Window Facility.

These assets continued to be funded in part by the advance from the NLF to the DMA. As at 31 March 2013, the carrying value of the NLF advance was £88,046 million (31 March 2012: £52,042 million).

The lending and borrowing that the DMA engaged in, as part of its cash management operations, varied in response to the funding requirements of the National Loans Fund, which reflect HM Government's daily cash flows. Loans and advances to banks, securities held for trading, and deposits by banks are particularly affected in this respect. As at 31 March 2013, securities held for trading were £1,086 million (31 March 2012: £5,953 million), loans and advances to banks were £25,976 million (31 March 2012: £36,577 million), and deposits by banks were £13,299 million (31 March 2012: £20,013 million).

Issuance of Treasury bills by the DMA

During the year, the DMA issued Treasury bills with a nominal value of £213,888 million (2012: £241,340 million) of which £57,240 million was still in issue at 31 March 2013 (31 March 2012: £70,417 million). Such Treasury bills had a carrying value of £60,458 million (31 March 2012: £75,937 million). This change was planned in order for the DMO to meet its remit for 2012-2013.

Treasury bills sold by the NLF to the DMA for use in the Funding for Lending Scheme are not included in the issuance figures above.

Forward look

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 ensuring sustainable public finances.

The DMO's key business planning themes for 2013-2014

The key business planning themes for 2013-2014 remain consistent with previous years. The plan is primarily focused on the continued delivery of the DMO's 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.

The DMO's key themes for 2013-2014

1. Delivery of the 2013-2014 debt management remit - which comprises a net financing requirement of £168.5 billion to be raised through gilt sales of £155.7 billion and net Treasury bill sales of £12.8 billion. The DMO has announced that it will look to launch a new conventional gilt in the 50-60 year maturity area, in the second half of June 2013, subject to demand and market conditions. More generally, the DMO will continue to support HM Treasury in the development of and innovations associated with debt management policy.

2. Delivery of the cash management remit – which will require handling the cash consequences of, among other things, the gilt and Treasury bill programme in as an efficient and cost-effective way as possible.

3. Continuing to consult and liaise with key stakeholders – and in particular the Gilt-Edged Market Makers - in the financial markets in which the DMO has a key interest; and to consider further developments, innovations and enhancements to facilitate the effective delivery of the debt and cash management remits. In this respect, the DMO will be monitoring the development of the Cleared Term DBV (Delivery-By Value) product and is represented on the Bank of England's Money Markets Liaison Group's Working Group.

4. The DMO will continue to maintain close contact with the Bank of England on operational matters relating to the Asset Purchase Facility.

5. Continuing to manage the administration of the National Loan Guarantee Scheme which was launched in March 2012.

6. Continuing to manage the gilt registration contract with Computershare Investor Services PLC on behalf of HM Treasury.

7. Providing project management support to HM Treasury for the gilt registration contract retender process.

8. Continuing to minimise operational risk by ensuring the DMO's business operations are fully supported by resilient and efficient systems and processes. In this respect, during 2013-2014, the DMO is intending to undertake upgrades of a number of key systems to enhance functionality and also to ensure that they remain fully supported by third party suppliers.

9. Continuing to seek out operational process efficiencies with the intention of further reducing cost and risk.

10. Continuing to monitor the resource and skills required to deliver the DMO's array of objectives within the Spending Review 2010 budget settlement agreed with HM Treasury.

11. In line with our commitment to Investors in People status, we will continue to manage and develop our staff to achieve their professional potential and support the objectives of the office.

The DMO's objectives for 2013-2014

The DMO's objectives for 2013-2014 are set out in the published business plan which is available on the DMO website at www.dmo.gov.uk.

1. To develop, provide advice on and implement the Government's debt management strategy.
2. To develop, provide advice on and implement the Government's cash management requirements.
3. To provide advice and operational services to HM Treasury on issues relating to the management of the Government's balance sheet.
4. To provide advice and operational services to government departments on wholesale markets-related issues and activities.
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.

Planning uncertainties

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

The DMO's operational targets for 2013-2014

1. To ensure full compliance with HM Government's remit for the DMO (which is set out in the Debt and Reserves Management Report 2013-14).
2. To ensure that the maximum time taken to issue the results of gilt auctions, gilt mini-tenders and Treasury bill tenders does not exceed 15 minutes – with the aim of publishing the results within 10 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 meeting the required deadlines for the publication and submission for audit of the annual reports of the DMO, DMA, the PWLB and CRND.
4. To ensure that the DMO responds 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 ensure factual accuracy 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 National Loan Guarantee Scheme on behalf of HM Treasury in accordance with the Scheme's published rules.

Remuneration report

This report provides details of senior management contracts, remuneration and pension entitlement.

Remuneration report

The DMO has a Pay Committee, which during 2012-2013 comprised:

- **Robert Stheeman**
  Chief Executive (Chair)
- **Jo Whelan**
  Deputy Chief Executive and Joint Head of Policy and Markets
- **Jim Juffs**
  Chief Operating Officer
- **Joanne Perez**
  Joint Head of Policy and Markets
- **Brian Larkman**
  Non-executive director
- **Brian Duffin**
  Non-executive director

The Pay Committee is responsible for overseeing the DMO's delegated pay arrangements and ratifying the DMO's Pay Remit submission to HM Treasury and its subsequent implementation. Pay progression takes into account individual performance, job size, external market comparators and public sector pay policy and affordability.

Remuneration policy

Senior DMO staff

The Chief Executive is a member of the Senior Civil Service, employed by HM Treasury and included in HM Treasury's appraisal arrangements. Remuneration is set by HM Treasury in accordance with the Senior Salaries Review Body's Report.

Further information about the work of the Review Body can be found at www.ome.uk.com.

Salaries of the Deputy Chief Executive, Chief Operating Officer and Joint Head of Policy and Markets are set internally in accordance with DMO's delegated pay arrangements by the Chief Executive and the non-executive directors.

Non-executive directors

The Chief Executive, in discussion with the Deputy Chief Executive, Chief Operating Officer and Joint Head of Policy and Markets, determines the remuneration of the non-executive directors. Remuneration is reviewed annually taking account of external market comparators as well as public sector pay policy and affordability, but the DMO reserves the right not to make adjustments.

Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this Report hold appointments that are open-ended. Compensation for early termination, other than for misconduct, would be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

Senior DMO staff

The Chief Executive's appointment was for an initial 3 year fixed term period. This has been extended four times for a further fixed term period, currently until 31 December 2014. The contract is subject to a 3 month notice requirement.

The appointments of the Deputy Chief Executive, the Chief Operating Officer and Joint Head of Policy and Markets have been made in accordance with the provisions of the Civil Service Commissioners' Recruitment Code. The employment contract for each requires a 3 month termination period.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommission.org.uk.

Non-executive directors

Brian Larkman was originally contracted for an initial 3 year period from 1 January 2005. Upon completion, his contract was extended to 31 December 2010 and has been further extended for an additional 3 year term to 31 December 2013.

Brian Duffin was originally contracted for an initial 3 year period from 1 January 2010. Upon completion, his contract was extended for an additional 3 year term to 31 December 2015.

The employment contracts for both Brian Larkman and Brian Duffin are subject to a 5 week early termination notice period. Contracts will automatically terminate on the date stated unless an extension has been agreed. As office holders there is no provision for compensation for early termination.

Remuneration received

	2012-2013 Salary £000	2012-2013 Performance related payments £000	2011-2012 Salary £000	2011-2012 Performance related payments £000
Senior DMO staff				
Robert Stheeman - Chief Executive	140 – 145	10 – 15	140-145	10-15
Jo Whelan - Deputy Chief Executive and Joint Head of Policy and Markets *	100 – 105	10 – 15	100-105	10-15
Full time equivalent salary	*140 – 145*		*135-140*	
Jim Juffs - Chief Operating Officer	130 – 135	15 – 20	130-135	15-20
Joanne Perez – Joint Head of Policy and Markets **	65 – 70	5 – 10	60-65	5-10
Full time equivalent salary	*130 – 135*		*125-130*	
Non-executive directors				
Brian Larkman				
- salary	20 – 25	-	20-25	-
Brian Duffin				
- salary	15 – 20	-	15 -20	-
- other contractual remuneration***	0 – 5	-	0-5	-

(This disclosure has been audited.)

* The salary disclosed reflects part time hours and is calculated on a pro rata basis from a full time equivalent of 0.72 in 2012-2013 (2011-2012: 0.72).

** The salary disclosed reflects part time hours and is calculated on a pro rata basis from a full time equivalent of 0.50 in 2012-2013 (2011-2012: 0.50).

*** Brian Duffin received a payment in 2012-13 for untaken annual leave (for the period 1 January 2012 to 31 December 2012) and in 2011-2012 (for the period 1 January 2011 to 31 December 2011).

'Salary' includes gross salary, overtime and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the DMO and thus recorded in its accounts.

The DMO is not responsible for the remuneration of any Ministers or the non-executive HM Treasury representative (James Richardson; Sam Beckett until July 2012), who are both employees of HM Treasury.

Performance related payments

The payment of performance related awards are assessed annually by the DMO Pay Committee. These one-off payments are determined by individual


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Debt Management Office
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performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay.

The awards reported for 2012-2013 relate to performance in 2011-2012 and the comparative awards reported for 2011-2012 relate to performance in 2010-2011.

Remuneration multiples

The relationship between the remuneration of the highest-paid member of the DMO's Managing Board and the median remuneration of the organisation's workforce is reported below.

The Chief Executive is the highest-paid member of the DMO's Managing Board.

Total remuneration includes, where appropriate, salary, non-consolidated performance related payments, benefits-in-kind and any severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

	2013	2012
Total remuneration of the Chief Executive (£000)	150-155	150-155
Median remuneration total of other DMO employees	50,250	50,000
Ratio	3.0	3.0

(This disclosure has been audited.)

The ratio above represents the total remuneration of the Chief Executive (taking the mid-point of the range disclosed) and the median total remuneration of all other DMO employees.

Pension benefits

	Accrued pension at age 60 at 31 March 2013 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31 March 2013	CETV at 31 March 2012	Real increase in CETV
	£000	£000	£000	£000	£000
Robert Stheeman	20 – 25	2.5 – 5.0	377	312	41
Jo Whelan	15 – 20	0 – 2.5	226	186	25
Jim Juffs	20 - 25	0 - 2.5	392	343	25
- plus lump sum	60 - 65	5.0 - 7.5			

(This disclosure has been audited.)

CETV is an abbreviation for 'Cash Equivalent Transfer Value'. This measure of value is explained on page 47.

Joanne Perez has chosen to join a partnership pension scheme rather than the Principal Civil Service Pension Scheme (PCSPS). The total contributions paid to the partnership pension provider amounts to £11,600 (2011-2012: £11,300).

The non-executive directors are not entitled to any pension benefits.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5% and 3.9% of pensionable earnings for classic and 3.5% and 5.9% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013.

Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his/her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with the Pensions Increase legislation. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted, is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found on the website www.civilservice.gov.uk/pensions.

The cash equivalent transfer value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost.

CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values)

(Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Robert Stheeman
Chief Executive
1 July 2013

Statement of Accounting Officer’s responsibilities

The DMO prepares accounts under the Government Resources and Accounts Act 2000 and under Schedule 5A of the National Loans Act 1968.

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the DMO to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction on page 87.

Under Schedule 5A of the National Loans Act 1968, HM Treasury has directed the DMO to prepare for each financial year a statement of accounts for the DMA in the form and on the basis set out in the accounts direction on page 125.

Both accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the DMO and the DMA, and of their income and expenditure, cash flows and changes in taxpayers' equity / net funding by the NLF for the financial year.

In preparing both accounts, the Accounting Officer is required to:

- observe the relevant accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going-concern basis.

In addition, in preparing the accounts of the DMO, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM). The Accounting Officer is required to prepare the DMA accounts in accordance with applicable accounting standards and be consistent with the relevant requirements of the FReM.

HM Treasury has appointed the Chief Executive as Accounting Officer of the DMO and the DMA.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the DMO's assets, are set out in Managing Public Money published by HM Treasury.

Governance statement

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them.

Governance statement

Scope of responsibility

From April 2012 to January 2013, Ministerial responsibility for the United Kingdom Debt Management Office (DMO) was vested in the Commercial Secretary to the Treasury, Lord Sassoon. In January 2013, Ministerial responsibility passed to the Economic Secretary to the Treasury, Sajid Javid. As the DMO's Chief Executive and Accounting Officer for the DMO, I am responsible to HM Treasury ministers for the overall operation of the Agency in accordance with its Framework Document.

As Accounting Officer I am responsible for the Debt Management Account (DMA) and the DMO. My accountability is subject to the overall responsibility of the Permanent Secretary of HM Treasury in his capacity as Accounting Officer for that organisation. In exercising my responsibilities for the DMA I pay due regard to the consequences for the National Loans Fund (NLF) and will consult the Permanent Secretary if I consider that any actions taken could have implications for him in his role as NLF Accounting Officer.

The Public Works Loan Board (PWLB) and the Commissioners for the Reduction of the National Debt (CRND) are separate business entities within the DMO. Responsibility for the reports and accounts of the PWLB and CRND lies with the Secretary of the PWLB and the Secretary and Comptroller General of CRND respectively. The Secretary of the PWLB and the Secretary and Comptroller General of CRND are each responsible for maintaining a sound system of internal control that supports the delivery of each entity's agreed policies, objectives and targets. As Accounting Officer I am responsible for the wider DMO control framework within which both the CRND and the PWLB are managed. The Secretary of the PWLB and the Secretary and Comptroller General of CRND take assurance from me as to the continued sound maintenance of this framework in relation to their own control responsibilities.

I pay due regard to the objectives set by HM Treasury Ministers for HM Government's debt and cash management in exercising my specific responsibilities for debt and cash management. This includes ensuring that all activities of the DMA are conducted in a manner that provides value for money. I have put arrangements in place to ensure there is a proper evaluation of the balance between cost and risk in the DMO's operations, taking into account any cost, risk or other strategic objectives, parameters or guidelines agreed with HM Treasury.

I am responsible to the Chancellor of the Exchequer and accountable to Parliament for the DMO's use of resources in carrying out its functions as set out in the DMO's Framework Document and Managing Public Money.

During the period under review I have been responsible for activities in relation to a number of schemes and initiatives, including the 2008 Credit Guarantee Scheme and the National Loan Guarantee Scheme (NLGS) in which the DMO operated as agent for HM Treasury. The DMO also provides support to the Bank of England (BoE) for its Funding for Lending Scheme (FLS).

The DMO is committed to the highest standards of corporate governance and is guided by the Corporate Governance Code for central government departments (the Code) and the principles laid down in that Code. I confirm that the DMO has complied with the principles which cover:

- Parliamentary accountability;
- the role of the board;
- board composition;
- board effectiveness; and
- risk management.

The DMO does not conduct any part of its business with or through arm's length bodies (ALBs) and therefore has not applied principle six which covers departmental governance arrangements with ALBs.

