United Kingdom
Debt
Management
Office

United Kingdom Debt Management Office and Debt Management Account

Annual Report & Accounts 2007-2008

DMO and DMA Report and Accounts 2007-2008

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This publication is available in electronic form on the UK Debt Management Office 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 in which the DMO has been in operation;
- 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 020 7862 6501.

United Kingdom Debt Management Office
Eastcheap Court
11 Philpot Lane
London
EC3M 8UD

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SCOPE OF REPORT

This report presents both 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 2008.

The **DMO** was established as an executive agency of HM Treasury on 1 April 1998. Its administrative expenses are funded through HM Treasury's Parliamentary Vote with disbursements associated with specific issues of debt being recharged to the National Loans Fund (NLF). It has around 80 staff, who are civil servants, working within the Agency subject to the Civil Service Management Code, and is located in the City of London. The Minister ultimately responsible for the DMO is the Chancellor of the Exchequer.

The main aims of the DMO are:

- to carry out the Government's debt management policy of minimising its financing cost over the long-term, taking account of risk;
- to minimise the cost of offsetting the 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; and
- to manage the funds of selected public sector bodies.

In carrying out these aims, the DMO will take account of wider policy considerations that may constrain cost minimisation (for example, maintaining holdings of gilts for retail purposes). The DMO may also provide advice on the development of HM Treasury's strategy for managing the Government's balance sheet to help secure sound public finances.

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 also acts as the Government's gateway to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objective of maintaining sound public finances.

The **DMA** is one of the central Exchequer Fund accounts (others include the NLF 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 balances attributable to the DMO's debt and cash management activities (except for gilts issued by the DMO which are liabilities of the NLF).

CHIEF EXECUTIVE'S STATEMENT

2007-2008 has been the tenth year of operation for the DMO and has provided the most challenging operational environment to date.

The DMO successfully auctioned £58.5 billion of gilts during the year through 34 operations. This was the second highest volume of gilt supply in nominal terms and is testimony to the increasing demands on the DMO and its staff.

As in 2006-2007, the DMO has continued to focus gilt issuance on index-linked and long-dated conventional gilts, which together accounted for two-thirds of outright gilt supply. This strategy again reflected strong underlying investor demand for these securities, in particular from the UK pensions industry, and also the UK Government's own supply preferences in delivering the Government's debt management objective of minimising long-term costs subject to risk.

A significant development in the delivery of the financing remit in 2007-2008 was the introduction of electronic bidding at auctions. This facility, introduced for index-linked auctions in May 2007 and for conventional auctions in June 2007, helped to halve the publication time of auction results from an average of 20 minutes in 2006-2007 to 10 minutes and has additionally reduced the operational risks of performing an action.

We are also continually seeking to innovate by examining the prospects for creating new instruments such as HM Government paper issued in sukuk form. The DMO and HM Treasury undertook a formal consultation on the potential for the UK Government becoming a sterling issuer of these Islamic financial instruments, with a view to help making London an international centre for Islamic finance. The Government published its response to the consultation on 2 June 2008.

The DMO has additionally performed strongly in carrying out its cash management function. All cash management objectives have been successfully met. This is especially impressive due to the volatile and difficult credit conditions that prevailed in the market during the second half of the year.

During the year, the Public Works Loan Board (PWLB) lending arrangements were amended to refine the method of setting interest rates. This change of process allows for more appropriate pricing of loans and minimises financial risks to the Exchequer. The PWLB increased its total lending to a record level of £51 billion during 2007-2008.

The DMO has again successfully provided a cost-effective service to its client funds via the Commissioners for the Reduction of the National Debt (CRND) fund management operation.

Looking forward, the DMO has received a remit for 2008-2009 which will require record (nominal) levels of gilt issuance of £80.0 billion. This will need to be delivered in a financial environment which may continue to be volatile and unpredictable.

In April 2008, the Bank of England launched its Special Liquidity Scheme to allow banks to swap temporarily their high quality mortgage-backed and other securities for Treasury bills. The DMO has contributed to this initiative by buying Treasury bills newly created by the NLF specifically for the Special Liquidity Scheme and making them available for borrowing by the Bank of England. The initial purchase of Treasury bills by the DMA was of a nominal value of £50 billion.

In summary, the DMO has performed strongly this year across its whole range of operations and it is therefore with confidence that I can look forward to the challenges of 2008-2009. 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.

Robert Stheeman
Chief Executive

10 July 2008

FOREWORD

Principal activities and history of the Debt Management Office

The DMO was established on 1 April 1998, with the following 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.*"

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 also acts as the Government's gateway to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objective of maintaining sound 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 its Chief Executive's roles and responsibilities 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. HM Treasury gives the DMO annual remits on debt 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 to meet its specified objectives and targets.

Debt Management

HM Treasury's debt management objective is *"to minimise over the long-term, the cost of meeting the Government's financing needs, taking into account risk, whilst 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.

The Government seeks to minimise the costs of servicing its debt over the long-term, rather than the debt interest bill in a single year, and tries to ensure that the chosen policy is robust in a wide range of economic conditions.

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

The DMO's main debt management activity is to issue gilt-edged securities (gilts) on behalf of the National Loans Fund (NLF).

The remit set by HM Treasury 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 announced. The remit also provides the basis for the conduct of any switch, conversion or buy-back operations in a particular year. The DMO decides the size of gilt auctions, the choice of gilts to be auctioned and the size and maturity breakdown of Treasury bill tenders.

The DMO publishes Operational Notices describing how it acts in the gilts 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 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 prior to maturity at market rates.

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 within a risk appetite approved by Ministers."*

The 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.

Gilt purchase and sale service

The DMO offers a gilt purchase and sale service to those registered on the approved group of investors database, operated by Computershare Investors Services plc, as an agent of the DMO. This service enables members of the public to undertake secondary market transactions in gilts, on an execution-only basis.

PWLB and CRND

On 1 July 2002, the operations of the PWLB and the CRND (two constituent parts of the former National Investment and Loans Office (NILO)) were integrated with the DMO.

The PWLB lends principally to local authorities for capital purposes.

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

Hedging of National Savings & Investment's Guaranteed Equity Bonds

Since March 2002, National Savings & Investments (NS&I) has issued Guaranteed Equity Bonds. On behalf of NS&I, the DMA hedges the equity index exposure resulting from the sale of these products to investors 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, the Government has no material exposure to equity index risk.

Relationship of the Debt Management Account to the National Loans Fund

The operations of the Consolidated Fund and the NLF - the main central government funds - are central to an understanding of the role of the DMA in Government debt and cash management.

HM Treasury manages both funds. The Consolidated Fund accounts for most central Government expenditure and receipts, while the NLF mainly undertakes borrowing and financing transactions. As the Government's main borrowing account the principal role of the NLF is to balance the Consolidated Fund at the end of each day.

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). Lending by the DMA to the market (when the Government has excess cash) is an asset of the DMA, while borrowing by the DMA from the market is a liability. Day-to-day borrowing and lending largely takes the form of the issuance of Treasury bills, sale and repurchase transactions (repos), and reverse sale and repurchase transactions (reverse repos) with the market. The repos and reverse repos are collateralised, usually using gilts. For this purpose the DMA holds a large gilt portfolio comprising gilts bought from the NLF and from the former NILO early in the life of the DMA.

Gilts are liabilities of the NLF. The NLF sells newly created gilts to the DMA. The DMA then sells the gilts to the market. 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.

As part of its debt and cash management operations, the DMA issues sterling Treasury bills. Treasury bills may also be issued by the 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. The carrying value of the deposit (including accrued interest) was £49,140 million at 31 March 2008 (31 March 2007: £35,339 million). The DMA pays interest, at the official 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. The DMA repaid the outstanding advance to the NLF in a single payment of £15 billion in January 2007 when it became clear that the DMA had no further need of the advance in the short-term. The NLF advance to the DMA has been £nil throughout 2007-2008.

Retained surpluses and deficits of the DMA are assets or liabilities of the NLF. In the case of a retained surplus, HM Treasury may pay all or part of the surplus from the DMA to the NLF thereby reducing the liability of the DMA. The only such payment to date was made in March 2004, which reduced the liability of the DMA to the NLF by £650 million. In the case of a retained deficit, HM Treasury may pay all or part of the deficit to the DMA from the NLF. If there were to be a cessation of the DMA, with a corresponding liquidation of all balances, the NLF is entitled to the net amount realised. In such a situation, the NLF will have a responsibility to meet outstanding liabilities including those relating to Treasury bills issued by the DMA.

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

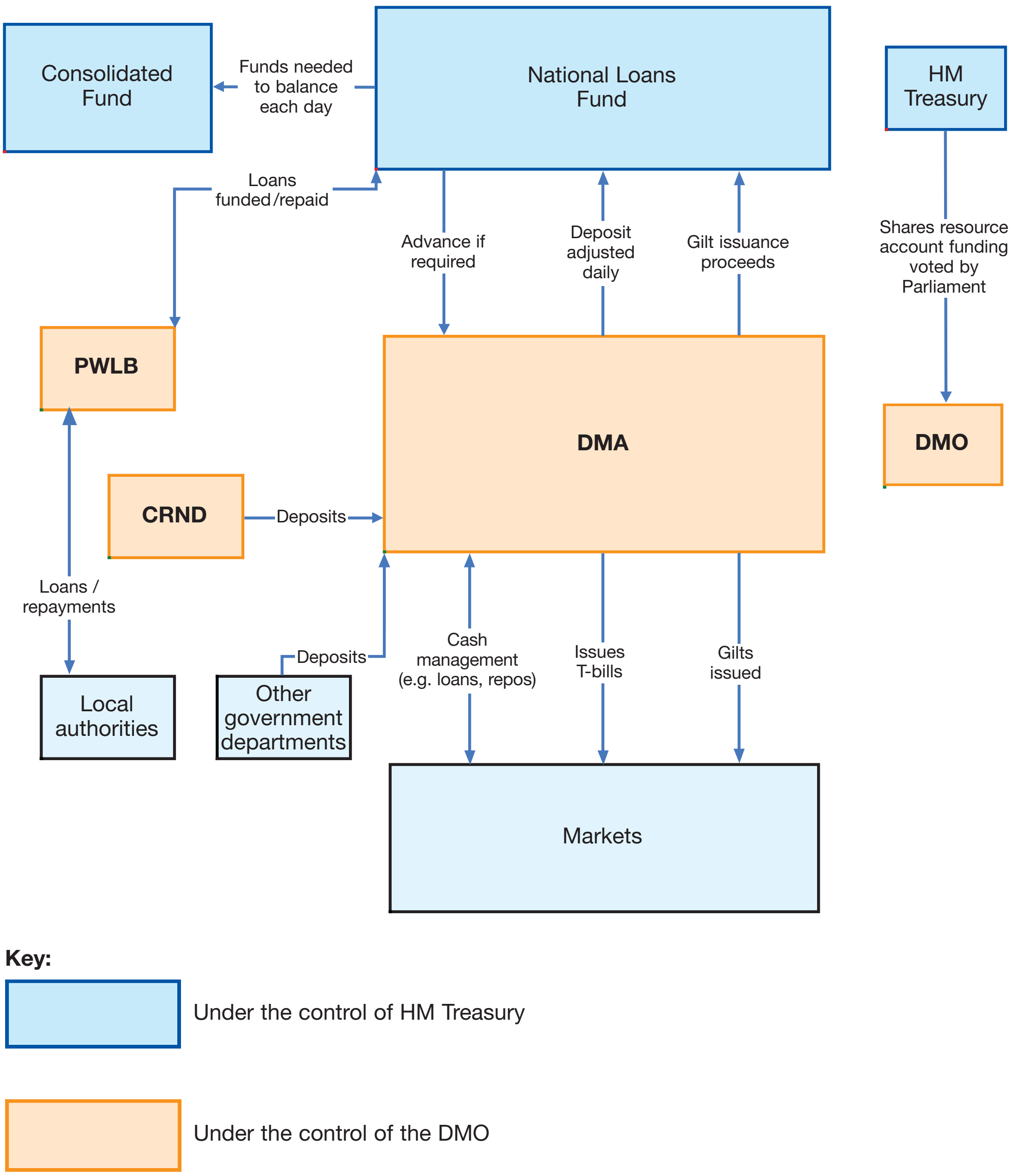
Commissioners for the Reduction of the National Debt (CRND) is a statutory entity within the DMO that performs a fund management service for a small number of public sector clients. The Comptroller General of CRND is also the Deputy Chief Executive of the DMO. CRND client mandates require the bulk of the funds under management to be invested in gilts or with the DMA Deposit Facility (DMADF).