Managing Board

The Accounting Officer was supported during 2012-2013 by a Managing Board (the Board) which, in addition to the Accounting Officer, comprises:

- Jo Whelan
Deputy Chief Executive and Joint Head of Policy and Markets;

- Jim Juffs
Chief Operating Officer;
- Joanne Perez
Joint Head of Policy and Markets;
- Sam Beckett (resigned July 2012)
Non-executive HM Treasury representative;
- James Richardson (appointed July 2012)
Non-executive HM Treasury representative;
- Brian Larkman
Non-executive director – Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006; and
- Brian Duffin
Non-executive director – Brian Duffin was Chief Executive of Scottish Life from 1999 to 2007 and Executive Director of Royal London Mutual from 2001 to 2007. He is currently chairman of the GEC 1972 Pension Plan.

Non-executive directors are appointed by the Accounting Officer following a formal process and have fixed terms defined in their contracts of service. Sam Beckett resigned from the Board in July 2012 and was replaced as HM Treasury's representative by James Richardson. James was appointed by the Accounting Officer in accordance with the DMO's Framework Document. All non-executive Board members receive an induction on joining and have access to additional information and training where it is considered necessary for the effective discharge of their duties.

The primary role of the Board is to advise the Accounting Officer on any key decisions affecting the DMO. Specifically the Board's responsibility, as defined within its written Terms of Reference, is to advise the Accounting Officer in order to:

- Secure the aims, objectives and targets laid down by Ministers for the DMO;
- Set and advise on the strategic framework for all areas of the DMO's business, including meeting the DMO's strategic objectives and advising on the development of key policies and business initiatives taking account of risks;
- Oversee implementation of the strategic objectives, policies and initiatives, and, as part of this, to advise on appropriate prioritisation and allocation of resources;
- Monitor and advise on the DMO's control environment and financial position taking due account of the role and recommendations of Audit Committee;
- Support the DMO's core values, and to promote policies and activities that are fair and command respect both internally and externally;
- Ensure that the decision-making and risk management processes in the DMO are fit for purpose and are robust; and
- To consider and approve the pay system and strategy and the annual pay proposals.

An executive sub-committee of the Board generally meets weekly and supports the Accounting Officer on operational decisions.

The Board has put in place a formal process to self-evaluate its performance on a regular basis. The Board undertook a self-evaluation of its performance in 2012 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference. The Terms of Reference also underwent a full review by the Board in 2012.

2012-2013 Board activities

Board meetings were held regularly throughout 2012-2013. In addition to regular agenda items, including progress against the remit, risk management, staffing and progress against the operational business plan, the Board paid particular attention to the following matters during the year:

- Market conditions, in the context of the DMO's financing operations;
- Consultation on the issuance of super-long dated and perpetual gilts;
- Analysing the consequences of potential changes to the RPI measure of inflation;
- A review of the DMO's trading system;
- The consequences of the LIBOR scandal and lessons for the gilt market;
- Historically high levels of staff turnover in certain business areas;
- Cancellation of gilts transferred to the Government from the Royal Mail Pension Plan and Royal Mail Holdings;
- Civil Service reforms;
- Supporting the Bank of England with the introduction of the FLS; and
- IT and data security.

Board attendance is outlined in the table below:

	Possible	Actual
Robert Stheeman	8	8
Jo Whelan	8	7
Jim Juffs	8	8
Joanne Perez	8	8
Sam Beckett (resigned July 2012)	2	1
James Richardson (appointed July 2012)	6	5
Brian Larkman	8	7
Brian Duffin	8	8

Audit Committee

The Accounting Officer was supported during 2012-2013 by the Audit Committee on matters relating to risk, internal control and governance. The Audit Committee covers the activities of the DMO, DMA, CRND and PWLB. The members of the Audit Committee during 2012 - 2013 were:

- Brian Larkman (Chair);
- Brian Duffin;
- Caroline Mawhood – Caroline Mawhood was an Assistant Auditor General at the National Audit Office until 2009 and President of the Chartered Institute of Public Finance and Accountancy for 2008-2009. She is a non-executive member of the Audit Committees of the Department of Energy and Climate Change and the Corporation of London and an independent member of the Audit Progress Committee of the European Commission. She is also the Honorary Treasurer of Breakthrough Breast Cancer charity and a trustee of the Wimbledon Guild charity.

Audit Committee meetings are typically attended by the Accounting Officer, either or both of the Joint Heads of Policy & Markets, the Chief Operating Officer, the Head of Internal Audit, and the National Audit Office.

The Audit Committee's overall objective is to give assurance to the Accounting Officer and, as necessary, to the Secretary and Comptroller General of the CRND and to the Secretary of the PWLB that:

- High quality processes are in place to manage and control risk for the DMO's financial and non-financial activities;
- Overall governance arrangements are appropriate and operating effectively;
- The financial control framework is effective and supported by an appropriate compliance culture;
- External financial reporting is prudent, accurate, timely, appropriate and consistent with relevant guidance;
- Internal financial and management reporting is timely, prudent, appropriate and consistent with external financial reports;
- Whistle blowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the DMO's business are adequate;
- Internal Audit assurance provides an appropriate level of comfort to the Accounting Officer; and
- Relationships with the National Audit Office (NAO) are effective.

During the period under review the Audit Committee paid particular attention to the following areas:

- External and internal financial reporting;
- Business continuity planning, especially with regard to the Olympics period;
- Anti-money laundering controls;
- Anti-fraud controls;
- Regulatory compliance;
- Controls over market pricing;
- The housing self-financing project for PWLB and related controls;
- Information systems security;
- Risk management and financial control; and
- Implementation of audit recommendations.

The Audit Committee covers a regular programme of agenda items, together with other current topics, through an annual schedule of four meetings. All scheduled meetings were held and no additional meetings were deemed necessary.

The Accounting Officer and the Board have also been informed by the following operational committees throughout the period under review:

- Debt Management Committee

The Debt Management Committee meets to commission and review the DMO's advice and recommendations to HM Treasury on the debt financing remit at Budget and any revisions at the Autumn Statement. The Committee also ensures that the quarterly issuance strategy of the DMO is based on sound evidence.

It is the main forum used to commission and review advice on debt management policy or market-related issues as they arise during the year.

The Debt Management Committee met 19 times in 2012-2013.

■ Cash Management Committee

The Cash Management Committee meets to agree the cash management strategy, taking account of: the Exchequer forecast; the DMO's remit; market conditions; the house view on interest rates; risk limits; and any dealing parameters for the Treasury bill programme.

The Cash Management Committee also reviews performance measures relating to dealing.

The Cash Management Committee met regularly (typically every fortnight) in 2012-2013.

■ Fund Management Review Committee

The Fund Management Committee reviews the performance of the Government funds under the management of the CRND, including any reporting on compliance activities undertaken in relation to the funds.

The Fund Management Committee met four times in 2012–2013.

■ Business Delivery Committee

The Business Delivery Committee reviews the status of the delivery of DMO's business and work plan as a collective cross functional body, resolving emerging issues in a timely way, and agreeing priorities, to ensure the plan stays on track.

The Business Delivery Committee met regularly (typically weekly) throughout 2012-2013.

■ Risk Committees

The Accounting Officer is informed by three risk committees covering credit and market risk, operational risk and risk controls. More detail on the roles, responsibilities and activities of these committees can be found in the sections below.

Risk management and internal control

The Accounting Officer is responsible for maintaining a sound system of internal control that supports the achievement of the DMO's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which he is personally responsible, in accordance with the responsibilities assigned to him in Managing Public Money.

The system of internal control is based upon what the Accounting Officer, with the support of the Board, considers to be appropriate taking account of the DMO's activities, the materiality of risks inherent in those activities and the relative costs and benefits of implementing specific controls to mitigate those risks. The Board has determined a formal risk appetite statement which sets out the amount of risk that the DMO is currently willing to accept and is aligned to its capacity to bear risk. The DMO's position differs from that of a commercial organisation in that it must always be in a position to transact the underlying business required to meet its remit. As a result the risks associated with this activity cannot be avoided and the system of internal control can only provide reasonable assurance against failure to achieve aims and objectives.

The Risk and Control Framework

The Board has designed and put in place a formal risk management framework covering all the activities conducted and overseen by the DMO. This framework helps ensure that the Accounting Officer is appropriately informed and advised of any identified risks and also allows the management of risks to be monitored. The framework covers both regular operations and new business initiatives, and evolves as the range and nature of the DMO's activities change. The framework is supported by a clear 'three lines of defence' model:

■ First line of defence

Day-to-day management of risk is the responsibility of management staff within business areas. The DMO fosters a risk aware culture and encourages all members of staff, including Board members, to identify new risks and changes in previously identified risks so that these may be assessed and so that appropriate mitigating actions may be put in place.

Mitigating actions typically include segregation of duties, staff training, clear lines of management delegation and robust business continuity arrangements.

■ Second line of defence

Oversight of risk is provided by the Board and risk committees, whose role is to provide regular and systematic scrutiny of risk issues which lie within their remit and to support the Accounting Officer in exercising his overall responsibility for risk management.

The DMO considers that the principal risks it faces arise in three broad areas: credit and market risk, operational risk, and risk controls so it has established committees to meet regularly to review the changing risk pattern for each of these areas and to set up appropriate responses. The work of these committees is described in more detail below.

Credit and Market Risk Committee

The Credit and Market Risk Committee (CMRC) meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. CMRC monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, and instruments held as collateral as well as setting absolute limits on net daily flows across the DMA.

The CMRC has advised the Accounting Officer and the Board, during the year, on significant current and emerging risk issues and actions to mitigate such risks, in particular on the impact of on-going volatility in the eurozone and changes in regulation on DMO activities. CMRC met eight times during 2012 - 2013.

Operational Risk Committee

The Operational Risk Committee (ORC) meets regularly to monitor operational risks and to review significant risk issues. The ORC is responsible for reviewing risk incidents identified through the DMO's risk incident reporting process, and considering whether planned mitigating action is appropriate. It also reviews and tracks the progress of actions identified by Internal Audit. The ORC's scope includes issues relating to information risk, IT security, business continuity, anti-fraud and key supplier risks.

The ORC has advised the Accounting Officer and the Board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The Committee has focused this year on further developing business continuity planning, including operational planning for the Olympic period, improving data security arrangements and extending the scope of the DMO's internal compliance testing programme. ORC met eight times during 2012-2013.

Controls Group

The Controls Group meets periodically to review issues affecting the DMO's system of internal control and to analyse material changes to the control environment. The Group recommends actions to management to implement changes where appropriate. The Controls Group consists of representatives from Finance, Risk, Compliance and Internal Audit.

The Controls Group has advised the Accounting Officer, the Board and senior management on significant risk concerns stemming from the introduction of new business activities as well as risks relating to other change management activities. The Group has also advised the Accounting Officer on suitable mitigating action where appropriate.

During the year, the Controls Group review work has covered changes to PWLB processes and operational structure, the introduction of the NLGS and FLS, internal pricing procedures, the cancellation of gilts transferred to the Government by the Royal Mail Pension Plan and Royal Mail Holdings and various reconciliation items.

Risk Management Unit

The risk committees are supported by the DMO's Risk Management Unit (RMU) which ensures key risk issues arising from these committees are communicated to the Accounting Officer and senior management on a regular basis, with additional ad hoc reporting if an emerging issue requires it. The RMU also supports the formal risk reporting processes with defined outputs, including regular detailed risk reports which are reviewed by the Board and senior management.

As well as supporting the risk committee structure, the RMU provides control advice on risks. As part of the second line of defence the RMU is separate from and independent of the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risk is facilitated by the RMU, via quarterly consultation with heads of business units and functional teams. Significant risk issues are assessed for materiality and probability of occurrence. New risks, and risks to which exposure is increasing are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is obtained on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines.

■ Third line of defence

The Internal Audit function provides the Accounting Officer with independent and objective assurance on the overall effectiveness of the DMO's system of internal control. It does this through a risk based work programme which is approved by the Audit Committee at the start of each year. All audits make a series of recommendations which, once agreed with management, are monitored for implementation. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the Accounting Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

Risk policies and procedures

The DMO's risk policies reflect the high level standards and requirements which determine the way in which risks are managed and controlled. The Accounting Officer, with the support of the Board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2012 this included revisions to the Information Security Policy, the Confidentiality and Official Information Policy and the Telephone Use and Recording Policy.

Staff are required to confirm that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies on whistle-blowing, fraud and anti-money laundering and information security. The DMO ensures that this exercise is undertaken on an annual basis allowing staff to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage.

Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

Risk profile

The Accounting Officer and the Board believe that the principal risks and uncertainties facing the DMO are outlined in the table below together with the key actions taken to manage and mitigate them:

Principal risks and uncertainties	Mitigation and management
IT systems and infrastructure	
The DMO relies on a number of IT and communications systems to conduct its operations effectively and efficiently. In particular, certain systems are central to the DMO achieving its internal target for the release of accurate data, including auction results, to the market. Failure to achieve these targets could result in markets acting on inaccurate information	The DMO has in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations. The DMO's Business Continuity Plan (BCP) including Disaster Recovery (DR) and other arrangements are subject to a continuous programme of testing,

Principal risks and uncertainties	Mitigation and management
and cause significant reputational damage. A number of the operational systems and services on which the DMO relies are provided or supported by third party suppliers.	review and update. During 2012 the DMO ensured a thorough programme of DR testing was carried out, and that BCP arrangements to support auctions were in place throughout the year with support teams working from the DR site during auctions. Assessment of business continuity needs is a specific requirement for new projects and major business initiatives. The DMO is represented on the Public Finance Business Continuity Management Group and played an active part in the Group's Olympic Planning processes in 2012. In addition the DMO also conducted an in house DR exercise as part of its contingency planning for the Olympic period. To mitigate the risk of failure of a key third party the DMO undertakes a corporate risk assessment of each potential supplier in order to assess financial strength and operational capacity. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed SLAs.
Transaction processing The DMO relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes the DMO to operational risk arising from process breakdown and human error.	A key component of the DMO's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. In addition during 2012-2013 the DMO continued to enhance its management information around trading activity and strengthened its reconciliation processes and controls. All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally. The DMO's RMU conducts regular control and compliance testing, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Services Authority rules in the dealing and settlement areas. The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure. This promotes early identification and resolution of risk incidents and provides visibility to the Accounting Officer and

Principal risks and uncertainties	Mitigation and management
	Board. DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.
People risk The DMO relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives. The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time. Competition for skilled staff is generally against employers from the private financial services sector which is not subject to public sector remuneration policies and which have historically offered higher remuneration than either the private sector in general or the public sector.	The DMO's Training and Development policy aims to ensure that its staff have the right skills to meet its objectives. The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates. The DMO has put in place a formal performance appraisal process and all staff are given clear and achievable objectives. Staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure. Salaries are reviewed annually, taking account of benchmarks derived from equivalent private sector pay levels. In addition the DMO has a policy to recognise those staff who have performed well in their roles through the payment of one off performance related awards. Any awards are assessed annually by the DMO Pay Committee and are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay. A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit for wider communication and consultation with all staff. On an annual basis all DMO staff take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, are considered by the Accounting Officer and Board. The DMO was reaccredited as an Investor in People in 2011.
IT and data security Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information. The DMO seeks to ensure the	The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security. In 2012 the

Principal risks and uncertainties	Mitigation and management
highest standards of data protection and information management. The DMO is exposed to the risk of an external attack on its IT systems and infrastructure.	DMO experienced a breach of its data handling policies. Although no personal data was affected and there was no consequential impact from this lapse, the DMO's information security policies and controls were fully reviewed and enhancements introduced. These included strengthening the processes for the induction of new staff and raising the level of awareness of information security issues for existing staff. In addition the DMO has a project underway to enhance system logging and improve control of system access rights. Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO is a member of the Board provides advice to Board members on the management of information risks. The DMO has put in place several layers to defend against external attack and its infrastructure undergoes an annual penetration test to ensure the control environment is robust. These tests are undertaken by specialists and form part of the assessment against the CESG requirements which is condition for continuing connection to the GSI Convergence Framework (GCF).

Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an on-going process designed to identify, evaluate and prioritise risks to the achievement of the DMO's aims and objectives has been in place throughout 2012-2013. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and the executive managers within the DMO who have been delegated responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

In my role as Accounting Officer I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee.

In 2012-2013 no ministerial directions were given and no material conflicts of interest have been noted by Board or Audit Committee members in the Register of Interests.

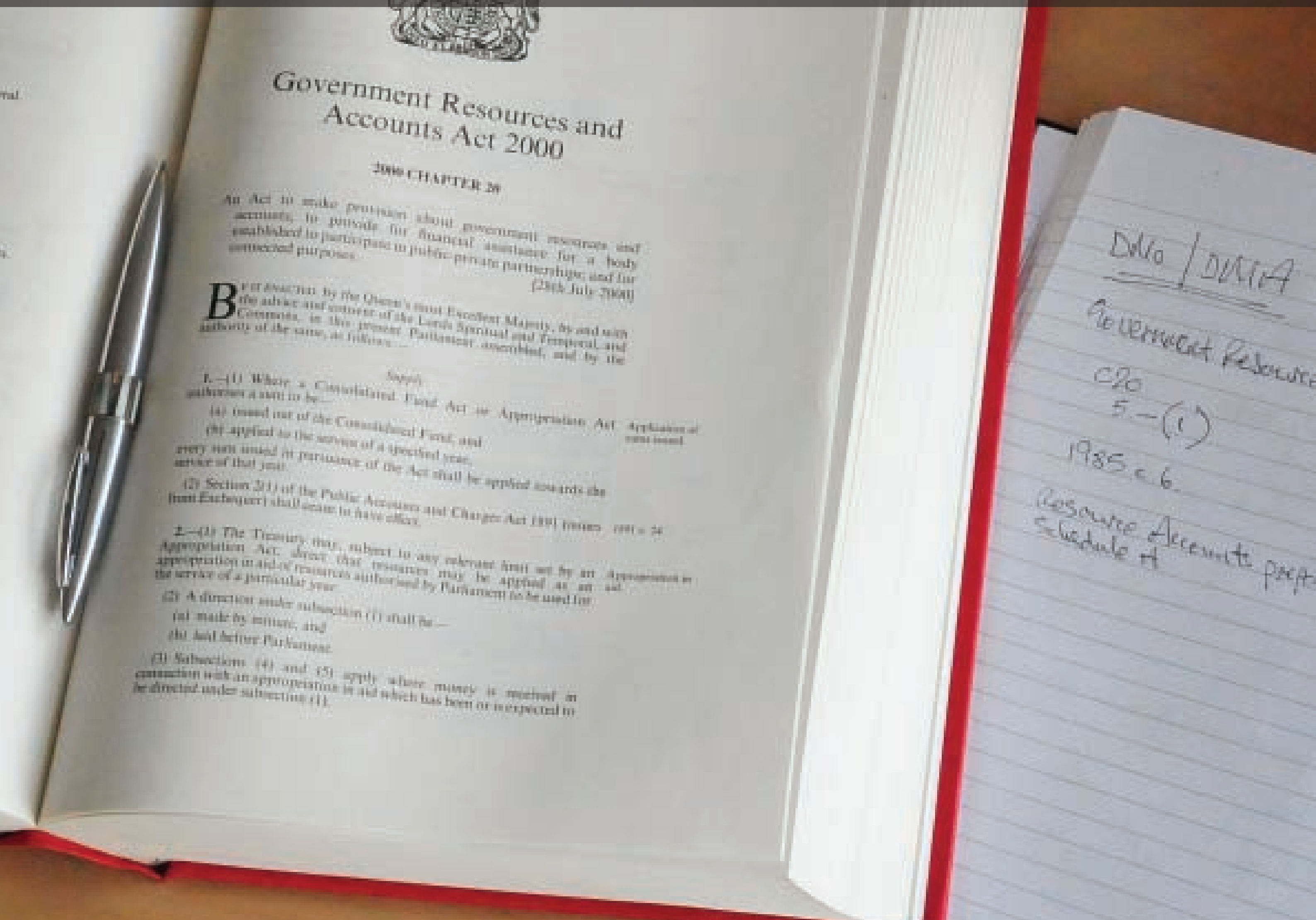
In my opinion, the DMO's system of internal control was effective throughout the financial year and remains so on the date I sign this statement.

Robert Stheeman
Chief Executive
1 July 2013

Accounts of the United Kingdom Debt Management Office

Year ended 31 March 2013
Presented to the House of Commons 16 July 2013

United Kingdom Debt Management Office: 2012-2013 Accounts



The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the UK Debt Management Office for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the UK Debt Management Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the UK Debt Management Office; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Introduction, Foreword, Management Commentary and Governance Statement to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the UK Debt Management Office's affairs as at 31 March 2013 and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Chief Executive's Statement, Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
2 July 2013

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

United Kingdom Debt Management Office Statement of comprehensive net expenditure

For the year ended 31 March 2013

	Note	2013 Staff costs £000	2013 Other costs £000	2013 Income £000	2012 Total £000
Administration costs					
Staff costs	2	9,103			9,089
Other administration costs	3		5,478		5,822
Income	5			(2,361)	(7,056)
Programme costs					
Staff costs	2	442			-
Other programme costs	4		4,490		4,788
Income	5			(916)	(1,373)
Totals by activity		**9,545**	**9,968**	**(3,277)**	
Net operating cost				**16,236**	**11,270**

All income and expenditure are derived from continuing operations.

The notes on page 69 to 86 form part of these accounts.

United Kingdom Debt Management Office
Statement of financial position

As at 31 March 2013

	Note	2013 £000	2012 £000
Non-current assets			
Property, plant and equipment	7 (i)	685	123
Intangible assets	7 (ii)	1,541	1,297
Trade and other receivables	8	25	44
Total non-current assets		**2,251**	**1,464**
Current assets			
Trade and other receivables	8	1,728	1,714
Cash and cash equivalents	9	1	1
Total current assets		**1,729**	**1,715**
Total assets		**3,980**	**3,179**
Current liabilities			
Trade and other payables	10	(2,094)	(2,657)
Provisions	11	(15)	(46)
Total current liabilities		**(2,109)**	**(2,703)**
Total assets less net current liabilities		**1,871**	**476**
Non-current liabilities			
Provisions	11	-	(14)
Total net assets		**1,871**	**462**
Taxpayers' equity			
General fund		**1,871**	**462**

The notes on page 69 to 86 form part of these accounts.

Robert Stheeman
Chief Executive
1 July 2013

United Kingdom Debt Management Office Statement of cash flows

For the year ended 31 March 2013

	Note	2013 £000	2012 £000
Cash outflow from operating activities			
Net operating cost		**(16,236)**	**(11,270)**
Adjustment for non-cash transactions			
Depreciation and amortisation of fixed assets	3	527	320
Payables for early retirements	3	4	6
Auditor’s fee	3	42	40
		573	**366**
Adjustment for movements in working capital other than cash			
Decrease / (increase) in receivables		5	67
(Decrease) / increase in current payables		(528)	213
Less movement in payables relating to items not passing through the statement of comprehensive net expenditure		46	76
Use of provision for early retirements	11	(49)	(59)
		(526)	**297**
Net cash outflow from operating activities		**(16,189)**	**(10,607)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(707)	(71)
Purchase of intangible assets		(672)	(523)
Net cash outflow from investing activities		**(1,379)**	**(594)**
Cash flows from financing activities			
Payment of amounts due to the Consolidated Fund		(35)	(378)
From the Consolidated Fund (supply)		17,603	11,565
Net financing		**17,568**	**11,187**
Net increase / (decrease) in cash and cash equivalents in the year		**-**	**(14)**
Cash and cash equivalents at the beginning of the year		**1**	**15**
Cash and cash equivalents at the end of the year		**1**	**1**

The notes on page 69 to 86 form part of these accounts.

United Kingdom Debt Management Office
Statement of changes in taxpayers' equity

For the year ended 31 March 2013

	Note	General Fund £000
Balance at 31 March 2011		**162**
Changes in taxpayers' equity for 2011-2012:		
Funding from HM Treasury		11,565
Net operating cost for the year		(11,270)
Non-cash charges in statement of comprehensive net expenditure for the year:		
Non-cash charges - auditors' remuneration	3	40
CFERs payable to the Consolidated Fund	10	(35)
Balance at 31 March 2012		**462**
Changes in taxpayers' equity for 2012-2013:		
Funding from HM Treasury		17,603
Net operating cost for the year		(16,236)
Non-cash charges in statement of comprehensive net expenditure for the year:		
Non-cash charges - auditors' remuneration	3	42
CFERs payable to the Consolidated Fund	10	-
Balance at 31 March 2013		**1,871**

The notes on page 69 to 86 form part of these accounts.

Notes to the accounts

For the year ended 31 March 2013

1 Statement of accounting policies

(i) Basis of preparation

These accounts have been prepared in accordance with the 2012–2013 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The DMO's accounts have been prepared in accordance with the Accounts Direction given by HM Treasury as set out on page 87, under the legislative authority of the Government Resources and Accounts Act 2000.

Where the FReM permits a choice of accounting policy, the most appropriate policy for the DMO to provide a true and fair view has been selected. The DMO's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The presentational and functional currency of the DMO accounts is sterling.

Certain IFRS have been issued or revised this year, but are not yet effective and will be applied in subsequent reporting periods. These are:

- IAS 1 Presentation of Financial Statements, which has been revised. Application is required for reporting periods beginning on or after 1 July 2012. Earlier application is permitted. The DMO expects to apply these revisions to IAS 1 in 2013-2014. The application of these revisions, which relate to presentation of items in the income statement based on their potential to be reclassified, is not expected to impact the presentation of information in the DMO.

- IAS 19 Employee Benefits, which has been revised. Application is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. The DMO expects to apply IAS 19 in 2013-2014. The application of these revisions, which relate to post-employment benefits and termination benefits, is not expected to materially change the recognition, presentation or disclosure of transactions or balances in the DMO.

- IFRS 13 Fair Value Measurement, which has been issued. Application is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. The DMO expects to apply IFRS 13 in 2013-2014. The application of IFRS 13 is not expected to materially change the valuation or disclosure of transactions or balances in the DMO.

- IAS 1 Presentation of Financial Statements, which has been revised as part of the IASB's annual improvements process. Application is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. The DMO expects to apply these revisions to IAS 1 in 2013-2014. The application of these revisions to IAS 1 do not materially change the minimum requirements for comparative information and are expected to have an immaterial impact on the DMO.

- IAS 16 Property Plant and Equipment, which has been revised as part of the IASB's annual improvements process. Application is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. The DMO expects to apply these revisions to IAS 1 in 2013-2014. The application of these revisions, which relate to the classification of servicing equipment, is not expected to impact the presentation of information in the DMO.

- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2015. Earlier application is permitted. The DMO expects to apply IFRS 9 in 2015-2016. The application of IFRS 9 is not expected to impact on the reporting of financial instruments in the DMO.

The particular policies adopted by the DMO are described below.

(ii) Other comprehensive expenditure
No statement of other comprehensive expenditure has been prepared as all income and expenditure is reported in the statement of comprehensive net expenditure.

(iii) Accounting convention
These accounts have been prepared on an accruals basis under the historical cost convention.

(iv) Administration and programme expenditure
The statement of comprehensive net expenditure is analysed between administration and programme expenditure. The classification of gross expenditure as administration or as programme follows the definition of costs covered by administration budgets set out in the Consolidated Budgeting Guidance 2012-13.

Administration expenditure reflects the cost of running the DMO, including PWLB and CRND, and includes staff related costs, IT and telecommunication costs, accommodation and non-cash charges. It excludes the costs associated with service delivery.

Programme costs reflect non-administration costs, including external settlement charges, gilt issuance costs and disbursements by the DMO in support of financial stability schemes.

(v) Operating income
All operating income relates to the operating activities of the DMO and is recognised in the statement of comprehensive net expenditure on an accruals basis.

All operating income is analysed between administration and programme income in accordance with the definitions in the Consolidated Budgeting Guidance 2012-13. All income is accounted for in line with IAS 18 Revenue Recognition.

Operating income is recognised by the following criteria:

- cost recoveries on a full cost basis for services provided to external clients;
- recovery of the direct costs when acting as an agent for the National Loans Fund; and
- fees set by statute and received from PWLB customers and from the Department for Environment and Climate Change (DECC) for the management of the Emissions Trading System.

Full cost recovery income is charged on the basis of staff-time and all direct external costs incurred for a given service, plus an apportioned share of overheads such as accommodation and IT infrastructure. This income is charged for either an agreed annual activity or delivery of specific service units, for example, auction of allowances under the Emissions Trading System.

Income is analysed between that which can be applied against associated expenditure (appropriations-in-aid) and that which is surrenderable to the Consolidated Fund (CFER).

The DMO is subject to net administration cost control provisions. For funding purposes, HM Treasury treats operating income as appropriations-in-aid.

(vi) Non-current assets

Assets acquired for on-going use with a purchase cost in excess of £5,000 are capitalised. Profits or losses arising on the disposal of fixed assets are calculated by reference to the carrying value of the asset.

Any property, plant or equipment or intangible fixed assets, for which the value is high and / or the useful economic life is long, are revalued. Currently, the DMO has no assets that meet these criteria.

Software license purchases and internally developed software that meet the capitalisation criteria are classified as intangible assets.

Where an asset is in the process of being developed, the capitalised costs are classified as assets under construction. These costs will be reclassified as either tangible or intangible once the asset is brought into service.

During 2012-2013, the DMO received a transfer of historic cost, depreciation and amortisation in respect of assets previously owned by the Asset Protection Agency (APA). As the APA leased office space from the DMO under the terms of a Memorandum of Terms of Occupation and the DMO provided IT services covered by a service level agreement, IT hardware and associated software licences, and items of furniture and fittings were transferred to the DMO. The effective date of this transfer was 31 October 2012, when the APA ceased to operate.