Surplus cash in CRND client accounts is regularly deposited with the DMADF. From time to time, the DMA transacts in marketable gilts with CRND and trades these back-to-back with market counterparties. The DMA also transacts non-marketable gilts on behalf of CRND 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.

The value of CRND's deposits within DMADF at 31 March 2008 was £60.2 billion (31 March 2007: £48.8 billion).

Key relationships of the DMO and DMA

The illustration below sets out the principal relationships of the DMO and DMA with other organisations and funds. It is not therefore designed to be comprehensive or complete.



Corporate governance

Throughout 2007-2008, ministerial responsibility for the DMO was vested in the Economic Secretary to HM Treasury by the Chancellor of the Exchequer. At the beginning of the year, the post of Economic Secretary was held by Ed Balls MP. Since 29 June 2007 the post of Economic Secretary has been held by Kitty Ussher MP.

Robert Stheeman, the Agency's Chief Executive, is the Accounting Officer for the Agency and is responsible to HM Treasury Ministers for the overall operation of the Agency in accordance with its Framework Document. The Chief Executive's appointment was made through open competition by HM Treasury and was effective from 6 January 2003.

The Chief Executive was assisted during 2007-2008 by a Managing Board that, in addition to the Chief Executive, comprised:

- 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 (from 1 February 2008);
- Sam Beckett - non-executive HM Treasury representative (from 1 February 2008);
- Colin Price - non-executive Director;
- Brian Larkman - non-executive Director; and
- Tamara Finkelstein - non-executive HM Treasury representative (until 24 January 2008).

Colin Price was formerly Finance Director of Shell Pensions Management Services Ltd between 1991 and 2001, a member of the Board of IMRO from 1996 to 2000 and Chairman of The Lord Chancellor's Strategic Investment Board from 2000 to 2006. Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland plc from 2000 to 2001 and before that 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.

The Managing Board supports the Chief Executive along with the following operational committees:

- Sub-committee of the Managing Board;
- Debt Management Committee;
- Cash Management Committee;
- Fund Management Committee; and
- Risk Committee.

The Chief Executive is supported as Accounting Officer by two audit committees: the Exchequer Funds Audit Committee for the activities of the DMA, CRND and PWLB; and the Group Resources Audit Committee for the DMO as an executive agency. Further details are set out in the Statement on Internal Control on pages 31 to 35.

Risk management

The DMO has a set of policies to manage its exposure to 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, although it will seek to minimise risk in doing so. Implementation of these policies is the responsibility of the Chief Executive as the Accounting Officer of the DMA. Functional teams and committees comprising appropriately qualified staff assist the Chief Executive in this role.

Further details of the DMO's risk management processes are given in the Statement on Internal Control on pages 31 to 35 and Notes 21 to 23 of the DMA Accounts on pages 72 to 84.

Resources

Sustainable development

As an executive agency of HM Treasury, the DMO is a party to the Joint Sustainable Development Statement, signed by the then 'Green Minister' for the Chancellor of the Exchequer's Departments and Agencies, John Healey MP, and published on the DMO website.

The DMO is committed to contributing to the Government's objectives on Sustainable Development as contained in the Framework for Sustainable Development in the Government Estate.

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.

Supplier payment policy

All the DMO's invoices are processed for payment by HM Treasury, which is committed to the CBI code on prompt payment and aims to pay all valid invoices within 30 days or less after acceptance of the relevant goods and services, or the receipt of a legitimate invoice if that is later. For 2007-2008, HM Treasury achieved this payment target for 95 per cent of invoices across the department.

Auditors

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

Other organisational arrangements

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 pages 26 to 29. 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 on a systematic and rational basis 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.

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 which cannot be shown to be justifiable.

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 the Transfer of Undertakings (Protection of Emploment) Regulations. Staff may choose to join a trade union of their choice.

Improving good practice and investment in people

The DMO was re-accredited as an Investor in People in September 2005 and continues to work towards maintaining this status with the next formal review due by autumn 2008. 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.

Preparation of accounts

As far as I am aware, as Accounting Officer, there is no relevant audit information of which the Agency's auditors are unaware. I have taken all the steps that I ought to have taken to make myself aware of any audit information and to establish that the Agency's auditors are aware of that information.

The accounts were authorised for issue on 10 July 2008.

Robert Stheeman
Chief Executive

10 July 2008

MANAGEMENT COMMENTARY

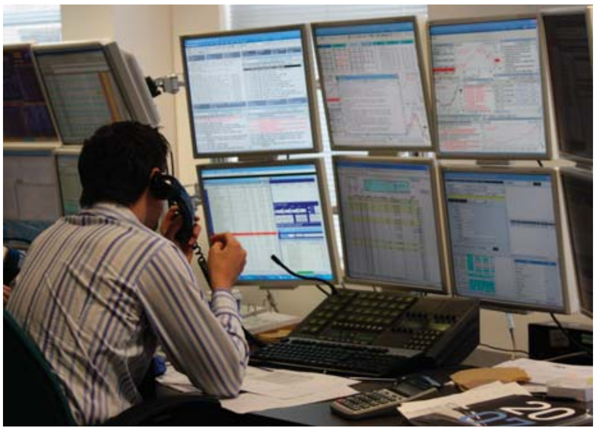
Review of activities in 2007-2008

2007-2008 was another successful year for the DMO. In another highly active year, it successfully met its debt and cash management remits, its strategic objectives and published targets. A full account of these is given on pages 14 to 18.

Debt Management

The DMO successfully delivered a programme of £58.5 billion of gilts during the fiscal year (the second highest volume of gilt supply in nominal terms) and continued to focus issuance on index-linked and long-dated conventional gilts which together accounted for two-thirds of outright gilt supply. The UK's debt portfolio has the longest duration of any Organisation for Economic Co-operation and Developement (OECD) country, which is a reflection of the Government's debt management policy of balancing costs and risks and the nature of underlying structural demand for UK Government securities.

A significant development in the delivery of the financing remit in 2007-2008 was the introduction of electronic bidding at gilt auctions; this facility, introduced for index-linked auctions in May 2007 and



for conventional auctions in June 2007, helped to halve the publication time of auction results from an average of 20 minutes in 2006-2007 to 10 minutes. The introduction of electronic bid capture has improved the efficiency with which auctions have been conducted and has reduced the risk of exposure of the gilt market primary dealers by reducing the time between auction closure and release of auction results by the DMO.

Higher gilt issuance has contributed significantly to rising turnover in the gilt market. Average daily turnover has doubled from £7.6 billion in 2000-2001 to £15.2 billion in 2007-2008. Maintaining market liquidity is a key factor in addressing the needs of a diversified investor base. In this context, 2007 saw a continuation of the trend of the last four years, which was a sharp increase (from £65 billion to £166 billion) in the value of gilts held by overseas investors.

In addition to holding gilts for use as collateral in its cash management operations, the DMA continues to hold relatively small portfolios of gilts for other purposes:

- **Purchase and sale service** - this portfolio of gilts (fair value of £17 million at 31 March 2008) is used for purchase and sale transactions with retail investors;

- **Rump stocks** - these are gilts (fair value of £6 million at 31 March 2008) 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; and

- **Other tradable gilts** - this portfolio (fair value of £117 million at 31 March 2008) comprises a residual from each gilt auction. A small amount of each gilt auction may be retained due torounding of the allotment to the successful bidders of the gilts in the auction. The portfolio may also 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 2007-2008. The DMO monitored and assessed its performance using a range of key performance indicators, details of which will be reported in the DMO Annual Review 2007-2008.

During the year, the DMO carried out its cash management objective through a combination of regular weekly Treasury bill tenders and bilateral dealing with market counterparties. The dominant types of transactions in the latter category were sale and repurchase agreements (repos) and reverse sale and repurchase agreements (reverse repos). Reverse repo transactions were undertaken in both sterling and euros. The latter were hedged using foreign exchange swap agreements. Repo transactions were in sterling only. Other transactions included taking unsecured deposits and buying certificates of deposits and commercial paper maturing within 6 months. In the second half of the year, the DMO amended its policy of issuing Treasury bills exclusively by tender and from time to time issued existing Treasury bills bilaterally when this has suited its cash position.

As shown in the credit risk disclosures on pages 72 to 77, the DMO transacts with high quality counterparties and its activities were not significantly affected by the market credit conditions experienced during 2007-2008.

Throughout 2007-2008, the DMO held gilts for use as collateral in repo transactions. At 31 March 2008, gilts held specifically for collateral purposes had a fair value of £29 billion. The collateral is held in the DMA on a continuing basis and has been purchased on various occasions since 3 February 2000. The collateral is reported in the DMA balance sheet as 'investment securities available for sale.'

The DMO has also continued to broaden its bilateral trading relationships through use of electronic and voice brokers and continues to use a central counterparty for some transactions.

Hedging of NS&I's Guaranteed Equity Bonds

The DMA held a number of equity derivatives in the year (aggregate nominal value of £792 million at 31 March 2008). Both NS&I's equity index exposure and the DMA's hedge are reported at fair value on the balance sheet. The net fair value of the derivatives was £72 million at 31 March 2008 (31 March 2007: £212 million).

PWLB

In 2007-2008, PWLB agreed new loans to borrowers of £10 billion. The overall outstanding debt to the Board increased to £51 billion, up from £48 billion at the end of the prior year.

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.

Emissions Trading Service

During 2007-2008, the DMO was commissioned to act as auctioneer for the Department for Environment, Food and Rural Affairs (DEFRA) for phase II of the European Union Emissions Trading Scheme.

The work carried out during the reporting period has been to define the auction design in readiness for the first live auction scheduled for later in 2008.

Special Liquidity Scheme

On 21 April 2008, the Bank of England launched its Special Liquidity Scheme to allow banks to swap temporarily their high quality mortgage-backed and other securities for Treasury bills supplied by the DMO. Treasury bills with a maturity of 9 months are created by the NLF and sold to the DMA, which makes them available to be borrowed by the Bank of England for a fee. The initial purchase of Treasury bills by the DMA was of a nominal value of £50 billion. More details of the scheme are available from the Bank of England's website.

Reporting of personal data-related incidents

The DMO had no protected personal data-related incidents over the financial year, nor has the DMO had any incidents in previous financial years which require reporting. During 2007-2008, the DMO reviewed information risk for sensitive data in the light of Cabinet Office guidance. No significant weaknesses were found. The DMO has appointed a Senior Information Risk Owner and work is in hand to ensure compliance with the latest Cabinet Office requirements.