(vii) Depreciation and amortisation

Depreciation is provided on a straight-line basis, calculated on revalued amounts to write off assets over their estimated useful lives. The useful lives of fixed assets have been estimated as follows upon initial recognition and are reviewed annually:

Information technology	between 4 and 8 years
Plant and machinery	between 5 and 10 years
Furniture and fittings	lesser of 10 years or outstanding lease term (where appropriate)
Software licences	between 4 and 8 years or license duration up to 10 years
Internally generated software	between 4 and 12 years

(viii) Operating leases

Amounts paid and received under the terms of operating leases are charged to the statement of comprehensive net expenditure on a straight-line basis over the term of the lease.

(ix) Notional charges

Certain costs are charged on a notional basis and included in the accounts. These charges relate to auditors' remuneration. Notional costs are charged to the statement of comprehensive net expenditure and recorded as a movement on the general fund.

(x) Value added tax

Value added tax (VAT) on purchases is charged to the statement of comprehensive net expenditure, to the extent that it is irrecoverable and included under the heading relevant to the type of expenditure. Where VAT is recoverable in respect of DMO expenditure, it is recovered by HM Treasury. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

(xi) Foreign exchange

Transactions with external suppliers that are denominated in foreign currencies are translated into sterling at the rates of exchange applicable when the liability is paid.

(xii) Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS), which are described in Note 2. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The DMO recognises as an administration cost the monthly charges made by the PCSPS to contribute to the schemes. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the DMO recognises the contributions payable for the year.

(xiii) Early departure costs

The DMO is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The DMO provides for the cost when the early retirement is agreed, effectively charging the full cost at the time an obligation becomes binding on the DMO and holding this as a provision. The liability shown in the statement of financial position has been discounted using a real rate of 2.35 per cent (2011-2012: 2.8 per cent) in line with HM Treasury guidance.

(xiv) Employee benefits

The DMO has provided for the cost of salary related benefits, being the accrued value of compensated absences for untaken annual leave entitlements. This cost, which is in accordance with IAS 19 Staff Benefits, is recognised in the statement of comprehensive net expenditure and is calculated based on salaries and employers contributions in respect of national insurance and pension liabilities.

(xv) Contingent assets and liabilities

Contingent assets and liabilities are not recognised as assets or liabilities in the statement of financial position. However, they are disclosed in the notes of the accounts.

All disclosures of contingent assets or liabilities are in accordance with the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by uncertain future events, or

- a present obligation arising from past events that are not recognised because either an outflow of economic benefit is not probable or the amount of the obligation cannot be reliably estimated.

A contingent asset is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future event that is not wholly within the control of the DMO.

Where the time value of money is material, the contingent assets and liabilities are stated at discounted amounts.

(xvi) Leases

Leases are classified as either finance or operating leases in accordance with IAS 17 Leases.

The distinction between the different classes of lease depends on whether the lease transfers substantially all of the risks and rewards incidental to ownership of the leased asset from the lessor to the lessee. Leases in which a significant proportion of the risks and rewards of ownership are transferred to the lessor are classified as finance leases, other leases are classified as operating leases.

The DMO has not entered into any finance lease arrangements.

All operating leases are charged to the statement of comprehensive net expenditure on a straight-line basis over the term of the lease.

(xvii) Financial assets

On initial recognition, financial assets are classified as loans and receivables. Loans and receivables are assets with fixed or determinable repayments that are not quoted in an active market. Loans and receivables are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method. De-recognition of financial assets only occurs when the obligation is settled.

(xviii) Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest method unless stated otherwise. Financial liabilities are derecognised when the obligation is discharged. Financial liabilities include trade and other payables and accruals.

2 Staff numbers and related costs

			2013
	Permanent staff	Others	Total
	£000	£000	£000
Administration staff numbers and related costs			
Salaries	5,106	2,451	7,557
Social security costs	509	71	580
Other pension costs	992	132	1,124
	6,607	**2,654**	**9,261**
Amounts charged to capital	-	(158)	(158)
Administration operating staff costs	**6,607**	**2,496**	**9,103**
Average number of whole-time equivalent persons employed by the DMO	86	30	116
of which, staff employed on capital projects	-	1	1
Programme staff numbers and related costs			
Salaries	20	444	464
Social security costs	2	4	6
Other pension costs	4	9	13
	26	**457**	**483**
Amounts charged to capital	-	(41)	(41)
Programme operating staff costs	**26**	**416**	**442**
Average number of whole-time equivalent persons employed by the DMO	1	3	4
of which, staff employed on capital projects	-	-	-
Total net costs	**6,633**	**2,912**	**9,545**
Total average number of whole-time equivalent persons employed by the DMO	**87**	**33**	**120**
of which, staff employed on capital projects	**-**	**1**	**1**

			2012
	Permanent staff	Others	Total
	£000	£000	£000
Administration staff numbers and related costs			
Salaries	4,989	2,848	7,837
Social security costs	487	64	551
Other pension costs	934	122	1,056
	6,410	**3,034**	**9,444**
Amounts charged to capital	-	(355)	(355)
Administration operating staff costs	**6,410**	**2,679**	**9,089**
Less recoveries in respect of outward secondments	-	-	-
Administration net costs	**6,410**	**2,679**	**9,089**
Average number of whole-time equivalent persons employed by the DMO	84	33	117
of which, staff employed on capital projects	-	3	3

Programme staff numbers and related costs
During 2011-2012, there were zero staff costs and numbers associated with DMO's programme activity.

The heading 'Others' includes interim staff employed, either via recruitment agencies or on a fixed term contract.

Details of senior staff salaries and pension entitlements are included in the Remuneration Report on page 42 to 48.

Exit packages: permanent staff salaries for 2012-2013 includes an ex-gratia payment (approved by HM Treasury) for one member of staff of less than £10,000. The departure was not a compulsory redundancy. There were no exit packages in the prior year.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, but the DMO is unable to identify its share of the underlying assets and liabilities. The scheme's Actuary valued the scheme as at 31 March 2007 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2012–2013, employer contributions of £1,117,074 were payable to the PCSPS (2011–2012: £1,029,955) at one of four rates in the range 16.7 per cent to 24.3 per cent (2011-2012: 16.7 to 24.3 per cent) of pensionable pay, based on salary bands. The scheme's Actuary usually reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of the benefits accruing during 2012-2013 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £18,759 (2011-2012: £24,669) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 11.5 to 12.5 per cent (2011-2012: 11.5 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £991, 0.8 per cent of pensionable pay (2011-2012: £1,654, 0.8 per cent), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2013 were £1,615 (31 March 2012: £2,417). Contributions prepaid at that date were £nil.

3 Other administration costs

	2013 £000	2012 £000
Rentals under operating leases		
Other operating leases	**1,339**	**1,328**
Non-cash items		
Depreciation and amortisation of non-current assets	527	320
Provision for early departure cost		
Provided in year	4	5
Unwinding of discount on provisions	-	1
External auditors' fee	42	40
	573	**366**
Other expenditure		
IT and telecommunications	1,214	1,613
Business and information services	799	777
Accommodation related costs	717	623
Legal services	167	453
Recruitment	150	141
Travel, subsistence and hospitality	118	88
Training	94	137
Printing and stationery	63	58
Consultancy	14	21
Other costs	230	217
	3,566	**4,128**
	5,478	**5,822**

£42,000 (2011-2012: £40,000) of the external auditors' fee relates to audit work.

4 Other programme costs

Programme costs relate to DMA transactions, NLF gilt issuance and the retail gilt purchase and sale service.	2013 £000	2012 £000
DMA, CRND and PWLB transaction costs		
Settlement and custodial charges	2,612	2,927
Brokerage	955	1,061
	3,567	**3,988**
NLF gilt issuance costs (reimbursed – see note 5)		
Stock Exchange listing fees	600	600
Gilt purchase and sale service costs	142	200
NLGS operational costs		
Business and information services	139	-
Legal services	41	-
Other costs	1	-
	181	**-**
	4,490	**4,788**

5 Operating income

(i) Analysis of operating income by activity	2013 £000	2012 £000
Administration income		
Fees and charges to PWLB customers	1,109	5,665
Fees and charges to CRND clients	560	606
Rentals and other accommodation related income - internal to government	421	553
Emissions Trading Scheme cost recovery from DECC	133	186
Funding for Lending Scheme - Bank of England	119	-
Special Liquidity Scheme - Bank of England	-	35
Other income	19	11
	2,361	**7,056**
Programme income		
Recharges to the National Loans Fund	600	600
Gilt purchase and sale service commission - Computershare	316	773
	916	**1,373**
	3,277	**8,429**

(ii) Analysis of operating income by type

	2013 £000	2012 £000
Appropriations-in-Aid	**2,856**	**7,841**
Income received from within HM Treasury	**421**	**553**
Surrendered to the Consolidated Fund		
Special Liquidity Scheme	-	35
	3,277	**8,429**

6 Analysis of fees and charges income for the year ended 31 March 2013

This analysis of fees and charges is provided as specified by the FReM and not for the disclosure requirements of IFRS 8 Operating Segments.

Analysis of net operating cost

	CRND £000	PWLB £000	Gilt purchase and sale service £000	Emissions Trading Scheme £000
Full cost	633	1,853	419	133
Income	(560)	(1,109)	(316)	(133)
(Surplus) / deficit	**73**	**744**	**103**	**-**

Financial objective and performance:

- **CRND:** To invest and manage certain public funds and charge, where statute permits, an administrative cost calculated on a full-cost recovery basis. CRND also carries out other miscellaneous statutory functions for which there is no provision for recovering costs. This objective was achieved in full.
- **PWLB:** To advance loans, primarily to local authorities, at a fee rate that is set by statute and designed to cover the cost of examining applications for loans, making advances and maintaining accounts. This objective was achieved in full.
- **Gilt purchase and sale service:** To operate a gilt purchase and sale service for retail investors in the secondary market and charge the appropriate transactional cost as defined by statute. This objective was achieved in full.
- **Emissions Trading Scheme:** To conduct the process of auction of emission allowances to industry on behalf of the Department of Energy and Climate Change (DECC) and to recover the full cost to the service from DECC. This objective was achieved in full.

7 Non-current assets

(i) Property, plant and equipment

	Information technology £000	Furniture and fittings £000	Plant and machinery £000	Total £000
Cost or valuation				
At 1 April 2012	1,499	906	38	2,443
Additions	713	-	-	713
Intra-government transfer	219	133	-	352
Disposals	(50)	(102)	-	(152)
At 31 March 2013	**2,381**	**937**	**38**	**3,356**
Depreciation				
At 1 April 2012	1,403	883	34	2,320
Charged in year	144	4	2	150
Intra-government transfer	219	134	-	353
Disposals	(50)	(102)	-	(152)
At 31 March 2013	**1,716**	**919**	**36**	**2,671**
Net book value				
At 31 March 2013	**665**	**18**	**2**	**685**
At 31 March 2012	**96**	**23**	**4**	**123**

	Information technology £000	Furniture and fittings £000	Plant and machinery £000	Total £000
Cost or valuation				
At 1 April 2011	1,566	906	38	2,510
Additions	24	-	-	24
Disposals	(91)	-	-	(91)
At 31 March 2012	**1,499**	**906**	**38**	**2,443**
Depreciation				
At 1 April 2011	1,450	879	32	2,361
Charged in year	44	4	2	50
Disposals	(91)	-	-	(91)
At 31 March 2012	**1,403**	**883**	**34**	**2,320**
Net book value				
At 31 March 2012	**96**	**23**	**4**	**123**
At 31 March 2011	**116**	**27**	**6**	**149**

(ii) Intangible assets

	Software licences £000	Internally generated software £000	Assets under construction £000	Total £000
Cost or valuation				
At 1 April 2012	2,293	4,554	-	6,847
Additions	420	57	142	619
Intra-government transfer	49	-	-	49
Disposals	(570)	(697)	-	(1,267)
At 31 March 2013	**2,192**	**3,914**	**142**	**6,248**
Amortisation				
At 1 April 2012	2,042	3,508	-	5,550
Charged in year	105	270	-	375
Intra-government transfer	49	-	-	49
Disposals	(570)	(697)	-	(1,267)
At 31 March 2013	**1,626**	**3,081**	**-**	**4,707**
Net book value				
At 31 March 2013	**566**	**833**	**142**	**1,541**
At 31 March 2012	**251**	**1,046**	**-**	**1,297**

	Software licences £000	Internally generated software £000	Assets under construction £000	Total £000
Cost or valuation				
At 1 April 2011	2,174	4,453	147	6,774
Additions	110	381	-	491
Transfer on completion	9	138	(147)	-
Disposals	-	(418)	-	(418)
At 31 March 2012	**2,293**	**4,554**	**-**	**6,847**
Amortisation				
At 1 April 2011	1,992	3,706	-	5,698
Charged in year	50	220	-	270
Disposals	-	(418)	-	(418)
At 31 March 2012	**2,042**	**3,508**	**-**	**5,550**
Net book value				
At 31 March 2012	**251**	**1,046**	**-**	**1,297**
At 31 March 2011	**182**	**747**	**147**	**1,076**

8 Trade and other receivables

(i) Analysis by type

	2013 £000	2012 £000
Amounts falling due within one year		
Prepayments and accrued income	1,620	1,648
Other receivables	108	66
	1,728	**1,714**
Amounts falling due after more than one year		
Prepayments and accrued income	25	44
	1,753	**1,758**

(ii) Analysis by relationship with HM Government

	Amounts falling due within one year		Amounts falling due after more than one year	
	2013 £000	2012 £000	2013 £000	2012 £000
Balances with other central government bodies	259	232	-	-
Balances with local authorities	271	209	-	-
Intra-government balances	**530**	**441**	**-**	**-**
Balances with bodies external to government	1,198	1,273	25	44
	1,728	**1,714**	**25**	**44**

9 Cash and cash equivalents

	2013 £000	2012 £000
Balance at 1 April	1	15
Net change inflow / (outflow)	-	(14)
Balance at 31 March	**1**	**1**
The following balances were held at 31 March:		
Cash in hand	1	1

10 Trade and other payables

(i) Analysis by type

	2013 £000	2012 £000
Amounts falling due within one year		
Trade payables	-	95
Taxation and social security	292	284
Accruals and deferred income	1,802	2,243
Payable to the Consolidated Fund		
Other payments due to be paid to the Consolidated Fund	-	35
	2,094	**2,657**

Reflected within the amounts falling due within one year is an increase of £46,017 (2011-2012: increase of £76,176) of capital expenditure payables and accruals, which is an adjustment to the movements in working capital recorded in the statement of cash flows.

(ii) Analysis by relationship with HM Government

	Amounts falling due within one year	
	2013 £000	2012 £000
Intra-government balances: balances with other central government bodies	583	902
Balances with bodies external to government	1,511	1,755
	2,094	**2,657**

11 Provisions for liabilities and charges

(i) Analysis by type

	2013 £000	2012 £000
Balance at 1 April	60	113
Provided in the year	4	5
Provisions utilised in the year	(49)	(59)
Unwinding of discount	-	1
Balance at 31 March	**15**	**60**

Provisions are for the costs of funding the early departure of certain staff.