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 2007-2008 and the DMO's performance against them is summarised below.

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

The DMO provided analysis and advice to HM Treasury in connection with the preparation of its financing remit for 2007-2008, against a backdrop of strong structural demand for long-dated gilts (both conventional and index-linked). This demand was expressed in ongoing representations received from gilt market participants and as evidenced by the continued inversion of the nominal and real yield curves over the period.

Against this backdrop, it was considered that long-term cost savings could be achieved by continuing to implement a gilt issuance strategy which was heavily biased toward long-dated maturities; together, planned sales of long-dated conventional and index-linked gilts (themselves predominantly long-dated) totalled 66 per cent of overall planned gilt sales. Gilt issuance at short- and medium-maturities also continued to be directed at key maturities, however, with the objective of ensuring sufficient liquidity across the whole yield curve.

The remit was delivered in line with initial expectations. Gilt sales (of £58.5 billion) were in line with this remit. This was the second highest amount on record. Sales of long-dated conventional and index-linked gilts accounted for 66 per cent of final gilt sales.

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

The DMO successfully delivered its cash management objectives in 2007-2008, the first full year of operation of the money market reforms introduced by the Bank of England in summer 2006.

The DMO monitored and assessed its overall performance in meeting the Government's objectives in Exchequer active cash management using a number of key performance indicators. These indicators reflected the principles and objectives of the Government for cash management and are qualitative and quantitative in nature.

A full account of cash management performance will be included within the DMO's Annual Review 2007-2008.

3. To advise HM Treasury on the development and implementation of strategies for managing HM Government's balance sheet to secure sound public finances.

The DMO has continued to provide analysis and advice to HM Treasury on the broader implications for HM Government's balance sheet of the management of the Government liabilities and assets entrusted to the DMO, with a view in particular to addressing timing mismatches between Government assets and liabilities.

At an operational level, the DMO has also continued to hedge HM Government's exposure to the equity market through the sale of NS&I's Guaranteed Equity Bond products by implementing swap (equity index and interest rate) transactions with market counterparties.

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

The DMO, through its Fund Management operation, continued to provide a cost-effective service to client funds through the CRND.

A minor technical breach of the Prospectus for the 3½% Conversion Loan occurred during the year. This breach has been investigated and, following legal advice, is not considered likely to result in any financial repercussions. Nevertheless, the controls around this area have been tightened to mitigate the risk of future breaches of prospectuses and any possible associated financial repercussions.

The DMO continued to manage the gilt registration contract with Computershare Investor Services plc on behalf of HM Treasury. It also continued to offer the gilt purchase and sale service for retail investors, which are carried out in association with Computershare as the DMO's agent.

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

The PWLB continued to provide funding to borrowers at a level close to central Government's cost of borrowing. Demand from borrowers remained strong in 2007-2008.

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

The DMO is an accredited "Investor in People" and continues to work towards maintaining 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.

7. 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 Statement on Internal Control on pages 31 to 35.

Performance against targets

1. To ensure full compliance with HM Government's remit for the DMO (which is primarily set out in the Debt and Reserves Management Report 2007-2008, but, in some areas, is subject to confidential parameters notified separately to the DMO).

The DMO complied fully with the financing remit in the financial year 2007-2008.

The gilt sales outturn was £58.5 billion (cash) relative to the original target of £58.4 billion. Sales were achieved through the conduct of 34 auctions (19 conventional and 15 index-linked).

Outright gilt sales of £58.4 billion were planned in the remit for 2007-2008 announced on 21 March 2007 and the plans were left unchanged at the Pre-Budget Report (PBR) on 9 October 2008. At the end of the financial year gilt sale proceeds totalled £58.5 billion (£43.5 billion from conventional gilts and £14.98 billion from index-linked gilts). There were no uncovered auctions.

See table in 'Target 2' for details of the 34 outright gilt auctions held in 2007-2008.

The auction results throughout the year were generally satisfactory despite volatile market conditions. Cover at the auctions ranged from 1.32 times at the auction of 4½% Treasury Gilt 2042 on 11 September to 2.73 times at the auction of 1⅞% Index-linked Treasury Gilt 2022 on 10 July.

The stock of Treasury bills (in market hands) rose from £16.4 billion at the end of April 2007 to £17.6 billion at the end of March 2008 primarily as a result of debt financing decisions announced in the Budget, subsequent adjustments to the DMO's financing remit during the financial year and bilateral sales of Treasury bills.

There were no credit breaches during the financial year.

2. To ensure that the maximum time taken to issue the results of gilt auctions does not exceed 40 minutes, (and to reduce the average time for publishing gilt auction results following the introduction of automated gilt capture), that for weekly Treasury bill tenders does not exceed 30 minutes, and that for ad hoc Treasury bill or other tenders does not exceed 15 minutes, whilst achieving complete accuracy.

Achieved. The gilt auction result release times during the year were:

Operation Date	Gilt Name	Nominal Value(£m)	Results Issue
03-Apr-07	4¼% Treasury Gilt 2046	2,000	18 minutes
12-Apr-2007	1¼% Index-linked Treasury Gilt 2017	1,100	16 minutes
24-Apr-2007	1⅛% Index-linked Treasury Gilt 2037	950	17 minutes
3-May-2007	4¼% Treasury Gilt 2027	2,250	22 minutes
22-May-2007	1¼% Index-linked Treasury Gilt 2027	1,000	10 minutes
24-May-2007	5% Treasury Gilt 2018	2,500	20 minutes
5-Jun-2007	4½% Treasury Gilt 2042	2,250	19 minutes
21-Jun-2007	5¼% Treasury Gilt 2012	2,500	11 minutes
26-Jun-2007	1⅛% Index-linked Treasury Gilt 2037	1,000	10 minutes
3-Jul-2007	4½% Treasury Gilt 2042	2,250	7 minutes
10-Jul-2007	1⅞% Index-linked Treasury Gilt 2022	1,200	10 minutes
26-Jul-2007	1¼% Index-linked Treasury Gilt 2055	700	6 minutes
9-Aug-2007	5% Treasury Gilt 2018	2,500	7 minutes
11-Sep-2007	4½% Treasury Gilt 2042	2,000	8 minutes
13-Sep-2007	5¼% Treasury Gilt 2012	2,500	9 minutes

26-Sep-2007	1⅛% Index-linked Treasury Gilt 2037	900	7 minutes
2-Oct-2007	4¾% Treasury Gilt 2030	2,250	8 minutes
10-Oct-2007	1⅞% Index-linked Treasury Gilt 2022	1,200	7 minutes
24-Oct-2007	1⅛% Index-linked Treasury Gilt 2037	925	6 minutes
1-Nov-2007	5% Treasury Gilt 2018	2,500	6 minutes
6-Nov-2007	4¾% Treasury Gilt 2030	2,250	8 minutes
20-Nov-2007	0¾% Index-linked Treasury Gilt 2047	750	10 minutes
28-Nov-2007	4½% Treasury Gilt 2042	2,000	8 minutes
4-Dec-2007	5¼% Treasury Gilt 2012	2,500	7 minutes
12-Dec-2007	1⅞% Index-linked Treasury Gilt 2022	950	6 minutes
8-Jan-2008	4¾% Treasury Gilt 2030	2,250	7 minutes
17-Jan-2008	0¾% Index-linked Treasury Gilt 2047	725	7 minutes
29-Jan-2008	1⅞% Index-linked Treasury Gilt 2022	1,100	8 minutes
5-Feb-2008	5% Treasury Gilt 2018	2,500	7 minutes
14-Feb-2008	4½% Treasury Gilt 2042	2,000	8 minutes
27-Feb-2008	1⅛% Index-linked Treasury Gilt 2037	875	6 minutes
4-Mar-2008	4½% Treasury Gilt 2013	2,500	6 minutes
13-Mar-2008	4¾% Treasury Gilt 2030	2,000	7 minutes
27-Mar-2008	1¼% Index-linked Treasury Gilt 2027	975	6 minutes

The release times for the 34 auctions held during the financial year ranged from 6 to 22 minutes and averaged 10 minutes compared to 20 minutes in 2006-2007. A significant reduction in release times was achieved following the introduction of automated bid capture at index-linked auctions from 22 May and at conventional auctions from 21 June.

The release times for the 52 weekly Treasury bill tenders for the financial year as a whole ranged from 6 to 19 minutes and averaged 10 minutes. There were no ad hoc or other tenders.

3. To achieve complete accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and in delivering money (and reconciling payments) to the NLF and to meet the required deadlines for the publication or submission for audit of the annual reports of the DMO, DMA, the Public Works Loan Board and the Commissioners for the Reduction of the National Debt.

Achieved. Management accounts and internal control procedures have not identified any significant errors. In addition, the Comptroller and Auditor General has certified that the 2006-2007 accounts give a true and fair view (on the basis of the responsibilities and scope of work set out in his report on pages 57 to 58).

4. To acknowledge all letters and e-mail enquiries from the public within 4 working days and for at least 95 per cent to be sent a substantive reply within 2 weeks. Furthermore, the DMO will respond to enquiries under the Freedom of Information Act within the statutory timeframe.

Substantively achieved. Over the financial year there were 246 enquiries (of which 233 were e-mails). On five occasions the initial response target of 4 working days was breached by up to two days due to the e-mail being delayed internally by e-mail security systems or being sent to an official who was out of the office. The average response time was two working days.

5. To achieve less than 5 breaches of Operational Market Notices (excluding any breaches which HM Treasury accept were beyond the control of the DMO).

Achieved. There were no breaches of the Operational Market Notices in the financial year.

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

Achieved. All relevant weekly targets were notified to the Bank of England according to the agreed schedule in the quarter.

7. To ensure that 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 achieves at least 99 per cent (by value) successful settlement of agreed trades on the due date.

Achieved. During the year no trades failed within the DMO's control. The DMO achieved 99.85 per cent successful settlement of agreed trades on the due date.

8. To release all market sensitive data and announcements in a timely manner and to aim to achieve no factual errors in material published by the DMO on its wire service pages, its web sites or its printed documents (insofar as the material is under the control of the DMO and not third parties).

The target to release all market sensitive data and announcements in a timely manner was partially achieved. All releases with one exception were announced in a timely manner. The exception was the early release (by 6 minutes) of the Q4 gilt auction calendar on 30 November due to an internal processing error. There was no discernible impact on the market.

The target to achieve no factual errors in material published by the DMO was not achieved. The total number of errors for the financial year as a whole was twelve. Each error was corrected upon detection.

9. To process all loan or early settlement applications from local authorities within two working days (between date of agreement and completion of transaction).

Achieved.

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

The gilt purchase and sale scheme was conducted fully in line with its terms and conditions in 2007-2008. The pattern of sales and purchases through the financial year as a whole is shown in the table below.

	Sales	**Purchases**	**Aggregate retail sales**	**Aggregate retail purchases**
	(transactions)	(transactions)	£m	£m
April – June 2007	1,446	437	8.75	10.44
July – September 2007	1,250	1,580	8.26	28.22
October – December 2007	1,084	1,359	7.95	30.52
January – March 2008	1,116	1,895	7.59	58.38
	4,896	**5,271**	**32.55**	**127.56**

Financial performance of the UK Debt Management Office

The DMO is financed through HM Treasury and operated under net cost arrangements, meaning that the control total for the DMO's annual expenditure agreed by Parliament comprises an aggregate of target expenditure and income.

The DMO's net operating cost for 2007-2008 was £9.9 million (2006-2007: £7.4 million) representing an increase of £2.5 million from the previous year. Although this increase was due to a number of different factors that generated higher gross expenditure and lower income received, the DMO successfully managed its operations within the expenditure limits agreed with HM Treasury and voted by Parliament.

During the reporting period, the DMO's gross administrative expenditure was £13.1 million (2006-2007: £12.1 million), an increase of £1.0 million compared to the previous year. This increase was due largely to the cost of a major upgrade to the Agency's core trading systems, which included the migration of some business processes that had previously been undertaken on legacy systems. The cost of the upgrade was pre-agreed with HM Treasury.

Gross programme expenditure was £2.8 million (2006-2007: £2.2 million), an increase of £0.6 million on 2006-2007 expenditure due to a higher level of trading activity and the wider range of financial instruments used.

In total, the DMO received operating income of £6.0 million (2006-2007: £6.8 million), a decrease of £0.8 million from the previous year.

Administration income received totalled £4.6 million (2006-2007: £5.5 million), a reduction of £0.9 million from the previous year. This fall in revenue was due to lower levels of PWLB lending following the exceptional levels in 2006-2007 and a reduction in charges levied against CRND clients. The DMO generated new income by claiming costs associated with the Agency's acting as an agent of DEFRA in defining an auction design for the UK carbon emission trading scheme.

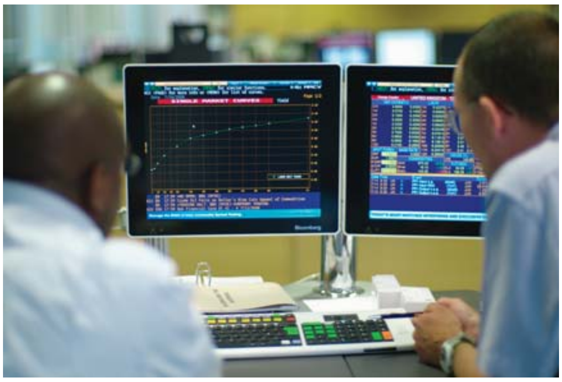
Programme income totalled £1.4 million and remained materially unchanged from the previous year.

Financial performance of the Debt Management Account

The DMA's operations for the financial year 2007-2008 gave rise to net interest expense of £193 million (2006-2007: £23 million), net trading expense of £71 million (2006-2007: net trading income of £35 million), and gains from investment securities of £2 million (2006-2007: £15 million). This resulted in an income and expenditure account deficit for the year of £262 million (2006-2007: surplus of £27 million). Net unrealised gains on investment securities recorded in the revaluation reserve were £1,108 million (2006-2007: unrealised loss of £825 million).

Net interest expense

The primary reason that the DMA showed net interest expense of £193 million during 2007-2008 was that interest income on gilts held for use as collateral was lower than the interest expense on the liabilities that funded these gilts. Interest income on the gilt collateral pool reflects the yields available when the gilts were bought from the NLF. Critically, these historic yields were lower than the prevailing rates paid on the relevant liabilities during 2007-2008. Apart from the gilt collateral pool, the main assets of the DMA at 31 March 2008 were the deposit with the NLF (which earned interest at the official Bank Rate) and loans and advances to banks (which yielded money market rates). The main liabilities were deposits taken from other government departments (on which the DMA paid interest at rates related to the official Bank Rate), and deposits by banks and Treasury bills issued (which generally pay money market rates). The underlying structure of the DMA requires it to finance the gilt collateral pool at prevailing short-term rates, so the net interest expense during 2007-2008 does not reflect the performance of the DMA.



The DMO focuses on the performance of its Exchequer cash management operations for which the collateral is used. DMO's cash management operations and the resulting net interest income in the DMA are influenced by transactions undertaken by the DMO to smooth Government daily cash flows combined with the profile of money market yields over the course of the year. The size and composition of the DMA's balance sheet during the year, and the maturity of the DMO's money market transactions, will be most significantly influenced by the seasonal pattern of Government cash flows. This annual profile generally requires net borrowing to fund net Government expenditure in the early months of each financial year, and net lending to invest net Government receipts in the later part of the financial year when the main tax revenues occur. 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 2007-2008.

Net trading expense

The DMA holds derivatives to hedge foreign exchange risk, and the Government's exposure to equity index risk relating to Guaranteed Equity Bonds issued by National Savings & Investments. Valuation changes net of realised gains on the equity index / interest rate derivatives used for hedging the Guaranteed Equity Bonds resulted in net trading expense of £73 million (2006-2007: net trading income of £36 million) largely due to movements in the FTSE 100 index in the year to 31 March 2008.

Unrealised gains on investment securities

Falling yields on gilts held by the DMA for use as collateral in its Exchequer cash management operations are reflected in increases in the value of the gilts. Conversely, the market value of gilts decreases when market interest rates rise.

Because of their classification as investment securities available for sale, changes in the fair value of the gilt collateral pool are not reflected as gains and losses in the income and expenditure account, but in the revaluation reserve. The revaluation reserve increased by £1,108 million during 2007-2008 (2006-2007: decreased by £825 million).

Balance sheet composition

Investment securities available for sale had a fair value of £29,163 million as at 31 March 2008 (31 March 2007: £25,352 million) inclusive of accrued interest. This increase was due to the purchase of additional gilt collateral and due to unrealised gains arising from changes in market value.

During the year, gilts with a nominal value of £3,890 million (2007: £nil) were created by the NLF and sold to the DMA for use as collateral in its Exchequer 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 are used only in 'delivery by value' (DBV) transactions.

As described above in 'Net interest expense,' the holdings of the DMA for use in its cash management operations change in response to National Loans Fund funding requirements which reflect Government daily cash flows. 'Securities held for trading,' 'loans and advances to banks,' and 'deposits by banks,' are particularly affected in this respect.

Issuance of Treasury bills

	Issued during 2007-2008	Issued during 2006-2007	In issue at 31 March 2008	In issue at 31 March 2007
	£bn	**£bn**	**£bn**	**£bn**
Maturity:				
One month	28.0	25.35	2.1	1.6
Three months	38.9	44.6	8.8	8.65
Six months	9.8	10.45	5.3	5.35
Total	**76.7**	**80.4**	**16.2**	**15.6**
Discounts			(0.4)	(0.2)
Accrued interest			0.1	0.1
Unsettled			1.5	1.2
Carrying amount			**17.4**	**16.7**

During the year, Treasury bills (maturing on 7 April 2008) with a nominal value of £153 million were created by the DMA for use as collateral. These Treasury bills are not included in the issuance figures above. The DMO uses Treasury bills as collateral in repo borrowing, and additional collateral is created as necessary for its money market operations. These Treasury bills will only ever be used in 'delivery by value' (DBV) transactions.

Forward look

The DMO's strategic objectives for 2008-2009

The DMO's strategic objectives for 2008-2009 are set out in our published business plan which is available on the DMO website at www.dmo.gov.uk.

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

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

3. To advise HM Treasury on the development and implementation of strategies for managing HM Government's balance sheet, to secure sound public finances.

4. To provide advice and operational services to other HM 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.

In the delivery of these objectives, the DMO seeks to support primarily HM Treasury's objective to 'maintain sound public finances.'

The DMO's operational targets for 2008-2009

1. To ensure full compliance with HM Government's remit for the DMO (which is primarily set out in the Debt and Reserves Management Report 2008-2009 but, in some areas, is subject to confidential parameters notified separately to the DMO).

   The planned gilt sales from the DMO's 2008-2009 remit are:
   - £25.0 billion short conventional gilt sales in 7 auctions;
   - £12.8 billion medium conventional gilt sales in 5 auctions;
   - £24.2 billion long conventional gilt sales in 11 auctions; and
   - £18.0 billion index-linked gilt sales in 18 auctions.

2. To ensure that the maximum time taken to issue the results of gilt auctions and Treasury bill tenders (weekly and ad hoc) does not exceed 20 minutes – although the DMO will aim to publish the results of gilt auctions and Treasury bills within 10 minutes and 15 minutes respectively of the close of offer - whilst achieving complete accuracy.

3. To achieve accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and in delivering money (and reconciling payments) to the NLF and to meet the required deadlines for the publication and submission for audit of the annual reports of the DMO, DMA, the Public Works Loan Board and the Commissioners for the Reduction of the National Debt.

4. To acknowledge all letters and e-mail enquiries from the public within 4 working days and for at least 95 per cent to be sent a substantive reply within 2 weeks. Furthermore, the DMO will respond to enquiries under the Freedom of Information Act within the statutory timeframe.

5. To achieve less than 5 breaches of Operational Market Notices (excluding any breaches which HM Treasury accept were beyond the control of the DMO).

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 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 per cent (by value) of agreed trades on the due date.

8. To release all market sensitive data and announcements in a timely manner and to aim to achieve no factual errors in material published by the DMO on its wire service pages, its website or its printed documents (insofar as the material is under the control of the DMO and not third parties).

9. To process all loan or early settlement applications from local authorities within two working days (between date of agreement and completion of transaction).

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

The DMO's key planning themes for the period to 2010-2011

The key planning themes reflect the need for the DMO to continue to deliver its core operational objectives to the highest standards; to develop further initiatives that advance its effectiveness and reduce cost and risk; and to continue to be efficient in the stewardship of the Agency.

The objectives within each key planning theme are set out below.

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

This will include the following:

- Managing the debt and cash management operations successfully to deliver the financing programmes incorporated within the 2008-2009 remit;

- Developing in due course the debt and cash management remits for 2009-2010;

- Delivering the PWLB lending objectives for local authorities; developing where appropriate efficiencies and enhancements to the service; and, where feasible, and desirable, reducing cost and risk to the Exchequer;

- Managing the funds of the CRND in accordance with the mandates from clients;

- Delivering the gilt purchase and sale service for retail investors efficiently and effectively;

- Managing the registration contract with Computershare Investor Services plc, on behalf of HM Treasury, in an effective and efficient way and in 2008-2009 preparing for the extension or re-tendering of the contract;

- Continuing to manage hedging transactions to meet NS&I's requirements in respect of its financing programme;

- Producing the report and accounts for the DMO as an agency, the DMA, the PWLB and CRND funds to the highest standards of quality and timeliness; and
- Ensuring that the DMO's website, publications and information are managed effectively and are available to stakeholders when required.

To further the development of debt and cash management strategy and contribute to initiatives that support the objectives of HM Treasury and HM Government.

This will include the following:

- Developing the capability to manage and execute Emissions Trading Scheme auctions;
- Working with HM Treasury on the development of pragmatic solutions on the structuring of, and also engaging with key stakeholders relating to, potential Sharia-compliant HM Government financial instruments;
- Developing the operational capability to transact short-term interest rate swaps for cash management purposes;
- Developing further analytical tools and techniques that help inform and contribute to debt and cash management risk and cost reductions strategies;
- Developing further our understanding of the composition of, drivers for and issues relating to the investor base for gilts and Treasury bills; and
- Developing enhancements to the delivery and measurement of the effectiveness of cash management operations.

To improve efficiency and to reduce operational risk where possible.