A statement on early departure and pension commitments is given in the statement of accounting policies on page 72.

(ii) Maturity analysis

	2013 £000	2012 £000
Within one year	15	46
Between two and five years	-	14
	15	**60**

12 Commitments under operating leases

At 31 March 2013, the total future minimum lease payments under non-cancellable operating leases are as follows:

	Buildings £000	Other £000	2013 Total £000	2012 Total £000
Obligations under operating leases for the following periods comprise:				
Less than one year	1,154	27	1,181	1,328
Between two and five years	4,614	23	4,637	4,664
Over five years	3,172	-	3,172	4,326
	8,940	**50**	**8,990**	**10,318**

13 Capital commitments

The DMO had no capital commitments at 31 March 2013 (31 March 2012: none).

14 Contingent assets and liabilities

At 31 March 2013, the DMO had no contingent liabilities (31 March 2012: £10,000).

At 31 March 2013, the DMO had no contingent assets (31 March 2012: none).

15 Related party transactions

HM Treasury

The DMO is an executive agency of HM Treasury. HM Treasury is a related party.

During the year HM Treasury has provided various business services to the DMO as listed on page 17. The total recharge paid by DMO was £49,000 (2011-2012: £47,000).

In addition, the DMO has undertaken various transactions with HM Treasury in relation to the recharge of accommodation expenditure initially incurred by the DMO, and to the cost of providing various related services during 2012-2013.

From 1 March 2013, HM Treasury has occupied floor space that the DMO leases from the building landlord. Under the terms of a Memorandum of Terms of Occupation (MOTO) agreement, all accommodation expenditure relating to HM Treasury office space, and which is paid initially by the DMO, is recovered.

The DMO also provided initial set-up and implementation services for space configuration and telecommunications infrastructure, while also providing on-going facilities management services to HM Treasury.

The total recharge received by DMO was £28,161 (2011-2012: nil).

Commissioners for the Reduction of the National Debt

Commissioners for the Reduction of the National Debt (CRND) is an entity within the DMO that performs a fund management service for a small number of public sector clients. CRND client mandates are kept distinct from other DMO business. CRND client mandates require the bulk of the funds to be invested in gilts or with the DMA. The DMO received payment from Court Funds Investment Account and Northern Ireland Courts and Tribunals Service Investment Account for fund management services of £108,000 and £72,000 respectively (2011-2012: £108,000 and £75,000).

Public Works Loan Board

PWLB is also operated within the DMO and subject to the same operational controls as applied to the DMO's operations as a whole, but charges to PWLB customers are set by statute and the Public Works Loan Commissioners retain their statutory role.

Bank of England

The Bank of England provides the DMA with banking and settlement agency services, the costs of which are borne by the DMO.

To allow the Bank of England to operate the Funding for Lending Scheme, treasury bills are lent as collateral from the DMA. The administrative cost of this operation is recovered by the DMO. This recovery was £119,335 (2011-2012: none).

National Savings & Investments

The DMO has undertaken various transactions with National Savings & Investments relating to the recovery of external costs incurred by the DMO in hedging the guaranteed equity bonds issued by the NS&I. This recovery was £14,688 (2011-2012: £16,087).

Asset Protection Agency

The DMO has undertaken various transactions with the Asset Protection Agency (APA). These relate to the recharge of accommodation expenditure initially incurred by the DMO, and to the cost of providing various services during 2012-2013. This arrangement ended on 31 October when the APA ceased to operate. The total recharge was £384,467 (2011-2012: £552,763).

The APA was an executive Agency of HM Treasury, which was located in the same building as the DMO and occupied floor space that the DMO leases from the building landlord. Under the terms of a Memorandum of Terms of Occupation (MOTO) agreement, all accommodation expenditure relating to APA office space, and which was paid initially by the DMO, is recovered.

The DMO also provided services to the APA by providing facilities management and IT services. The costs and charging for these services are governed by a service level agreement.

UK Financial Investments Limited

The UK Financial Investments Limited (UKFI) is a wholly owned subsidiary undertaking of HM Treasury. During 2012-2013, the DMO undertook one transaction with UKFI that resulted in the receipt of operating income of £8,382.

The transaction related to the recovery of expenditure initially incurred by the DMO on behalf of UKFI. The costs related to early preparatory work to accommodate UKFI in office space leased by the DMO. The work was subsequently abandoned. HM Treasury has utilised this office space since 1 March 2013 (see above).

Department of Energy and Climate Change

The DMO has had transactions during the year with the Department of Energy and Climate Change (DECC) relating to recovery of costs incurred by the DMO in conducting auctions of emission allowances. This recovery was £132,885 (2011-2012: £185,968) and covered the period from 1 April to 31 December 2012.

Ministers and Managing Board

During the year, no Minister or DMO Managing Board member has undertaken any material transactions with the DMO.

16 Financial instruments

All cash requirements of the DMO are met through the Parliamentary Estimate process. In these circumstances, financial instruments play a limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the DMO's expected purchase and usage requirements.

Therefore, at 31 March 2013, the DMO had no material exposure to liquidity risk, interest rate risk or currency risk.

All material assets and liabilities were denominated in sterling.

17 Events after the end of the reporting period

There were no events that had a material effect on the accounts after the end of the reporting period.

18 Preparation of accounts

The accounts were authorised for issue on 2 July 2013.

Accounts Direction given by HM Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000

1. The UK Debt Management Office shall prepare accounts for the year ended 31 March 2013 in compliance with the accounting principles and disclosure requirements of the Government Financial Reporting Manual issued by HM Treasury ("the FReM") which is in force for 2012-2013.

2. The accounts shall be prepared so as to:

   (a) give a true and fair view of the state of affairs as at 31 March 2013 and of the income and expenditure (or, as appropriate, net resource outturn), changes in taxpayers' equity and cash flows of the DMO for the financial year then ended; and

   (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

3. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

Karen Sanderson
Deputy Director, Government Financial Reporting
HM Treasury
17 December 2012

Accounts of the Debt Management Account

Year ended 31 March 2013
Presented to Parliament 16 July 2013

Debt Management Account: 2012-2013 Accounts

Certificate and Report of the Comptroller and Auditor General to Houses of Parliament

I certify that I have audited the financial statements of the Debt Management Account for the year ended 31 March 2013 under the National Loans Act 1968. The financial statements comprise: the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Net Funding by National Loans Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Loans Act 1968. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Debt Management Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Debt Management Account; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Introduction, Foreword, Management Commentary and Governance Statement to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects, the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Debt Management Account's affairs as at 31 March 2013 and of the surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion, the information given in the Chief Executive's Statement, Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
2 July 2013

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Debt Management Account Income statement

For the year ended 31 March 2013

	Note	2013 £m	2012 £m
Interest income	2	5,608	6,348
Interest expense	3	(887)	(1,337)
Net interest income		**4,721**	**5,011**
Other gains and losses	4	14	1
Fee income	5	-	5
Fee expense	5	(1)	-
Gains from the sale of Royal Mail Pension Plan gilts	6	11,010	-
Surplus for the year	7	**15,744**	**5,017**

All income and expenditure arose from continuing operations.

The notes on page 95 to 124 are an integral part of these accounts.

Debt Management Account Statement of comprehensive income

For the year ended 31 March 2013

	2013 £m	2012 £m
Surplus for the year from the income statement	**15,744**	**5,017**
Gains taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	3,266	13,202
Net income recognised directly in total funding by National Loans Fund	**3,266**	**13,202**
Transfers		
Transferred to income statement on disposal of investment securities classified as available-for-sale	2	1
Net transfers within total funding by National Loans Fund	**2**	**1**
Total comprehensive income	**19,012**	**18,220**

The notes on page 95 to 124 are an integral part of these accounts.

Debt Management Account
Statement of financial position

At 31 March 2013	Note	2013 £m	2012 £m
Assets			
Cash and balances at the Bank of England		508	794
Loans and advances to banks	8	25,976	36,577
Securities held for trading	9	1,086	5,953
Derivative financial instruments	10	50	42
Investment securities classified as available-for-sale			
UK Government gilt-edged securities for use as collateral subject to sale and repurchase agreements		14,236	23,378
UK Government gilt-edged securities for use as collateral not pledged		94,069	76,334
		108,305	**99,712**
Other UK Government gilt-edged securities		50,857	49,454
Treasury bills		35,267	-
	11	**194,429**	**149,166**
Other assets	12	3,258	5,572
Total assets before deposit at National Loans Fund		**225,307**	**198,104**
Deposit at National Loans Fund		17,763	34,067
Total assets		**243,070**	**232,171**
Liabilities			
Deposits by banks	13	13,299	20,013
Due to government customers	14	36,296	47,194
Derivative financial instruments	10	2	38
Treasury bills in issue	15	60,458	75,937
Other liabilities	16	33	13
Total liabilities before funding by National Loans Fund		**110,088**	**143,195**
Advance from National Loans Fund		88,046	52,042
Revaluation reserve		22,250	18,982
Income and expenditure account		22,686	17,952
Total funding by National Loans Fund		**132,982**	**88,976**
Total liabilities		**243,070**	**232,171**

The notes on page 95 to 124 are an integral part of these accounts.

Robert Stheeman
Chief Executive
1 July 2013

Debt Management Account
Statement of cash flows

For the year ended 31 March 2013

	Note	2013 £m	2012 £m
Net cash outflow from operating activities	17	**(4,574)**	**(10,927)**
Investing activities			
Interest received on investment securities classified as available-for-sale		6,329	6,536
Sales of investment securities classified as available-for-sale arising from auctions and secondary market activities		136,486	169,632
Purchases of investment securities classified as available-for-sale arising from auctions and secondary market activities		(179,524)	(56,289)
Net cash (used in)/from investing activities		**(36,709)**	**119,879**
Financing activities			
Interest received on deposit at National Loans Fund		152	283
Interest paid on advance from National Loans Fund		(430)	(777)
Increase in net funding by National Loans Fund		361,508	284,459
Decrease in net funding by National Loans Fund		(320,233)	(392,991)
Net cash from/(used in) financing activities		**40,997**	**(109,026)**
Decrease in cash		**(286)**	**(74)**

The notes on page 95 to 124 are an integral part of these accounts.

Debt Management Account
Statement of changes in net funding by National Loans Fund

For the year ended 31 March 2013

	Deposit at National Loans Fund £m	Advance from National Loans Fund £m	Revaluation reserve £m	Income and expenditure account £m	Total funding by National Loans Fund £m	Net Funding £m
At 1 April 2011	**30,546**	**157,100**	**5,779**	**12,935**	**175,814**	**145,268**
Surplus for the year	-	-	-	5,017	5,017	5,017
Transferred to income statement on disposal of investment securities classified as available-for-sale	-	-	1	-	1	1
Gains taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	-	-	13,202	-	13,202	13,202
Change in advance from National Loans Fund	-	(105,058)	-	-	(105,058)	(105,058)
Change in deposit at National Loans Fund	3,521	-	-	-	-	(3,521)
At 31 March 2012	**34,067**	**52,042**	**18,982**	**17,952**	**88,976**	**54,909**
Surplus for the year	-	-	-	15,744	15,744	15,744
Transferred to income statement on disposal of investment securities classified as available-for-sale	-	-	2	-	2	2
Gains taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	-	-	3,266	-	3,266	3,266
Change in advance from National Loans Fund	-	36,004	-	-	36,004	36,004
Change in deposit at National Loans Fund	(16,304)	-	-	-	-	16,304
Transfer of surplus to National Loans Fund	-	-	-	(11,010)	(11,010)	(11,010)
At 31 March 2013	**17,763**	**88,046**	**22,250**	**22,686**	**132,982**	**115,219**

Each day, the DMA deposits any surplus cash with the NLF. The DMA receives interest on this deposit at the Bank Rate.

A DMA surplus or deficit is an asset or liability respectively of the NLF. HM Treasury may pay from the DMA to the NLF all or part of any DMA surplus. In the case of a retained deficit, HM Treasury may pay all or part of the deficit to the DMA from the NLF.

The notes on page 95 to 124 are an integral part of these accounts.

Notes to the accounts

For the year ended 31 March 2013

1 Accounting policies

(i) Basis of preparation

The accounts have been prepared in accordance with the Accounts Direction given by HM Treasury, in accordance with International Financial Reporting Standards (IFRS) in so far as they are appropriate to the DMA, and under the historical cost convention, except for re-measurement at fair value of available-for-sale financial assets, financial assets held for trading, and all derivative contracts. In particular, the following standards have been applied:

- IAS 1 Presentation of Financial Statements (revised 2007)
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 18 Revenue
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 7 Financial Instruments: Disclosures

Certain IFRS have been issued or revised, but are not yet effective, and will be applied in subsequent reporting periods. These are:

- IAS 1 Presentation of Financial Statements, which has been revised. Application is required for reporting periods beginning on or after 1 July 2012. Earlier application is permitted. The DMA expects to apply these revisions to IAS 1 in 2013-2014. The application of these revisions, which relate to presentation of items in the income statement based on their potential to be reclassified, is not expected to impact the presentation of information in the DMA.

- IFRS 13 Fair Value Measurement, which has been issued. Application is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. The DMA expects to apply IFRS 13 in 2013-2014. The application of IFRS 13 is not expected to materially change the valuation or disclosure of transactions or balances in the DMA.

- IAS 1 Presentation of Financial Statements, which has been revised as part of the IASB's annual improvements process. Application is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. The DMA expects to apply these revisions to IAS 1 in 2013-2014. The application of these revisions to IAS 1 do not materially change the minimum requirements for comparative information and are expected to have an immaterial impact on the DMA.

- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2015. Earlier application is permitted. The DMA expects to apply IFRS 9 in 2015-2016. The content of IFRS 9 has not yet been concluded, but earlier drafts indicate that the impact of initial application of IFRS 9 may be significant. The DMA's assets that are classified as available-for-sale may be reclassified and measured at amortised cost. This would reduce the impact on reserves of changes in the value of such assets.

(ii) Financial assets

The DMA classifies financial assets, on initial recognition, as securities held for trading or as securities classified as available-for-sale. The DMA also holds loans and receivables. All financial assets are recognised initially at fair value. Financial assets are derecognised when the rights to receive cash flows from them have expired or where the DMA has transferred substantially all the risks and rewards of ownership. Loaned securities are not derecognised when no asset has been received as part of the loan.

At the end of each reporting period, DMO management assess whether there is any objective evidence that a financial asset is impaired and hence whether any reduction in the carrying amount of the asset, or any impairment allowance, is required.

(a) Financial assets at fair value through profit and loss

Debt securities are classified as held for trading if they have been acquired principally for the purpose of selling in the short term, or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets are recognised on trade date, when the DMA enters into contractual arrangements with counterparties to purchase securities, and are derecognised when the DMA enters into contractual arrangements to sell them or when they are redeemed. Following initial recognition, fair values are re-measured, and gains and losses from changes therein are recognised as other gains and losses.