This will include the following:

- Delivering a programme of savings to meet the DMO's budget 'envelope' resulting from HM Treasury's Comprehensive Spending Review settlement;
- Reviewing further the DMO's banking and settlement arrangements with the intention of identifying efficiencies and where possible advances in operational effectiveness;
- Reviewing and implementing any necessary changes to banking and operational arrangements arising from the transfer of certain payment processing responsibilities from the Bank of England to private sector banks as part of the Government Banking Service;
- Developing and enhancing the DMO's business delivery capability to improve the operational efficiency of the Agency;
- Enhancing the DMO's risk management analytical and reporting framework and capability;
- Continuing to enhance business continuity arrangements to develop further the DMO's operational resilience;
- Implementing a programme of strategic IT work to enhance the DMO's core infrastructure and applications;
- Developing further the management information produced to support the DMO's business and agency functions; and

- Implementing efficiencies in the management of information taking due account of the Freedom of Information Act requirements.

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

This will include the following:

- Preparing for the DMO's Investors in People re-accreditation application which is scheduled for 2008;

- Preparing for the DMO's Landscape Review which is scheduled for 2009;

- Continuing to integrate and embed the DMO's core values into all aspects of the DMO's operations;

- Developing further the use of the DMO's Staff Council as a means of enhancing communication with DMO staff; and

- Identifying and implementing where appropriate more effective ways of working.

REMUNERATION REPORT

The DMO has a Pay Committee, which during 2007-2008 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 (from 1 February 2008);
- Colin Price - non-executive Director; and
- Brian Larkman - 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 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

Senior DMO staff

The Chief Executive's appointment was for an initial 3-year fixed term period. This has been extended three times for a further fixed term period, currently until 31 December 2011. The contract is subject to a 3-month notice requirement. Compensation for early termination would be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

The appointments of the Deputy Chief Executive and Chief Operating Officer have been made in accordance with the provisions of the Civil Service Commissioners' Recruitment Code.

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

Non-Executive Directors

Colin Price was originally contracted for an initial 3-year period from 21 February 2001. Upon completion, his contract was extended to 20 February 2007 and has been further extended for an additional 3-year term to February 2010.

Brian Larkman's contract was originally for a period of 3 years from 1 January 2005 until 31 December 2007. Upon completion, his contract was extended for a further 3 years until 31 December 2010.

Both contracts are subject to a one-month notice requirement. Contracts will automatically terminate on the date stated unless a further extension has been agreed. As office holders there is no provision for compensation for early termination.

Remuneration received

	2007-2008 Salary £000	2006-2007 Salary £000
Senior DMO Staff Robert Stheeman - Chief Executive	135 - 140	125 - 130
Jo Whelan - Deputy Chief Executive and Joint Head of Policy and Markets * *Full time equivalent salary*	95 – 100 *130 – 135*	80 – 85 *125 – 130*
Jim Juffs - Chief Operating Officer	130 - 135	125 - 130
Joanne Perez – Joint Head of Policy and Markets (from 1 February 2008). *Full year equivalent salary*	15 – 20 *110 – 115*	-
Non-Executive Directors		
Colin Price	15 - 20	15 – 20
Brian Larkman	15 - 20	15 - 20

(The amounts of remuneration received have been audited).

* The salary disclosed reflects part time hours and is calculated on a pro rata basis from a full time equivalent (FTE) of 0.72 in 2007-2008 (0.78 in 2006-2007). The 2006-2007 total also accommodates a period of unpaid leave.

'Salary' includes gross salary, performance pay or bonuses, overtime and any other allowance to the extent that it is subject to UK taxation.

This report is based on payments made by the Agency and thus recorded in the accounts of the DMO.

The DMO is not responsible for the remuneration of any Ministers or the non-executive HM Treasury representatives (Tamara Finkelstein and Sam Beckett), who are employees of HM Treasury.

In addition, non-executive Directors entitled to remuneration from HM Treasury for their service during the year on the Exchequer Funds Audit Committee were Colin Price (chairman, £2,500 - £5,000) and Brian Larkman (independent member, £0 - £2,500).

Pension benefits

	Accrued pension at age 60 at 31 March 2008 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV* at 31 March 2008 £000	CETV* at 31 March 2007 Restated £000	Real increase in CETV* £000
Robert Stheeman	5 - 10	0 - 2.5	150	104	24
Jo Whelan	5 - 10	0 - 2.5	85	56	15
Jim Juffs	40 – 45	5 - 7.5	194	147	23

Joanne Perez has chosen to join a partnership pension scheme rather than the Principal Civil Service Pension Scheme (PCSPS). The total employer's contribution paid to the partnership pension provider from the date that she became a member of the DMO Managing Board (1 February 2008) amounts to £2,800.

* CETV is an abbreviation for 'Cash Equivalent Transfer Value.' This measure of value is explained on page 29.

(The pension benefits information has been audited).

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 changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. 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' 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 their 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 RPI. In all cases members may opt to give up (commute) pension for 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 at the website www.civilservice-pensions.gov.uk.

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 individual 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 within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively 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

10 July 2008

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, the DMO is required to prepare agency accounts for each financial year, in the form and on the basis set out in the Accounts Direction issued by HM Treasury on page 55.

Under Schedule 5A of the National Loans Act 1968, HM Treasury has directed the DMO to prepare a statement of the DMA in the form and on the basis set out in the Accounts Direction on pages 85 to 86.

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 of the operations of the DMA respectively and of the related net resource outturn, income and expenditure, recognised gains and losses, and cash flows for the financial year.

In preparing both accounts, the DMO is required to:

- observe the relevant Accounts Direction issued by HM Treasury, including 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 agency accounts of the DMO, the Accounting Officer is required to comply with the accounting and other requirements of the Government Financial Reporting Manual.

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

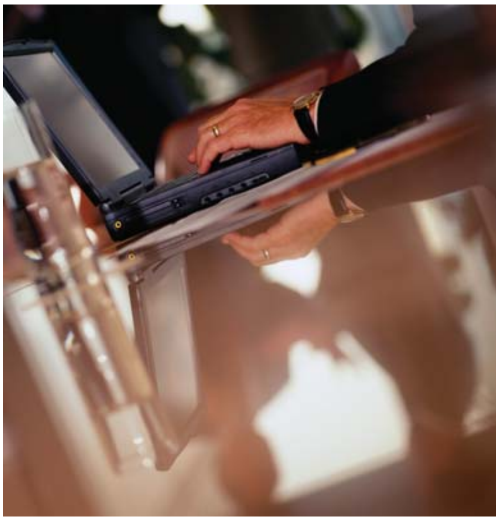
The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the DMO's assets, are set out in the Accounting Officers' Memorandum issued by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

STATEMENT ON INTERNAL CONTROL

1 Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Debt Management Office's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

I am Accounting Officer for both the DMA and the DMO an executive agency of HM Treasury. My accountability is subject to the overall responsibility of the Permanent Secretary of HM Treasury in his capacity as Accounting Officer for the organisation and management of the Department. In exercising my responsibilities for the DMA, I pay regard to the consequences for the National Loans Fund (NLF) and consult the Permanent Secretary if I consider that my actions could have implications for him in his role as NLF Accounting Officer.



PWLB and CRND are separate business entities within the DMO. The Secretary of the PWLB and the Secretary and Comptroller General of the CRND are roles that are analogous to acting as an Accounting Officer. Each is responsible for maintaining a sound system of internal control that supports the delivery of the entity's agreed policies, objectives and targets. However, I am responsible for the wider DMO control framework within which both CRND and PWLB are managed. The Secretary of the PWLB and the Secretary and Comptroller General of the CRND take assurance from me for the continued sound maintenance of this framework in relation to their own control responsibilities.

In exercising my specific responsibilities for debt and cash management, I take regard of the objectives set by Treasury Ministers for the Government's debt and cash management. It is my responsibility to ensure that all activities brought to account on the DMA are conducted with due regard to value for money. I have put arrangements in place to ensure that there is a proper evaluation of the balance of cost and risk in our operations, taking account where appropriate of any cost, risk or other strategic objectives, parameters or guidelines agreed with HM Treasury.

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

2 The purpose of the system of internal control

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, rather than to eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on a process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the DMO for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

3 Capacity to handle risk

The DMO has a formal risk management strategy and policy set by the Managing Board. This includes an outline of the DMO's capacity to handle risk. The DMO has risk management policies documenting its risk management processes. Elements of these policies have been reviewed and adjusted during the year and have proved effective during the period of increased uncertainty in the financial markets.

The DMO's Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub-committee of the Managing Board generally meets weekly. During the year, attendance at these weekly meetings has been expanded to include certain senior managers in order to support the executive members of the Managing Board. The terms of reference of these management committees and those of the Cash Management, Debt Management, Fund Management and Risk Committees clearly set out their roles and responsibilities for providing the organisational capability to consider issues and make relevant decisions at the appropriate level.

Staff have attended presentations on relevant elements of the DMO's risk management framework. These have covered specific issues such as anti-money laundering, whistleblowing, fraud and personal dealing in order to ensure a good level of awareness of DMO's risk policies and controls. In addition, new staff are given an overview of the key aspects of these policies by a member of the Risk Management Unit. All members of staff have job descriptions, including specific key risks they are expected to manage.

Management in each business function is responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation. Functional managers are responsible for maintaining compliance arrangements across the DMO in their area of specialism. The Risk Management Unit has issued guidance on those sections of the Financial Services Authority handbook that are most pertinent to the DMO's business to all relevant business areas to support managers in meeting this responsibility.

4 The risk and control framework

The DMO has various mechanisms for managing its risks that are incorporated into its approach to both regular operations and new business initiatives. A key component is a Risk Committee that meets every month and more frequently when required, such as at times of market stress, as happened in autumn 2007. Processes are in place for regular measurement and monitoring of key business risks, including credit, market and liquidity risks.

The DMO's Risk Management Unit provides control advice on risks throughout the DMO. In the DMO's management reporting structure the Risk Management Unit is separate and independent of the DMO's trading operations. The risk management function also conducts risk analysis and provides an operational, market and credit risk capability for the DMO.

Heads of business units and functional teams assess regularly whether risks to their operations are being managed effectively. New risks, and risks with an increased likelihood of occurrence, are highlighted and actions identified to ensure all risks will be effectively managed. The DMO has Senior Risk Owners who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. Project teams use risk registers to monitor and manage identified risks for DMO projects. The Managing Board has reviewed during the year the high level risks that the organisation faces and the adequacy of the relevant controls. This process is supported by the maintenance of exception logs, which identify control weaknesses and resultant actions to improve controls. Key risks, progress on treatment actions and exceptions are documented in a quarterly report produced by the Risk Management Unit for the Senior Risk Owners and the Managing Board.

During the year the DMO has reviewed information risk for sensitive data in the light of Cabinet Office guidance. No significant weaknesses were found. The DMO has nominated a Senior Information Risk Owner and work is in hand to ensure compliance with the latest Cabinet Office requirements.

A key component of the DMO's control framework is the segregation of duties to promote 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. All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

The DMO has policies on anti-fraud measures, money laundering and whistle blowing. An independent review of DMO's money laundering controls was undertaken in 2006-2007. Recommendations to move to a risk-based approach in line with market practice have been implemented in 2007-2008. The DMO has its own anti-money laundering handbook. DMO staff report on anti-money laundering developments and processes to the Managing Board.

The DMO's Business Continuity Plan (BCP), including disaster recovery site and other arrangements, is subject to continual review and update with the Senior Risk Owners taking a more active role during the year in progressing BCP improvements. The DMO tested the main elements of the BCP during the year by use of both internal and market-wide test exercises with external stakeholders. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

A controls team met periodically to review issues affecting the DMO's system of internal control, recommend actions to management and to implement changes where appropriate. The controls team comprises senior representatives of the DMO teams responsible for finance, risk, control, compliance and internal audit. The controls team reports periodically to the Exchequer Funds Audit Committee on progress to improve the internal control system during the year.