The treatment of derivatives is described in section (iv).

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, comprising cash and balances at central banks, and loans and advances to banks. Loans and advances to banks comprise deposits and reverse sales and repurchase agreements, where the DMA purchases securities and agrees to sell them back at a specified time and price. Securities pledged to the DMA as collateral via reverse repos are not included on the statement of financial position. Other assets comprise accrued fees receivable and amounts due from counterparties.

Loans and receivables are recognised at settlement date. If the transaction is regular way (where a transaction settles within a timeframe established by convention in the market) then no change in fair value is recognised between trade date and settlement date. If the transaction is non-regular way, a derivative is recognised at trade date. Both regular way and non-regular way transactions are recognised as loans and receivables from settlement date, and are derecognised when borrowers repay their obligations. Following recognition as loans and receivables such assets are subsequently measured at amortised cost using the effective interest rate method.

The fair value of financial assets and liabilities recognised at amortised cost is not disclosed because the carrying value is a reasonable approximation of the fair value, as these assets and liabilities are held for the short-term.

(c) Financial assets classified as available-for-sale

Debt securities are classified as available-for-sale where they are expected to be held for an indefinite period of time. However, they may be sold in response to changes in factors such as collateral requirements, liquidity needs, and interest rate movements.

These financial assets are recognised on trade date, when the DMA enters into contractual arrangements with counterparties (primarily the National Loans Fund) to purchase securities.

Following initial recognition, fair values are re-measured, and gains or losses from changes therein are recognised in the revaluation reserve until the securities are derecognised, at which point cumulative gains or losses previously recognised in this reserve are recognised as other gains and losses.

(iii) Financial liabilities

The DMA classifies its financial liabilities in the following categories: financial liabilities at fair value through profit and loss, and financial liabilities at amortised cost. DMO management determines the classification at initial liability recognition.

All financial liabilities are recognised initially at fair value.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(a) Financial liabilities at fair value through profit and loss
This category comprises derivatives, the treatment of which is described in section (iv) below.

(b) Financial liabilities at amortised cost
Following initial recognition, deposits by banks, amounts due to government customers, and Treasury bills in issue are measured at amortised cost using the effective interest rate. Deposits by banks include sales and repurchase agreements, where the DMA sells securities and agrees to buy them back at a specified time and price. Securities that are pledged by the DMA as collateral via sales and repurchase agreements remain on the statement of financial position.

Deposits by banks and amounts due to government customers are recognised at settlement date. If the transaction is regular way (where a transaction settles within a timeframe established by convention in the market) then no change in fair value is recognised between trade date and settlement date. If the transaction is non-regular way, a derivative is recognised at trade date. Both regular way and non-regular way transactions are recognised as deposits by banks and amounts due to government customers from settlement date, and are derecognised when obligations are repaid.

Treasury bills in issue are recognised on trade date, when the DMA enters into contractual arrangements with counterparties to sell securities, and are derecognised when redeemed.

(iv) Derivatives

The DMA enters into forward foreign exchange contracts, equity index / interest rate swaps, and forward starting repos and reverse repos.

Forward foreign exchange contracts are used to hedge the risk arising from movements in foreign exchange rates.

Equity index / interest rate swaps are entered into to hedge an equity index exposure of HM Government that is external to the DMA. The nature of this relationship is explained on page 13.

Forward starting repos and reverse repos are used as part of the DMO's cash management operations.

Derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative.

All derivatives are classified as held for trading. They are initially recognised at fair value when the DMA enters into contractual arrangements with counterparties and are subsequently re-measured at fair value. All gains and losses from changes in the fair values of derivatives are recognised in the income statement as they arise. These gains and losses are reported as other gains and losses except where derivatives are managed in conjunction with euro denominated sale and repurchase agreements, in which case gains and losses are reported in interest income within reverse sale and repurchase agreements.

The DMA does not apply hedge accounting.

(v) Determination of fair value

The fair value of a financial instrument on initial recognition is normally the transaction price.

Following initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities. Such instruments are classified as level 1 in the fair value hierarchy defined by IFRS 7.

When active market prices for specific instruments are not available (for example, for the equity leg of equity index / interest rate swaps), fair values are determined by using valuation techniques that refer to relevant observable market data. Such instruments are classified as level 2 in the fair value hierarchy defined by IFRS 7.

If the fair value of a financial asset becomes negative, it is recorded as a financial liability until its fair value becomes positive.

(vi) Offsetting financial assets and financial liabilities

Financial assets and liabilities (including derivatives) are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. When the DMA holds Treasury bills that it has issued, no financial asset or liability is disclosed, as no external transaction has occurred, so neither a financial asset nor liability exists.

(vii) Interest income and expense

Interest income and expense for all interest-bearing financial instruments including those classified as held for trading are recognised in interest income and interest expense in the income statement using the effective interest rate method of allocating interest over the relevant period. Interest income and expense is recognised from settlement date.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument. The calculation includes all amounts paid or received that are an integral part of the effective interest rate, such as premiums or discounts on acquisition or issue.

(viii) Other gains and losses

Other gains and losses comprises all gains and losses from changes in the fair value of financial instruments held for trading, excluding interest income on securities held for trading.

(ix) Fees

The DMA generates both fee income and fee expense. The nature of these fees is explained in note 5.

(x) Transaction costs

Transaction costs are paid and accounted for by the DMO.

(xi) Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are retranslated into sterling at the rates prevailing at the end of the reporting period.

Forward foreign exchange contracts are used to hedge the risk arising from movements in foreign exchange rates. These derivatives are accounted for at sterling fair value using the rates prevailing at the end of the reporting period.

Exchange differences arising on settlement, and those arising on retranslation, are recognised in interest income.

2 Interest income

	2013 £m	2012 £m
Investment securities classified as available-for-sale		
UK Government gilt-edged securities	5,215	5,370
Treasury bills	74	495
	5,289	**5,865**
Loans and advances to banks		
Reverse sale and repurchase agreements	154	146
Deposits	5	6
	159	**152**
Securities held for trading		
UK Government gilt-edged securities	1	5
Other securities	26	54
	27	**59**
Deposit at National Loans Fund	133	272
	5,608	**6,348**

3 Interest expense

	2013 £m	2012 £m
Deposits by banks		
Sale and repurchase agreements	(44)	(53)
Due to government customers		
Deposits	(198)	(231)
Treasury bills in issue	(210)	(335)
Advance from National Loans Fund	(435)	(718)
	(887)	**(1,337)**

4 Other gains and losses

	2013 £m	2012 £m
Losses on disposal:		
Derivative financial instruments held for trading		
Equity index / interest rate derivatives	(5)	(6)
Investment securities classified as available-for-sale		
UK Government gilt-edged securities	(2)	(1)
Change in the fair value of derivative financial instruments held for trading and held at year end:		
Equity index / interest rate derivatives	18	9
Change in the fair value of securities held for trading and held at year end:		
Other securities	3	(1)
	14	**1**

5 Fee income and fee expense

	2013 £m	2012 £m
Fee income	**-**	**5**
Fee expense	**(1)**	**-**

The DMA received a fee of less than £1 million for lending Treasury bills to the Bank of England to facilitate the Funding for Lending Scheme.

The DMA incurred a fee expense of £1 million from activities that included lending to the Bank of England in order to facilitate the Asset Purchase Facility.

6 Gains from the sale of Royal Mail Pension Plan gilts

Under the Postal Services Act 2011, the Government transferred £7,293 million (nominal) of Royal Mail Pension Plan gilts from within the Exchequer to the DMA for nil consideration on 22 November 2012. These gilts were then sold to the NLF at market value for cancellation. This resulted in a gain on disposal of £11,010 million, which the DMA paid to the NLF via a reduction in its retained surplus.

7 Surplus for the year

Surplus for the year has been arrived at after charging net foreign exchange gains of £23 million (2012: £1 million). These gains arose from the DMA's foreign currency assets.

8 Loans and advances to banks

	2013 £m	2012 £m
Reverse sale and repurchase agreements		
Due in not more than 3 months	25,566	32,921
Due in more than 3 months but not more than 1 year	200	3,137
	25,766	**36,058**
Fixed term deposits		
Due in not more than 3 months	17	11
Call notice deposits		
Due in not more than 3 months	193	508
	25,976	**36,577**

Reverse sale and repurchase agreements are valued daily, and collateral will be returned to the provider of collateral, or additional securities requested from the provider of collateral, depending on whether the value of the collateral has risen or fallen.

Reverse sale and repurchase agreements included euro denominated transactions. The associated foreign currency risk was fully hedged through forward foreign exchange contracts (see note 10).

9 Securities held for trading

	2013 £m	2012 £m
UK Government gilt-edged securities	15	13
Other securities	1,071	5,940
	1,086	**5,953**

	2013 Nominal £m	2013 Fair value £m	2012 Nominal £m	2012 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	-	-	3,422	3,429
In more than 3 months but not more than 1 year	1,076	1,074	2,516	2,512
	1,076	**1,074**	**5,938**	**5,941**
Due after 1 year				
In more than 1 year but not more than 5 years	5	5	5	5
In more than 5 years	6	7	6	7
	11	**12**	**11**	**12**
	1,087	**1,086**	**5,949**	**5,953**

10 Derivative financial instruments

	2013 Assets £m	2013 Liabilities £m	2012 Assets £m	2012 Liabilities £m
Equity index / interest rate derivatives	36	2	24	7
Forward foreign exchange contracts	14	-	17	30
Unsettled reverse sale and repurchase agreements	-	-	-	1
Unsettled sale and repurchase agreements	-	-	1	-
	50	**2**	**42**	**38**

	2013 Nominal £m	2013 Fair value £m	2012 Nominal £m	2012 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	3,211	12	23,982	(16)
In more than 3 months but not more than 1 year	257	18	1,028	(2)
	3,468	**30**	**25,010**	**(18)**
Due after 1 year				
In more than 1 year but not more than 5 years	74	18	173	22
	3,542	**48**	**25,183**	**4**

Equity index / interest rate derivatives hedges HM Government's exposure to the equity index risk resulting from the Guaranteed Equity Bond products issued by National Savings & Investments.

The instruments are valued daily and collateral is requested from the counterparty, or returned to the counterparty, depending on whether the value of the contract has risen or fallen.

11 Investment securities classified as available-for-sale

	2013 Nominal £m	2013 Fair value £m	2012 Nominal £m	2012 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	4,360	4,356	2,996	3,072
In more than 3 months but not more than 1 year	37,285	37,415	4,393	4,571
	41,645	**41,771**	**7,389**	**7,643**
Due after 1 year				
In more than 1 year but not more than 5 years	35,881	41,637	29,044	33,170
In more than 5 years	84,418	111,021	84,972	108,353
	120,299	**152,658**	**114,016**	**141,523**
	161,944	**194,429**	**121,405**	**149,166**

12 Other assets

	2013 £m	2012 £m
Due from counterparties	**3,258**	**5,572**

13 Deposits by banks

	2013 £m	2012 £m
Sale and repurchase agreements		
Due in not more than 3 months	13,299	19,114
Due in more than 3 months but not more than 1 year	-	899
	13,299	**20,013**

All repo transactions are valued daily. Securities will be returned to the provider of collateral, or additional securities requested from the provider of collateral, depending on whether the value of the collateral has risen or fallen.

14 Due to government customers

	2013 £m	2012 £m
Counterparty analysis		
Commissioners for the Reduction of the National Debt		
Call notice deposits	34,393	44,891
Other government counterparties		
Fixed term deposits	1,903	2,303
	36,296	**47,194**
Maturity analysis		
In not more than 3 months		
Fixed term deposits	1,787	2,226
Call notice deposits	34,393	44,891
	36,180	**47,117**
In more than 3 months but not more than 1 year		
Fixed term deposits	116	77
	36,296	**47,194**

Call notice deposits are repayable on demand.

15 Treasury bills in issue

	2013 £m	2012 £m
Carrying value		
Due in not more than 3 months	38,172	52,865
Due in more than 3 months but not more than 1 year	22,286	23,072
	60,458	**75,937**
Fair value	**60,452**	**75,943**

16 Other liabilities

	2013 £m	2012 £m
Accrued fees	1	-
Due to counterparties	1	-
Cash collateral	31	13
	33	**13**

17 Analysis of cash flow

	2013 £m	2012 £m
Reconciliation of operating profit to net cash outflow from operating activities		
Operating surplus	**15,744**	**5,017**
Less: investment revenues		
Interest on investment securities classified as available-for-sale	(5,289)	(5,865)
Less: other gains and losses		
Profit on disposal of investment securities classified as available-for-sale	2	1
Less: financing costs		
Interest income on deposit at National Loans Fund	(133)	(272)
Interest expense on advance from National Loans Fund	435	717
	302	**445**
Decrease/(increase) in loans and advances to banks	10,601	(19,253)
Decrease/(increase) in securities held for trading	4,867	(2,640)
Increase in derivative assets	(8)	(20)
Decrease/(increase) in other assets	2,314	(5,562)
(Decrease)/increase in deposits by banks	(6,714)	9,025
Decrease in amounts due to government customers	(10,898)	(3,846)
Decrease in derivative liabilities	(36)	(15)
(Decrease)/increase in Treasury bills in issue	(15,479)	12,363
Increase/(decrease) in other liabilities	20	(577)
Net cash outflow from operating activities	**(4,574)**	**(10,927)**

18 Fair value hierarchy

IFRS 7 defines three classifications of fair value measurement, using a fair value hierarchy. At 31 March 2013 the DMA held assets and liabilities in level 1 and level 2 of the fair value hierarchy, as defined in note 1 (v), and as shown below.

	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	Total £m
Fair value at 31 March 2013			
Assets			
Securities held for trading	90	996	1,086
Derivative financial instruments	-	50	50
Investment securities classified as available-for-sale	194,429	-	194,429
Liabilities			
Derivative financial instruments	-	2	2
Fair value at 31 March 2012			
Assets			
Securities held for trading	781	5,172	5,953
Derivative financial instruments	-	42	42
Investment securities classified as available-for-sale	149,166	-	149,166
Liabilities			
Derivative financial instruments	-	38	38

There were no transfers between level 1 and level 2 in the year.

19 Gilt issuance

	2013 £m	2012 £m
Nominal value of gilts issued on behalf of National Loans Fund	153,098	166,448
Proceeds paid to National Loans Fund (excluding accrued interest)	165,140	179,458

During the year, there were no uncovered gilt auctions (2012: none).

On 17 July 2012, £12,208 million (nominal) of gilts (2012: £17,216 million) were created by the NLF and sold to the DMA for use as collateral in its cash management operations. Specific gilts issued in this way are not available to the repo market until three months after their creation. However, during this period, these gilts may be used in delivery by value (DBV) transactions.

20 Events after the end of the reporting period

There were no events that had a material effect on the accounts after the end of the reporting period.

21 Related party transactions

HM Treasury

The DMO is an executive agency of HM Treasury. As the DMO controls the DMA, HM Treasury is regarded as a related party of the DMA.

As detailed below, the DMA gave funding to the Bank of England in relation to the Bank of England's Asset Purchase Facility. The DMO and HM Treasury have agreed that, when the Asset Purchase Facility is closed, HM Treasury will reimburse the DMA for any accumulated net interest loss arising from this funding, or the DMA will transfer to HM Treasury any accumulated net interest surplus. The amount receivable or payable by the DMA over the course of the facility cannot be reliably estimated, but it is unlikely to be material to the accounts of the DMA. At 31 March 2013, the DMA recognised an amount payable to HM Treasury of £1 million (31 March 2012: less than £1 million).

During the year, the DMA had a significant number of material transactions with the following entities, for which HM Treasury is regarded as the parent department or sponsor, and which are regarded as related parties:

Commissioners for the Reduction of the National Debt

Commissioners for the Reduction of the National Debt (CRND) is an entity within the DMO that performs a fund management service for a small number of public sector clients. CRND client mandates are kept distinct from other DMO business. CRND client mandates require the bulk of the funds to be invested in gilts or with the DMA. Surplus cash in CRND client accounts is regularly deposited with the DMA.

National Loans Fund

The DMA's principal role is to meet the financing needs of the National Loans Fund (NLF). At the end of each day, any surplus balance on the DMA (less a varying target float) is returned to the NLF as a deposit. This is the means by which the DMA balances the daily financing needs of the NLF. Under the terms of the Finance Act 1998, the NLF made a cash advance of £6 billion to the DMA at inception in order to establish the account. Subsequent cash advances and repayments have been made from time to time. The DMA also paid £11,010 million of its retained surplus to the NLF on 22 November 2012, following the DMA's £11,010 million gain on disposal of Royal Mail gilts.

Bank of England

The Bank of England provides the DMA with banking and settlement agency services, the costs of which are borne by the DMO. The DMA lent to the Bank of England Treasury bills and gilts in relation to the Bank of England's Funding for Lending Scheme and Discount Window Facility respectively. The DMA gave funding to the Bank of England in relation to the Bank of England's Asset Purchase Facility. Interest on this loan is payable at the Bank Rate. The DMA also lent gilts to the Bank of England in delivery by value (DBV) transactions, and borrowed specific gilts of the same value.

National Savings & Investments

National Savings & Investments issues guaranteed equity bonds to retail investors on behalf of the National Loans Fund. The DMA hedges the equity index exposure resulting from the sale of these products using equity index / interest rate derivatives.

BIS (Postal Services Act 2011) Company Limited

Under the Postal Services Act 2011, the Government transferred £7,293 million (nominal) of Royal Mail Pension Plan gilts from BIS (Postal Services Act 2011) Company Limited to the DMA on 22 November 2012 for nil consideration.

Royal Mail Holdings
Also under the Postal Services Act 2011, the Government transferred £683m (nominal) of gilts from Royal Mail Holdings to the DMA on 22 November 2012 for a consideration of £988m, reflecting the market value on the date of transfer.

During the year, HM Government was the ultimate controlling party of a number of financial institutions. HM Government's investments are managed by UK Financial Investments Limited, which is wholly owned by HM Government. As a result, the following financial institutions are regarded as related parties:

- **Bradford and Bingley**
- **Lloyds Banking Group plc**
- **Northern Rock (Asset Management)**
- **Royal Bank of Scotland Group plc**

In addition, the DMA has had various transactions with other government entities. Most of these transactions have been with the following entities, which are regarded as related parties:

Various departments, other central government bodies, and local authorities
Various government departments, other central government bodies, and local authorities deposit cash with the DMADF.

Ministers and DMO Managing Board
During the year, no Minister or DMO Managing Board member has undertaken any transactions with the DMA.

At 31 March 2013 amounts due to or from related parties (and others) were:

	Related parties					Others	
	Central govt £m	Local govt £m	Public corporations £m	Financial institutions £m	Govt total £m	External bodies £m	Total £m
Assets							
Cash and balances at the Bank of England	508	-	-	-	508	-	508
Loans and advances to banks	193	-	-	2,454	2,647	23,329	25,976
Securities held for trading	15	-	-	-	15	1,071	1,086
Derivative financial instruments	-	-	-	1	1	49	50
Investment securities classified as available-for-sale							
UK Government gilt-edged securities for use as collateral	108,305	-	-	-	108,305	-	108,305
Other UK Government gilt-edged securities	50,857	-	-	-	50,857	-	50,857
Treasury bills	35,267	-	-	-	35,267	-	35,267
Other assets	-	-	-	51	51	3,207	3,258
Deposit at National Loans Fund	17,763	-	-	-	17,763	-	17,763
Liabilities							
Deposits by banks	-	-	-	21	21	13,278	13,299
Due to government customers	34,534	1,008	754	-	36,296	-	36,296
Derivative financial instruments	-	-	-	-	-	2	2
Other liabilities	1	-	-	1	2	31	33
Advance from National Loans Fund	88,046	-	-	-	88,046	-	88,046

22 Credit risk

Credit risk is the risk that a counterparty, or security issuer, will fail to discharge a contractual obligation resulting in financial loss to the DMA. Credit risk is monitored daily by the DMO's Risk Management Unit.

Exposure is primarily to financial institutions (mainly banks), non-UK sovereign-related entities and central clearing counterparties. Intra-HM Government balances are not considered to give rise to credit exposure.

Activities that give rise to credit risk include:

- placing cash deposits with banks;
- providing collateral for borrowings from banks;
- exchanging cash and stock in buying and selling financial assets; and
- entering into derivative contracts.

Methods used to measure and manage credit risk in the year ended 31 March 2013 were the same as in the prior year. The DMO continued to analyse developments in the eurozone, including how credit conditions and regulatory developments might affect the DMA's risk profile.

(i) Credit risk limits and measurement

The DMO has adopted a policy of dealing only with highly creditworthy counterparties and issuers. Credit exposure is controlled by the application of limits for each counterparty and issuer that are approved by the Credit and Market Risk Committee. These limits are absolute limits and are set for both individual entities and groups of related entities. Separate limits are set for different transaction types.

Credit risk measurement takes into account both current fair value and a risk weighting based on an estimate of potential future changes in value; in measuring credit exposure, different risk weightings are applied to different transaction types. The DMO monitors the DMA's exposure against limits on a daily basis and breaches are reported to the Credit and Market Risk Committee.

The Credit and Market Risk Committee reviews the concentrations of the DMA's credit exposure to individual banking groups and countries on a regular basis.

The DMO analyses the creditworthiness of potential counterparties and security issuers using various information sources including the information provided by three external credit assessment institutions: Standard and Poor's, Moody's Investors Service, and Fitch Ratings. Information from these sources is monitored continuously for subsequent changes.

The DMA transacts only with counterparties who meet a minimum long-term credit rating requirement, and purchases securities issued only by issuers who meet such a requirement. Each counterparty and issuer must meet this requirement for each external credit rating available at the time the transaction is entered into.

(ii) Other risk mitigation policies

In addition to the use of credit limits, exposure to credit risk is managed through other specific control and mitigation measures, as outlined below.

(a) Netting agreements

The DMO further restricts the DMA's exposure to credit losses by entering into master netting arrangements with counterparties. These arrangements do not result in an offset of statement of financial position assets and liabilities. However, if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

Netting agreements normally incorporate collateral terms, including provision for additional margin to be called in response to changes in fair values of underlying transactions.

(b) Collateral

The DMA takes stock collateral when entering reverse sale and repurchase contracts to reduce its exposure to credit losses.

Collateral is required to be in the form of securities issued or guaranteed by HM Government or certain other governments in the European Economic Area with a long-term rating equal to or above AA- (Standard and Poor's), Aa3 (Moody's), and AA- (Fitch). Other highly-rated securities may be accepted, as agreed from time to time. All collateral is held in the CREST, Euroclear and Clearstream systems.

The DMA also pays and receives cash collateral in the form of margin calls under certain derivative contracts and repo and reverse repo contracts novated to central clearing counterparties.

(c) Settlement processes

Transactions in financial assets (gilts, Treasury bills, certificates of deposit, and commercial paper) are settled primarily through the CREST, Euroclear, and Clearstream systems, making use of settlement and custody accounts operated by the Bank of England on the DMO's behalf.

The CREST and Euroclear systems are owned by Euroclear Bank S.A., which had a Standard and Poor's credit rating of AA at 31 March 2013 (31 March 2012: credit rating of AA). The Clearstream system is owned by Clearstream Banking S.A., which had a Standard and Poor's credit rating of AA at 31 March 2013 (31 March 2012: credit rating of AA).

Wherever possible, trades are settled as delivery versus payment, with simultaneous exchange of cash and stock, or settlement whereby the DMA receives cash or stock from the counterparty before delivering stock or cash in return.

Daily settlement limits are also used to control settlement risk.

(iii) Impairment and provisioning policies

Counterparties and issuers are monitored for deterioration of credit worthiness or late settlements and collateral is valued on a daily basis.

As at 31 March 2013, DMO management assessed that there was no impairment of any financial assets and there were no assets whose terms had been renegotiated (31 March 2012: none).

No credit related losses were incurred by the DMA during the year (2012: £nil), and no provisions were considered necessary at 31 March 2013 (31 March 2012: none).

During the year, £97,270 was recovered relating to a credit loss of £386,000 written off in 2009.

(iv) Gross exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures on statement of financial position assets at 31 March were:

	Internal to government		External to government		Total	
			Financial institutions			
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Cash and balances at the Bank of England	508	794	-	-	508	794
Loans and advances to banks						
Reverse repos	-	-	25,766	36,058	25,766	36,058
Fixed term deposits	-	-	17	11	17	11
Asset Purchase Facility (deposit at Bank of England)	193	508	-	-	193	508
Securities held for trading	15	13	1,071	5,940	1,086	5,953
Derivative financial instruments	-	-	50	42	50	42
Investment securities classified as available-for-sale						
UK Government gilt-edged securities for use as collateral	108,305	99,712	-	-	108,305	99,712
Other UK Government gilt-edged securities	50,857	49,454	-	-	50,857	49,454
Treasury bills	35,267	-	-	-	35,267	-
Other assets	-	-	3,258	5,572	3,258	5,572
Deposit at National Loans Fund	17,763	34,067	-	-	17,763	34,067
Total gross exposure	**212,908**	**184,548**	**30,162**	**47,623**	**243,070**	**232,171**

The external to government balances above represent credit risk exposure without taking into account any collateral held or other credit enhancements attached. The exposures set out above are based on the carrying value, as reported in the statement of financial position.

The DMA has not issued any financial guarantees and has no off-statement of financial position financial commitments.

(v) Collateral

(a) Sale and repurchase agreements (repos) and reverse sales and repurchase agreements (reverse repos)

Repos and reverse repos with collateral backing were as follows:

Settled transactions:

	Carrying value* £m	2013 Fair value of securities collateral £m	Carrying value* £m	2012 Fair value of securities collateral £m
Reverse repos (within loans and advances to banks)	25,766		36,058	
Repos (within deposits by banks)	13,299		20,013	
Net fair value of collateral		12,474		16,057
Collateral shortfall		26		30
Collateral surplus		19		54

* Carrying value per the statement of financial position

Collateral shortfall and surplus represent the total margin call expected to be made (shortfall) or received (surplus) on the first business day following 31 March 2013.

Unsettled transactions:

	Unsettled value £m	2013 Weighted average days to settlement	Unsettled value £m	2012 Weighted average days to settlement
Reverse repos	408	2	4,459	5
Repos	2,573	2	4,456	17

All repo and reverse repos are with banks (or bank subsidiaries) and central clearing counterparties. Collateral surplus and shortfall have been calculated at the level of individual counterparties. Collateral to the value of the unsettled cash amounts is taken upon settlement.

(b) Derivative financial instruments

	Carrying value* £m	2013 Fair value of securities collateral £m	Carrying value* £m	2012 Fair value of securities collateral £m
Assets	50		42	
Liabilities	2		38	
Collateral shortfall		-		3
Collateral surplus		7		3

* Carrying value per the statement of financial position

Derivative assets include equity index/interest rate derivatives and foreign exchange contracts transacted under bilateral netting agreements (ISDA). Collateral held may be in mitigation of both types of derivative contract. Collateral surplus and shortfall have been calculated at the level of individual counterparties.

(vi) Repos – analysis by credit rating

Repos and reverse repos, by Standard and Poor's long-term designation of the counterparty at 31 March based on rating individual contracting entities rather than ultimate parent entities, were:

	Reverse repos		Repos	
	2013 £m	2012 £m	2013 £m	2012 £m
AAA	-	-	-	-
AA- to AA+	218	4,404	2	-
A- to A+	24,806	31,654	13,297	20,013
Unrated	742	-	-	-
	25,766	**36,058**	**13,299**	**20,013**

(vii) Cash, fixed term deposits, Asset Purchase Facility deposit and securities held for trading - analysis by credit rating

Non-HM Government deposits and debt securities, by Standard and Poor's long-term rating of the counterparty or (for trading assets) issuer at 31 March, were:

	Cash and balances at the Bank of England		Fixed term deposits		Asset Purchase Facility deposit		Securities held for trading	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
AAA	508	794	-	-	193	508	-	4,441
A- to A+	-	-	17	11	-	-	1,071	1,499
	508	**794**	**17**	**11**	**193**	**508**	**1,071**	**5,940**

(viii) Derivative financial instruments – analysis by credit rating

Derivative net assets by counterparty, by Standard and Poor's long-term rating of the counterparty at 31 March, were:

	2013 £m	2012 £m
AA- to AA+	5	1
A- to A+	33	18
BBB- to BBB+	10	-
	48	**19**

(ix) Other assets – analysis by credit rating

Other assets by Standard and Poor's long-term rating designation of the counterparty at 31 March, were:

	2013 £m	2012 £m
AAA	-	-
AA- to AA+	563	1,023
A- to A+	2,254	3,756
BBB- to BBB+	351	99
Unrated	90	694
	3,258	**5,572**

At 31 March 2013, other assets of £3,258 million related to unsettled Treasury bill sales transacted on a delivery versus payment basis.

(x) Concentration of exposures

Credit exposures were spread across financial institutions, primarily in the United Kingdom and the rest of the European Economic Area.

Credit exposures at 31 March by geographical region, based on the country of domicile of the ultimate parent entities of the counterparty or (for trading assets) issuer were:

(a) Geographical sectors – assets excluding sale and repurchase agreements

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Cash and balances at the Bank of England	508	794	-	-	-	-	-	-	508	794
Fixed term deposits	17	11	-	-	-	-	-	-	17	11
Asset Purchase Facility deposit	193	508	-	-	-	-	-	-	193	508
Securities held for trading	1,071	-	-	5,690	-	-	-	250	1,071	5,940
Derivatives	8	3	34	12	6	4	-	-	48	19
Other assets	643	1,245	378	905	2,237	3,422	-	-	3,258	5,572
	2,440	**2,561**	**412**	**6,607**	**2,243**	**3,426**	**-**	**250**	**5,095**	**12,844**

Investment securities classified as available-for-sale have been excluded from the above table, as they are issued by HM Government.