The DMO has established effective communication channels with its main stakeholders to help highlight issues that may affect either party's risks. In addition to maintaining bilateral contacts with market counterparties, the DMO also holds quarterly consultation meetings with Gilt Edged Market Makers (GEMMs) and issues ad hoc public consultation documents on specific issues.

Responsibility for supporting me as Accounting Officer in matters relating to governance, internal control and risk management processes rests with the Exchequer Funds Audit Committee and the Group Resource Audit Committee. The Exchequer Funds Audit Committee performs this role for the Accounting Officers of each of the Exchequer Funds, which are the Debt Management Account, Public Works Loan Board, Exchange Equalisation Account, National Loans Fund, Consolidated Fund, Contingencies Fund and the transactions of the Commissioners for the Reduction of the National Debt. The Chair of the Committee reports to me on matters relating to the Debt Management Account, Public Works Loan Board and Commissioners for the Reduction of the National Debt. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period. The current membership of the Committee is:

- Colin Price, Chair, non-executive member of the DMO's Managing Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;

- Brian Larkman, non-executive member of the DMO's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland plc; and

- Mark Clarke (appointed June 2007), until June 2008 Director General Finance and Strategy at the Department for Business, Enterprise and Regulatory Reform.

The Exchequer Funds Audit Committee meets quarterly.

The Group Resource Audit Committee supports HM Treasury's Permanent Secretary and the Additional Accounting Officers in their responsibilities on the Treasury Group's processes for risk, control and governance related to the Group's Resource Accounts. The Chair of the Committee reports to me on matters relating to the DMO Agency account. Members of the Committee are appointed for periods of up to three years, extendable by no more than two additional three-year periods. The current membership of the Committee is:

- Sir William Sargent, Chair and non-executive member of HM Treasury Board;

- Stella Manzie, non-executive member of HM Treasury Board; and

- Colin Thwaite, non-executive member of the Office of Government Commerce's Board and former Finance Director and Chief Executive of Littlewoods Organisation plc, Leisure Division.

The Group Resource Audit Committee meets quarterly.

The Chair of each Committee is entitled to attend the meetings of the other Committee.

5 Review of effectiveness

As Accounting Officer, my review of the effectiveness of the system of internal control is informed by the work of executive managers in the DMO, who have been delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the internal and external auditors. I have been supported by the Audit Committees and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The Exchequer Funds Audit Committee considered the 2007-2008 DMA accounts in draft and provided me with its views before I formally signed the accounts. The Group Resource Audit Committee considered the DMO Agency accounts as part of its consideration of the Treasury Group Resource Account. There are a number of activities that form the basis of my review. Annually I formally review the key outcomes and findings of each activity in order to make my assessment.

- The Managing Board met approximately every six weeks and considered risk management and operational control issues throughout the year. To support this, members of the Managing Board received the reports produced for quarterly meetings of Senior Risk Owners and details of any agreed actions to improve the DMO's risk profile. The executive sub-committee of the Managing Board usually met weekly and considered risk and control issues on a regular basis.

- The Risk Committee has advised me during the year on significant current and emerging risk issues and actions taken to mitigate such risks.

- The DMO's Risk Management Unit conducts monthly controls and compliance testing providing the executive sub-committee of the Managing Board with independent assurance on the effectiveness of operational controls and compliance with relevant Financial Services Authority rules in the dealing and settlements areas. No significant internal control failures were identified during the period.

- During the period of this Statement on Internal Control, Internal Audit has provided reports on the effectiveness of the risk management, control and governance processes for the DMO, to the Audit Committees throughout the period. The audits make a series of recommendations that are addressed as part of our focus on continuous improvement in this area. The Internal Audit work programme is approved by the Audit Committees at the start of the year.

- Internal Audit attended each meeting of the Audit Committees to report the results of audit work and the results of follow-up work on management action to address audit recommendations.

- Internal Audit's view was that assurance could be given over the risk management, control and governance arrangements relevant to the accounts. There are no matters arising from the work of Internal Audit in the period that would give rise to a separate comment in the Statement of Internal Control.

In my opinion, the DMO's system of internal control was effective throughout the financial year 2007-2008 and remains so on the date I sign this statement.

Robert Stheeman
Chief Executive

10 July 2008

UK DEBT MANAGEMENT OFFICE REPORT AND ACCOUNTS

Year ended 31 March 2008
Presented to Parliament 17 July 2008

United Kingdom Debt Management Office: 2007-2008 Accounts

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 Debt Management Office for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement 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 Agency, Chief Executive and auditor

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information, which comprises the Foreword and Management Commentary included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2008, and of the net operating cost, recognised gains and losses and cash flows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and

- information, which comprises the Foreword and Management Commentary included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

14 July 2008

UK Debt Management Office
Operating cost statement

For the year ended 31 March 2008

	Note	2008 £000	2007 £000
Administration costs			
Staff costs	2	7,149	6,450
Other administration costs	3	5,948	5,644
Gross administration costs		**13,097**	**12,094**
Administration income	5	(4,610)	(5,493)
Net administration costs		**8,487**	**6,601**
Gross programme costs	4	2,792	2,192
Programme income	5	(1,380)	(1,350)
Net programme costs		**1,412**	**842**
Net operating cost		**9,899**	**7,443**

All income and expenditure are derived from continuing operations.

No separate statement of recognised gains and losses has been prepared as there are no material recognised gains and losses other than those in the operating cost statement.

The notes on pages 42 to 54 form part of these accounts.

UK Debt Management Office
Balance sheet

As at 31 March 2008

	Note	2008 £000	2007 £000
Fixed assets			
Tangible assets	6 (i)	547	576
Intangible assets	6 (ii)	905	733
		1,452	1,309
Debtors (amounts falling due after more than one year)	7	10	74
Current assets			
Debtors	7	1,821	1,434
Cash at bank and in hand	8	333	172
		2,154	1,606
Current Liabilities			
Creditors (amounts falling due within one year)	9	(2,716)	(4,834)
Net current liabilities		**(562)**	**(3,228)**
Total assets less current liabilities		**900**	**(1,845)**
Creditors (amounts falling due after more than one year)	9	(167)	(167)
Provisions for liabilities and charges	10	(305)	(213)
Total net assets / (liabilities)		**428**	**(2,225)**
Represented by:			
Taxpayers' equity / (deficit)			
General Fund	11	341	(2,312)
Revaluation Reserve	12	87	87
Total net taxpayers' equity / (deficit)		**428**	**(2,225)**

Robert Stheeman
Chief Executive

10 July 2008

The notes on pages 42 to 54 form part of these accounts.

UK Debt Management Office
Cash flow statement

For the year ended 31 March 2008

	Note	2008 £000	2007 £000
Net cash outflow from operating activities	13 (i)	(9,085)	(6,401)
Capital expenditure and financial investment	13 (ii)	(1,134)	(372)
Net cash outflow before financing		**(10,219)**	**(6,773)**
Payment of amounts due to the Consolidated Fund		(2,143)	(2,359)
Financing	13 (iii)	12,523	8,994
Increase / (decrease) in cash in the period		**161**	**(138)**

The notes on pages 42 to 54 form part of these accounts.

Notes to the accounts

For the year ended 31 March 2008

1 Statement of accounting policies

(i) Basis of preparation
These financial statements have been prepared in accordance with the 2007–2008 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The DMO's financial statements have been prepared in accordance with the Accounts Direction given by HM Treasury as set out on page 55.

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

(ii) Accounting convention
These accounts have been prepared under the historical cost convention.

(iii) Administration and Programme expenditure and income
The operating cost statement is analysed between administration and programme income and expenditure.

Administration costs reflect the cost of running the Agency. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

Programme costs reflect non-administration costs, including external settlement charges and gilt issuance costs.

Operating income for the DMO relates to: cost recoveries on a full cost basis for services provided to external clients and the direct costs when acting as an agent for the National Loans Fund (NLF); and fees received from Public Works Loan Board (PWLB) customers and the management of the gilt purchase and sale service set by statute.

As the Agency is subject to net administration cost-control provisions, for funding purposes, HM Treasury treats operating income amounts as Appropriations-in-Aid. The operating income is principally:

- Recoveries of costs associated with the DMO acting as an agent for the NLF regarding stock listing, settlement and gilt auction advertising.
- Charges, where statute permits, for the investment management and administration of public funds by the Commissioners for the Reduction of the National Debt (CRND).
- Fees for loans advanced to local authorities from the PWLB.
- Fees for secondary market purchase and sale transactions in gilts conducted by members of the public, under a DMO-managed contract with Computershare Investor Services plc.
- Recoveries of costs associated with the DMO acting as an agent for the Department for Environment, Food and Rural Affairs regarding an Emission Trading Service.

(iv) Fixed 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.

The DMO has continued to adopt the provisions of the 2007-2008 FReM, which it first employed in the 2006-2007 resource accounts. Any furniture, office equipment, IT equipment and software licences, for which the value is low and/or the useful economic life is short, are not revalued.

Internal staff costs for IT development work are capitalised as tangible assets when a distinct asset for on-going use is created or significantly developed.

Software purchases that meet the capitalisation criteria are classified as intangible assets.

(v) Depreciation
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:

- IT equipment and software 3 years
- Development costs 3 years
- Office and other non-IT equipment 5 years
- Furniture, fixtures and fittings 10 years
- Licence software license duration up to 10 years
- Leasehold improvements lesser of 10 years or outstanding lease term

(vi) Operating leases
Amounts paid and received under the terms of operating leases are charged to the operating cost statement on a straight-line basis over the term of the lease. Operating leases are accounted for in accordance with SSAP 21.

(vii) Notional charges
Central HM Treasury costs and other overheads are charged on a notional basis and included in the accounts. These charges include auditors' remuneration and centrally provided support services for payroll, procurement, finance, security, health and safety and legal services. Notional costs are charged to the operating cost statement and credited as a movement on the general fund.

(viii) Value added tax
Value added tax (VAT) on purchases, to the extent that it is irrecoverable, is charged to the operating cost statement 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.

(ix) Capital charge
A charge reflecting the cost of capital utilised by the Agency is included within the operating cost statement. The charge is calculated at the real rate set by HM Treasury, currently 3.5 per cent (2006-2007: 3.5 per cent) on the average carrying amount of all assets less liabilities except for assets and liabilities in respect of amounts due from, or due to be surrendered to, the Consolidated Fund, where the charge is nil.

(x) 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.

(xi) 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 Agency recognises the expected cost

of these elements on a systematic and rational basis 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.

(xii) Provisions - early departure costs

The Agency is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Agency provides for the cost when the early retirement is agreed, effectively charging the full cost at the time an obligation becomes binding on the Agency and holding this as a provision. A provision has been established for the total liability falling on the Agency for all agreed early retirement cases. The liability shown in the balance sheet has been discounted using a rate of 2.2 per cent (2006-2007: 2.2 per cent) in real terms in line with HM Treasury guidance.

2 Staff numbers and related costs

(i) Aggregate staff costs comprise:

	Permanent Staff £000	Others £000	2008 Total £000	2007 Total £000
Wages and salaries	4,032	1,938	**5,970**	5,253
Social security costs	386	-	**386**	397
Other pension costs	851	-	**851**	837
Total Costs	**5,269**	**1,938**	**7,207**	**6,487**
Amounts charged to capital	-	(58)	**(58)**	(37)
Total Operating Staff Costs	**5,269**	**1,880**	**7,149**	**6,450**

The Principal Civil Service Pension Schemes (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 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-pensions.gov.uk).