(b) Geographical sectors – sale and repurchase agreements

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Reverse repos (within loans and advances to banks)	24,543	24,501	1,088	7,893	-	2,375	135	1,289	25,766	36,058
Repos (within deposits by banks)	13,297	19,971	-	37	2	5	-	-	13,299	20,013

(xi) Concentration of exposures - analysis by credit rating

Credit ratings are Standard and Poor's long-term designation of the counterparty or (for trading assets) issuer at 31 March based on rating individual contracting entities rather than ultimate parent entities.

Geographical regions are based on the country of domicile of the ultimate parent entity of the counterparty or (for trading assets) issuer.

Non-HM Government cash and balances at the Bank of England, fixed term deposits, Asset Purchase Facility deposit, securities held for trading, derivatives, other assets, reverse repos and repos were:

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
AAA	700	1,302	-	4,191	-	-	-	250	700	5,743
AA- to AA+	186	1,044	5	4,869	547	973	50	41	788	6,927
A- to A+	39,305	43,952	827	5,418	1,346	4,833	-	1,248	41,478	55,451
BBB- to BBB+	-	99	10	-	351	-	-	-	361	99
Unrated	90	635	658	60	-	-	85	-	833	695
	40,281	**47,032**	**1,500**	**14,538**	**2,244**	**5,806**	**135**	**1,539**	**44,160**	**68,915**

23 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk.

The DMA's exposure is primarily to interest rate risk.

The DMO manages the DMA's exposure to market risk in three main areas:

- interest rate risk from bank loans and advances and from debt securities (comprising the cash management portfolio of trading and non-trading assets and liabilities);
- interest rate and other price risk from the derivatives hedging the Guaranteed Equity Bonds issued by National Savings & Investments; and
- interest rate risk from the retail gilts book.

The scope of market risk monitoring excludes interest rate risk arising from cash at the Bank of England, gilts and Treasury bills for use as collateral or for lending to the Bank of England, amounts due to the funds managed by CRND and all balances with the National Loans Fund.

(i) Market risk measurement

The primary sensitivity analysis techniques used to measure and monitor market risk are outlined below.

Interest rate risk derives from the DMA's activity of addressing its cash flow profile throughout the year.

Interest rate risk limits are in place, expressed in present value of a basis point (rather than value at risk) terms.

The Credit and Market Risk Committee reviews the DMA's market risk exposure on a monthly basis, with the Cash Management Committee reviewing certain aspects bi-weekly.

(a) Value at risk

Value at risk (VaR) is a method which estimates the potential mark to market loss over a target horizon given a level of confidence. The DMO uses a time horizon of one day and a confidence level of 90 per cent and anticipates no portfolio changes over the time horizon. The model reflects interdependencies and benefits of diversification between risk factors such as interest rates, currency rates and equity indices. VaR is calculated daily on the basis of exposures outstanding at the close of business. If a portfolio has a one-day 90 per cent VaR of, say, £1 million, it can be expected to lose or gain more than £1 million on only one trading day out of 10. Calculation of the worst possible loss is outside the scope of VaR. For interest rate risk, DMO uses the variance-covariance parametric VaR methodology. Assumptions as to how data will be distributed are based on historical data. Additionally, stress-testing is performed for the cash management portfolio to describe the possible scenarios falling outside the 90 per cent confidence limits.

b) Present value of a basis point

Present value of a basis point (PV01) is a standard sensitivity measure used to measure sensitivity to a 0.01 per cent parallel shift in interest rates when all other risk factors are held constant. The parallel shift in interest rates has been defined as the movement in the relevant zero coupon curve used to estimate fair value. The impact on yield curves of other factors, including extreme events, is outside the scope of PV01.

Interest rate limits set in PV01 terms were in place throughout the year and the prior year. Limits used operationally are set lower than those agreed with HM Treasury, in order to safeguard against breach of the latter should an operational error arise. Monitoring against these limits is performed daily and any breaches are reported to the Credit and Market Risk Committee.

(ii) VaR summary

VaR at 31 March:

	2013 £m	2012 £m
Interest rate risk and currency risk - cash management	0.06	1.47
Interest rate risk - retail gilts	0.04	0.09

VaR is not aggregated across activities, as different VaR methodologies are used as described in (i) (a) above.

VaR is calculated daily for both retail gilt and cash management exposures.

The range of end-of-day VaR in the year ended 31 March was:

(a) Interest rate risk and currency risk – cash management

	2013 £m	2012 £m
Highest	1.36	2.44
Average	0.34	0.97
Lowest	0.04	0.28

(b) Interest rate risk – retail gilts

	2013 £m	2012 £m
Highest	0.10	0.16
Average	0.06	0.09
Lowest	0.04	0.04

Exposures to risk from trading and non-trading activities are measured together as they arise from economic environments that are not significantly different.

(iii) Interest rate risk

The DMA enters primarily into cash and securities contracts at fixed interest or discount rates.

The exceptions to this at 31 March 2013 were: index-linked gilts, with a carrying value of £16,650 million (31 March 2012: £15,662 million); the deposit at the National Loans Fund, with a carrying value of £17,763 million (31 March 2012: £34,067 million); the advance from the National Loans Fund, with a carrying value of £88,046 million (31 March 2012: £52,042 million); call notice deposits from customers, with a carrying value of £34,393 million (31 March 2012: £44,891 million) and the Asset Purchase Facility deposit with a carrying value of £193 million (31 March 2012: £508 million). The index-linked gilts are linked to the General Index of Retail Prices in the UK (RPI).

(a) Interest rate risk profile

The DMA's interest rate risk profile based on the earliest possible repayment date at 31 March was:

	Fixed rate instruments Weighted average interest rate	Fixed rate instruments Weighted average period	Fixed rate instruments	Floating rate instruments
			Statement of financial position carrying value	
	2013 %	2013 Years	2013 £m	2013 £m
Sterling				
Assets	3.69	10.46	204,648	34,643
Liabilities (before funding by National Loans Fund)	0.33	0.17	75,660	34,395

	2012 %	2012 Years	2012 £m	2012 £m
Sterling				
Assets	4.04	11.28	175,528	50,261
Liabilities (before funding by National Loans Fund)	0.40	0.15	98,254	44,898

The DMA is charged interest on the advance from the National Loans Fund at the Bank Rate. The benchmark rate for determining the interest payments on other floating rate borrowings is LIBOR.

The DMA held undated gilts with a carrying value of £34 million as at 31 March 2013 (31 March 2012: £35 million). These are included in the above interest rate disclosures except the weighted average period, as these gilts have no maturity date.

(b) Interest rate sensitivity – PV01 summary

PV01 at 31 March was:

	2013 £m	2012 £m
Interest rate risk - cash management	(0.02)	(0.29)
Interest rate risk - retail gilts	(0.01)	(0.01)

The range of end-of-day PV01 exposure in the year ended 31 March was:

Cash management

	2013 £m	2012 £m
Highest positive	(0.02)	0.00
Average	(0.29)	(0.24)
Highest negative	(0.50)	(0.59)

Retail gilts

	2013 £m	2012 £m
Highest positive	(0.01)	(0.01)
Average	(0.01)	(0.01)
Highest negative	(0.01)	(0.01)

A positive PV01 indicates exposure to a parallel fall in relevant yield curves while a negative PV01 indicates exposure to a rise in the curves.

(iv) Currency risk

The DMA enters transactions in instruments denominated in euros, for diversification purposes, with currency exposure hedged via foreign exchange swaps.

A foreign exchange risk limit constrains the extent to which the DMO may incur a net exposure to foreign currency movements when it purchases or sells foreign currency assets. The policy in force during the year (and during the prior year) was to match all currency cash flows. This hedging is monitored daily and any breaches are reported to the Credit and Market Risk Committee.

Forward foreign currency contracts outstanding are disclosed in note 10 and 24(iii).

The DMA has no foreign operations and hence no structural foreign exchange exposures.

(v) Other price risk

The DMA is exposed to risk arising from derivative transactions (equity index swaps) entered into to hedge the risk arising to National Savings & Investments from Guaranteed Equity Bonds in issue (see note 10). Returns on these Bonds are linked to the performance of the FTSE 100 UK equity index (FTSE 100). The net risk exposure of the hedging derivatives comprises exposure to the FTSE 100 market value and implied volatility as well as to LIBOR interest rates. There is a limit on the amount of National Savings & Investments' exposure from Guaranteed Equity Bonds that may remain unhedged by the DMA. Monitoring against this limit is performed daily and any breaches are reported to the Credit and Market Risk Committee.

24 Liquidity risk

Liquidity risk is the risk that the DMA will encounter difficulty in meeting obligations associated with financial liabilities.

The DMO manages the DMA's liquidity primarily by:

- monitoring cash flows to ensure that daily cash requirements are met;
- holding sufficient financial assets for which there is an active market and which can readily be sold or used as collateral against cash borrowings; and
- arranging the issue of Treasury bills and gilts to raise funds.

Management does not expect customers to call amounts repayable on demand simultaneously or without notice.

The DMA and the NLF are under common influence. It is not expected that liabilities of the DMA to the NLF would be required to be paid without warning.

(i) Maximum cumulative flow

A daily liquidity risk limit constrains the extent to which the DMO may leave an expected cash flow to be dealt with on the day it occurs.

The liquidity risk limit is measured by the Maximum Cumulative Flow over one day, which is the maximum permitted amount of any net expected cash inflow or outflow for the following day, assuming normal operating conditions.

A limit was in place throughout the year and acted as a liquidity risk trigger. Limits used operationally are set lower than those agreed with HM Treasury, in order to safeguard against breach of the latter should an operational error arise. These limits are monitored daily and any breaches are reported to the Credit and Market Risk Committee.

(ii) Non-derivative cash flows

The contractual undiscounted cash flows of the DMA's liabilities, other than the cash flows under derivative contracts, including interest that will accrue to these liabilities, were:

At 31 March 2013	On demand £m	0-6 months £m	7-12 months £m	Total flows (not discounted) £m	Adjustment for discount £m	Carrying value* £m
Deposits by banks	-	13,300	-	**13,300**	(1)	**13,299**
Due to government customers	34,392	1,904	-	**36,296**	-	**36,296**
Treasury bills in issue	-	60,244	256	**60,500**	(42)	**60,458**
Other liabilities	32	1	-	**33**	-	**33**
Total non-derivative liabilities before funding by National Loans Fund	**34,424**	**75,449**	**256**	**110,129**	**(43)**	**110,086**

* Carrying value per the statement of financial position

At 31 March 2012	On demand £m	0-6 months £m	7-12 months £m	Total flows (not discounted) £m	Adjustment for discount £m	Carrying value* £m
Deposits by banks	-	19,617	400	**20,017**	(4)	**20,013**
Due to government customers	44,891	2,303	-	**47,194**	-	**47,194**
Treasury bills in issue	-	74,494	1,500	**75,994**	(57)	**75,937**
Other liabilities	13	-	-	**13**	-	**13**
Total non-derivative liabilities before funding by National Loans Fund	**44,904**	**96,414**	**1,900**	**143,218**	**(61)**	**143,157**

* Carrying value per the statement of financial position

At 31 March 2013 there were no liabilities that the DMA intended to repay before maturity (31 March 2012: nil).

Management expects actual undiscounted cash flows in relation to liabilities to be the same as contractual undiscounted cash flows, except in the case of amounts repayable on demand.

The DMA holds deposits at the Bank of England and other financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs.

(iii) Derivative cash flows

The contractual undiscounted cash flows of the DMA's assets and liabilities under derivative contracts were:

(a) Derivatives settled on a gross basis

At 31 March 2013

	0-6 months £m	Total undiscounted flows £m
Sterling		
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	208	**208**
Inflow	1,890	**1,890**

	€m	€m
Euro		
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	752	**752**
Inflow	-	**-**

At 31 March 2012

	0-6 months £m	Total undiscounted flows £m
Sterling		
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	4,641	**4,641**
Inflow	17,353	**17,353**

	€m	€m
Euro		
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	15,474	**15,474**
Inflow	915	**915**

Carrying values are shown in note 10.

(b) Derivatives settled on a net basis

At 31 March 2013	0-6 months £m	6-12 months £m	1-5 years £m	Total undis-counted flows £m	Adjustment for discount £m	Carrying value* £m
Sterling						
Equity index derivatives						
Outflow	2	-	-	**2**	-	**2**
Inflow	5	13	19	**37**	-	**37**

At 31 March 2012	0-6 months £m	6-12 months £m	1-5 years £m	Total undis-counted flows £m	Adjustment for discount £m	Carrying value* £m
Sterling						
Equity index derivatives						
Outflow	5	-	2	**7**	-	**7**
Inflow	-	-	25	**25**	(1)	**24**

* Carrying value per the statement of financial position

There were no derivative contracts that the DMA intended to terminate before maturity at 31 March 2013 (or 31 March 2012). Management expects actual undiscounted cash flows in relation to derivatives to be the same as contractual undiscounted cash flows.

25 Preparation of accounts

The accounts were authorised for issue on 2 July 2013.

Accounts Direction given by HM Treasury under the National Loans Act 1968

1. This direction applies to the United Kingdom Debt Management Office.

2. The United Kingdom Debt Management Office shall prepare accounts for the Debt Management Account (the Account) for the year ending 31 March 2012 and each subsequent financial year, which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.

3. The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.

4. The accounts shall present an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows, and a statement of changes in net funding by National Loans Fund. The statement of financial position shall present assets and liabilities in order of liquidity.

5. The notes to the accounts shall include disclosure of assets and liabilities, and of income and expense, relating to other central government funds including the National Loans Fund.

6. The report shall include:

(i) a brief history of the Account, and its statutory background;
(ii) an outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management arrangements;
(iii) information on targets set by HM Treasury and their achievement;
(iv) a management commentary, including information on financial performance and financial position, which reflects the relationship between the Account and other central funds; and
(v) a governance statement.

7. This accounts direction shall be reproduced as an appendix to the accounts.

8. This accounts direction supersedes all previous Directions issued by HM Treasury.

Chris Wobschall
Deputy Director, Assurance and Financial Reporting Policy, HM Treasury
23 March 2012

This publication is available in electronic form on the United Kingdom Debt Management Office (DMO) website www.dmo.gov.uk.

All the DMO's publications and a wide range of data are available on its website including:

- the Annual Review, which covers the main developments for the financial year;
- the Quarterly Review, which highlights more recent developments in the DMO's gilt and cash market activities;
- the DMO's Annual Report and Accounts for its administrative expenditure and for the operation of the Debt Management Account;
- current and historical gilt prices and yields;
- press releases, gilt auction announcements and gilt auction results;
- detailed Treasury bill tender results; and
- current and historical interest rates for loans from the Public Works Loan Board.

Alternatively, publications can be obtained from the DMO by telephoning 0845 357 6501.

United Kingdom Debt Management Office
Eastcheap Court
11 Philpot Lane
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