For 2007–2008, employer contributions of £819,023 were payable to the PCSPS (2006–2007: £799,883) at one of four rates in the range 17.1 per cent to 25.5 per cent (2006-2007: 17.1 to 25.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008-2009, the salary bands will be revised but the rates will remain unchanged, however the rates will be changing from April 2009.

The contribution rates are set to meet the cost of the benefits accruing during 2007-2008 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 £29,628 (2006-2007: £37,407) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 10 to 12.5 per cent (2006-2007: 10 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 £2,034, 0.8 per cent of pensionable pay (2006-2007: £2,252, 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 and ill-health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £2,047 (2006-2007: £3,888). Contributions prepaid at that date were £nil.

(ii) The average number of whole-time equivalent persons employed by the DMO during the year was as follows:

	2008	2007
Permanent staff	71	73
Others	18	12
TOTAL	**89**	**85**

All staff are engaged in meeting HM Treasury objective 1: Managing government cash, debt and reserves efficiently and effectively.

(iii) During 2007-2008, one person (2006-2007: nil) retired early on the grounds of ill-health. The total additional accrued pension liabilities payable by the Civil Service Pension arrangements amounted to £12,764 (2006-2007: £nil).

3 Other administration costs

	2008 £000	2007 £000
Rentals under operating leases:		
Other operating leases	**1,196**	**1,167**
Non-cash items		
Depreciation and amortisation of fixed assets	1,031	917
Provision for early-departure costs:		
Provided in year	149	4
Unwinding of discount on provisions	4	5
External auditors' fee	22	22
Cost of capital charge	7	11
	1,213	**959**
Other expenditure		
IT and telecommunications	1,401	1,380
Accommodation-related costs	676	743
Business and information services	605	530
Consultancy	229	357
Recruitment	116	71
Training	111	76
Travel, subsistence and hospitality	96	52
Printing and stationery	61	56
Legal services	57	93
Other costs	187	160
	3,539	**3,518**
	5,948	**5,644**

Rentals under operating leases include £1,159,287 for rent on the building.

The external auditors' fee relates entirely to audit work.

4 Programme costs

	2008 £000	2007 £000
Settlement and custodial charges	1,289	934
Brokerage costs	678	285
Stock Exchange listing fees for gilt issuance*	588	592
DMO gilt purchase and sale service costs	159	178
Auction advertising costs for gilt issuance*	78	203
	2,792	**2,192**

*Where the DMO is acting as an agent for the NLF in its gilt issuance programme, these costs are reimbursable.

Programme costs relate to trading and debt issuance activities.

5 Operating income

	2008 £000	2007 £000
Administration income		
Fees and charges to PWLB customers	3,500	4,320
Fees and charges to CRND clients	675	812
Rentals receivable in respect of operating leases	179	189
Emissions Trading Service	102	-
Recharges to Gilt Edged Market Makers	96	97
Other accommodation-related income	45	54
Other income	13	21
	4,610	**5,493**
Programme income		
DMO gilt purchase and sale service commission	714	556
Recharges to the National Loans Fund	666	794
	1,380	**1,350**
Total income	**5,990**	**6,843**

Recharges to Gilt Edged Market Makers relate to trading system costs.

All rentals receivable in respect of operating leases are from external organisations.

Recharges to the National Loans Fund relate to gilt issuance charges.

Income that is surrenderable to the Consolidated Fund in the period amounts to £nil (2006-2007: £2,143,067). The prior year total comprises excess Appropriations-in-Aid made up from Administration and Programme related income.

Analysis of Fees and Charges Income for the year ended 31 March 2008

This analysis of fees and charges is provided as specified by the FReM and not for the disclosure requirements under SSAP 25 – segmental reporting.

Analysis of Net Operating Cost

	CRND £000	PWLB £000	DMO gilt purchase and sale service £000
Full cost	793	1,445	661
Income	(675)	(3,500)	(714)
(Surplus) / deficit	**118**	**(2,055)**	**(53)**

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 has been 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 has been achieved in full.

- **DMO 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 has been achieved in full.

6 Fixed assets

(i) Tangible fixed assets

	Leasehold Improvements £000	IT Equipment £000	Telecoms £000	Office Furniture and Equipment £000	Total £000
Cost or valuation					
At 1 April 2007	862	2,723	146	23	**3,754**
Additions	-	270	-	51	**321**
At 31 March 2008	**862**	**2,993**	**146**	**74**	**4,075**
Depreciation					
At 1 April 2007	506	2,508	146	18	**3,178**
Charged in year	88	251	-	11	**350**
At 31 March 2008	**594**	**2,759**	**146**	**29**	**3,528**
Net book value					
At 31 March 2008	**268**	**234**	**-**	**45**	**547**
At 31 March 2007	**356**	**215**	**-**	**5**	**576**

(ii) Intangible fixed assets

	Software £000
Cost or valuation	
At 1 April 2007	3,056
Additions	853
At 31 March 2008	**3,909**
Amortisation	
At 1 April 2007	2,323
Charged in year	681
At 31 March 2008	**3,004**
Net Book Value	
At 31 March 2008	**905**
At 31 March 2007	**733**

7 Debtors

(i) Analysis by type

	2008 £000	2007 £000
Amounts falling due within one year:		
Prepayments and accrued income	1,279	1,242
Other trade debtors	542	192
	1,821	**1,434**
Amounts falling due after more than one year:		
Prepayments and accrued income	10	74
	1,831	**1,508**

(ii) Analysis by relationship with HM Government

	Amounts falling due within one year		Amounts falling due after more than one year	
	2008 £000	2007 £000	2008 £000	2007 £000
Intra-government balances: balances with other central government bodies	447	412	-	-
Balances with bodies external to government	1,374	1,022	10	74
Total debtors at 31 March 2008	**1,821**	**1,434**	**10**	**74**

8 Cash at bank and in hand

	2008 £000	2007 £000
Balance at 1 April 2007	172	310
Net change in cash balances – inflow / (outflow)	161	(138)
Balance at 31 March 2008	**333**	**172**
The following balances were held:		
Bank of England	332	171
Cash in hand	1	1
Balance at 31 March 2008	**333**	**172**

9 Creditors

(i) Analysis by type

	2008 £000	2007 £000
Amounts falling due within one year:		
Trade creditors	111	291
Taxation and Social Security creditors	204	210
Accruals and deferred income	2,390	2,143
Creditor bond interest	11	3
Other creditors	-	44
Payable to the Consolidated Fund:		
Excess Appropriations-in-Aid	-	2,143
	2,716	**4,834**
Amounts falling due after more than one year:		
Deposit advance held as a creditor bond	167	167
	2,883	**5,001**

Included within the creditors total for amounts falling due within one year is £0.056 million (2006-2007: £0.257 million) of capital expenditure creditors and accruals, which is deducted from the movement in working capital in Note 13 (i).

(ii) Analysis by relationship with HM Government

	Amounts falling due within one year		Amounts falling due after more than one year	
	2008 £000	2007 £000	2008 £000	2007 £000
Intra-government balances: balances with other central government bodies	19	2,210	-	-
Balances with bodies external to government	2,697	2,624	167	167
Total creditors at 31 March 2008	**2,716**	**4,834**	**167**	**167**

10 Provisions for liabilities and charges

(i) Analysis by type

	2008 Early departure costs £000	2007 Early departure costs £000
Balance at 1 April 2007	213	249
Provided in the year	149	4
Provisions utilised in the year	(61)	(45)
Unwinding of discount	4	5
Balance at 31 March 2008	**305**	**213**

A statement on early departure and pension commitments is given in the Statement of Accounting Policies on page 44.

(ii) Maturity analysis

	£000
Within one year	72
Between two and five years	221
Beyond five years	12
	305

11 General fund

Reconciliation of Net Operating Cost to changes in General Fund

	2008 £000	2007 £000
Balance at 1 April 2007	(2,312)	(1,753)
Net Parliamentary Funding		
Drawn down	12,523	8,994
Net transfer from Operating Activities		
Net operating cost	(9,899)	(7,443)
Amounts repayable to the Consolidated Fund	-	(2,143)
Non-cash charges		
Auditors' remuneration	22	22
Cost of capital	7	11
Balance at 31 March 2008	**341**	**(2,312)**

At 31 March 2007, the DMO's balance sheet showed a deficit. Where an agency's liabilities are paid by a parent department and the agency's fixed assets are relatively low value, this can give rise to a position where total net liabilities are reported. Under these circumstances, a balance sheet deficit is no reflection on operating performance.

12 Revaluation reserve

	2008 £000	2007 £000
Balance at 1 April 2007	87	87
Movement on revaluation during the year	-	-
Balance at 31 March 2008	**87**	**87**

13 Analysis of cash flow

(i) Reconciliation of Operating Costs to Operating Cash Flows:

	2008 £000	2007 £000
Net operating cost	(9,899)	(7,443)
Adjust for non-cash transactions:		
Depreciation	1,031	917
Provision for early-departure costs	153	9
Auditors' fee	22	22
Notional interest on capital	7	11
	1,213	**959**
Adjust for movements in working capital other than cash:		
Decrease / (Increase) in debtors	(323)	(386)
Increase / (Decrease) in current creditors	25	771
Less items not passing through the operating cost statement	(40)	(257)
Use of provisions	(61)	(45)
	(399)	**83**
Net cash outflow from operating activities	**(9,085)**	**(6,401)**

(ii) Analysis of capital expenditure:

	2008 £000	2007 £000
Tangible fixed asset additions	(147)	59
Intangible fixed asset additions	(987)	(431)
Net cash outflow from investing activities	**(1,134)**	**(372)**

The net inflow of cash for tangible fixed assets is due to the movements in working capital related to fixed asset accruals.

(iii) Analysis of financing:

	2008 £000	2007 £000
Net financing		
From Consolidated Fund (Supply) – current year	**12,523**	**8,994**

14 Operating leases

(i) At 31 March 2008 the commitments under operating leases to pay rentals during the year to 31 March 2009 are shown below, analysed according to the period in which the lease expires:

	Land and Buildings £000	Other £000	2008 Total £000	2007 Total £000
Operating leases which expire beyond one year but not more than five years	119	37	**156**	37
Operating leases which expire beyond five years:				
premises lease	1,130	-	**1,130**	1,130
	1,249	**37**	**1,286**	**1,167**

(ii) At 31 March 2008 amounts receivable by the DMO under operating leases in the year to 31 March 2009 are shown below, analysed according to the period in which the lease expires:

	2008 Land and Buildings £000	2007 Total £000
Operating leases which expire beyond one year but not more that five years:		
premises lease	**156**	**156**

15 Capital commitments

The DMO had no capital commitments at 31 March 2008.

16 Contingent assets and liabilities

The DMO had no contingent assets or liabilities at 31 March 2008.

17 Related party transactions

(i) HM Treasury
The DMO is an executive agency of HM Treasury. During the year HM Treasury has provided various business services to the DMO as listed in the Resources section of the Annual Report.

(ii) Consolidated Fund and National Loans Fund
The Consolidated Fund and the National Loans Fund are central government borrowing and expenditure accounts under the control of HM Treasury. The DMO has had transactions with both accounts and they are regarded as related parties because they are under the common control of HM Treasury.

(iii) Bank of England and National Savings & Investments
The DMO has also undertaken various transactions with the Bank of England and National Savings & Investments. They are regarded as related parties because HM Treasury has significant influence over both these entities in addition to the DMO.

(iv) Commissioners for the Reduction of the National Debt
CRND is managed as part of the DMO but is a separate legal entity. CRND is a related party of the DMO because Jo Whelan is the Deputy Chief Executive of the DMO and also the Comptroller General of CRND. The DMO has received payment from each of the National Savings Bank Fund, Court Fund Investment Account and Northern Ireland Court Service for management services in 2007-2008 amounting to £32,000, £114,000 and £79,000 respectively.

(v) Public Works Loan Board
PWLB is also operated within the DMO and subjected to the same operational controls as applied to the DMO's operations as a whole, but charges to PWLB clients are set by statute and the Public Works Loan Commissioners retain their statutory role. Therefore, PWLB is not considered a related party to the DMO.

(vi) DMO Managing Board and senior managers
None of the DMO Managing Board members or senior managers have undertaken any material transactions with the DMO during the year.

18 Financial instruments

At the balance sheet date, the DMO Agency account had no material exposure to liquidity risk, interest rate risk or currency risk. All material assets and liabilities are denominated in sterling.

During the year the DMO used forward foreign exchange contracts to hedge against foreign exchange movements relating to expenditure committed with a US supplier. These swap agreements matured before the year end.

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 2008 in compliance with the accounting principles and disclosure requirements of the edition of the *Government Financial Reporting Manual* issued by HM Treasury (*"the FReM")* which is in force for 2007-2008.

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 2008 and of the income and expenditure (or as appropriate, net resource outturn), total recognised gains and losses (or, as appropriate, recognised gains and losses), and cash flows of the agency 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.

DAVID WATKINS
Head of the Financial Reporting Policy Team, Her Majesty's Treasury

11 December 2007

DEBT MANAGEMENT ACCOUNT REPORT AND ACCOUNTS

Year ended 31 March 2008
Presented to Parliament 17 July 2008

Debt Management Account: 2007-2008 Accounts

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 Debt Management Account for the year ended 31 March 2008 under the National Loans Act 1968. These comprise the Income and Expenditure Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow statement 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

The Accounting Officer is responsible for preparing the Foreword, the Statement on Internal Control and the financial statements in accordance with Section 15(1) of the National Loans Act 1968 and the Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the National Loans Act 1968 and Treasury directions made thereunder. I report whether, in my opinion, the information which comprises the Foreword and Management Commentary is consistent with the financial statements. I also report whether in all material respects the financial transactions of the Debt Management Account have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

In addition, I report to you if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit, or if other information specified by the relevant authorities regarding other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Debt Management Office's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Debt Management Office's corporate governance procedures or its risk and control procedures.

My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Debt Management Account's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that, in all material respects, the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Loans Act 1968 and directions made thereunder by Treasury, of the state of the Debt Management Account's affairs as at 31 March 2008 and of its deficit for the year then ended;

- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and directions made by Treasury thereunder; and

- the information which comprises the Foreword and Management Commentary is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SP

14 July 2008

Debt Management Account
Income and expenditure account

For the year ended 31 March 2008

	Note	2008 £m	2007 £m
Interest income	2	4,308	2,973
Interest expense	3	(4,501)	(2,996)
Net interest expense		**(193)**	**(23)**
Net trading (expense)/income	4	(71)	35
Gains from investment securities	5	2	15
(Deficit)/surplus for the year	**6**	**(262)**	**27**

All income and expenditure arose from continuing operations.

The notes on pages 62 to 84 are an integral part of these accounts.

Debt Management Account
Statement of total recognised gains and losses

For the year ended 31 March 2008

	2008 £m	2007 £m
Net unrealised gains/(losses) on investment securities in the revaluation reserve	1,108	(825)
(Deficit)/surplus for the year from the income and expenditure account	(262)	27
Total recognised gains/(losses) for the year	**846**	**(798)**

The notes on pages 62 to 84 are an integral part of these accounts.

Debt Management Account
Balance sheet

As at 31 March 2008

	Note	2008 £m	2007 £m
Assets			
Cash and balances at the Bank of England		500	427
Loans and advances to banks	7	14,206	10,253
Securities held for trading	8	17	3,137
Derivatives	9	81	212
Investment securities available for sale			
British Government securities for use as collateral		29,040	25,231
Other British Government securities		123	121
	10	29,163	25,352
Other assets	11	2,245	2,796
Total assets before deposit at National Loans Fund		**46,212**	**42,177**
Deposit at National Loans Fund	12	49,140	35,339
Total assets		**95,352**	**77,516**
Liabilities			
Deposits by banks	13	14,400	10,833
Due to government customers	14	62,287	49,900
Derivatives	9	331	-
Treasury bills in issue	15	17,441	16,710
Other liabilities	16	4	29
Total liabilities before funding by National Loans Fund		**94,463**	**77,472**
Revaluation reserve	12	1,085	(39)
Income and expenditure account	12	(196)	83
Total funding by National Loans Fund	12	**889**	**44**
Total liabilities		**95,352**	**77,516**

The notes on pages 62 to 84 are an integral part of these accounts.

Robert Stheeman
Chief Executive

10 July 2008

Debt Management Account
Cash flow statement

For the year ended 31 March 2008

	Note	2008 £m	2007 £m
Net cash inflow from operating activities	**17**	**13,299**	**21,706**
Returns on investments and servicing of finance			
Interest received on investment securities		1,121	1,762
Interest received on deposit at National Loans Fund		2,002	1,158
Interest paid on advance from National Loans Fund		-	(485)
Net cash inflow from returns on investments and servicing of finance		3,123	2,435
Financial investments			
Gilt auctions and secondary market sales of investment securities		61,318	70,202
Purchases of investment securities for auction and for secondary market activities		(63,911)	(68,445)
Net cash (outflow)/inflow from financial investments		(2,593)	1,757
Net cash inflow before financing		**13,829**	**25,898**
Financing			
Increase in net funding by National Loans Fund		169,969	189,360
Decrease in net funding by National Loans Fund		(183,725)	(214,956)
Net cash outflow from financing		(13,756)	(25,596)
Increase in cash		**73**	**302**

The notes on pages 62 to 84 are an integral part of these accounts.

Notes to the accounts

For the year ended 31 March 2008

1 Accounting policies

(i) Basis of preparation
The financial statements have been prepared 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. The DMA's financial statements have been prepared in accordance with the Accounts Direction given by HM Treasury as set out on pages 85 to 86.

(ii) Financial assets
The DMA holds financial assets that have been classified as securities held for trading, and other securities that have been designated as available for sale. DMO management determines the classification or designation on initial recognition of the asset. The DMA also holds financial assets that are loans and receivables. The DMA does not hold any financial investments that it positively intends, and is independently able, to hold until maturity.

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.

At each balance sheet date, DMO management assess whether there is any objective evidence that an available for sale financial asset or loan or receivable 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
This category includes certain debt securities and derivatives.

Debt securities held for trading
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 subsequently re-measured, and all gains and losses from changes therein are recognised in the income and expenditure account in 'net trading income' as they arise.

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

(b) Loans and receivables
Loans and receivables, as well as other assets, 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 repos (which are a purchase of securities with an agreement to resell them at a higher price at a specific future date). Securities pledged to the DMA as collateral via reverse repos are not included on the balance sheet.

The DMA does not sell such financial assets and so does not designate any loans and receivables as available for sale, or held for trading.

Loans and receivables are recognised at trade date and are derecognised when borrowers repay their obligations. Following initial recognition, loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

(c) Available for sale financial assets
Debt securities are treated 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 subsequently re-measured, and all 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 in the income and expenditure account as ‘gains from investment securities’.

(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 repos, which are instruments where the seller of securities agrees to buy them back at a specified time and price. Securities that are pledged by the DMA as collateral via sale and repurchase agreements continue to be included on the balance sheet.

Deposits by banks and amounts due to government customers are recognised at trade 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 and equity index / interest rate swaps.

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 the Government that is external to the DMA. The nature of this relationship is explained on page 13.

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 and expenditure account as they arise. These gains and losses are reported in 'net trading income' 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. When active market prices 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 observable market data.

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 balance sheet 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, no financial asset or liability is disclosed as no external transaction has occurred, so neither a financial asset nor liability exists. The DMA does not offset any other financial assets or liabilities.

(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 and expenditure account 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) Net trading income
Net trading income 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) Transaction costs
Transaction costs are borne by the DMO.

(x) 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 balance sheet date.

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 balance sheet date.

Exchange differences arising on settlement, and those arising on retranslation, are recognised in the income and expenditure account as they arise.

2 Interest income

	2008 £m	2007 £m
British Government securities held for trading	6	29
British Government investment securities available for sale	1,238	1,258
Other securities held for trading	107	159
Deposit at National Loans Fund	2,048	1,187
Reverse sale and repurchase agreements	823	246
Other deposits	86	94
	4,308	**2,973**

3 Interest expense

	2008 £m	2007 £m
Advance from National Loans Fund	-	(414)
Sale and repurchase agreements	(476)	(314)
Discounts on Treasury bills in issue	(918)	(883)
Other deposits	(3,107)	(1,385)
	(4,501)	**(2,996)**

4 Net trading income

	2008 £m	2007 £m
Trading assets		
British Government securities	1	-
Other securities	1	(1)
	2	**(1)**
Derivatives		
Equity index / interest rate derivatives	(73)	36
	(71)	**35**

5 Gains from investment securities

	2008 £m	2007 £m
British Government securities	**2**	**15**

6 (Deficit)/surplus for the year

(Deficit)/surplus for the year has been arrived at after crediting:	2008 £m	2007 £m
Net foreign exchange gains	**32**	**-**

7 Loans and advances to banks

	2008 £m	2007 £m
Reverse sale and repurchase agreements		
Due in not more than 3 months	14,198	5,862
Due in more than 3 months but not more than 1 year	-	1,637
	14,198	**7,499**
Fixed term deposits		
Due in not more than 3 months	8	2,754
	14,206	**10,253**

All reverse repo transactions are under the provisions of a TBMA/ISMA Global Master Repurchase Agreement. The Agreement contains provisions that allow the collateral securities to be 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.

Reverse sale and repurchase agreements included Euro denominated transactions as at 31 March 2008. The associated foreign currency risk was fully hedged through forward foreign exchange contracts (see note 9).

8 Securities held for trading

	2008 £m	2007 £m
Carrying value		
British Government securities	17	19
Other securities	-	3,118
	17	**3,137**

	2008 Nominal £m	2008 Fair value £m	2007 Nominal £m	2007 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	-	-	3,118	3,118
In more than 3 months but not more than 1 year	-	-	3	3
	-	**-**	**3,121**	**3,121**
Due after 1 year				
In more than 1 year but not more than 5 years	7	8	6	6
In more than 5 years	9	9	9	10
	16	**17**	**15**	**16**
	16	**17**	**3,136**	**3,137**

9 Derivatives

	2008 Assets £m	2008 Liabilities £m	2007 Assets £m	2007 Liabilities £m
Equity index / interest rate derivatives	81	9	212	-
Foreign exchange derivatives	-	322	-	-
	81	**331**	**212**	**-**

Equity index / interest rate derivatives hedged the Government's exposure to the equity index risk resulting from the Guaranteed Equity Bond products issued by National Savings & Investments. The contracts have maturities of between three days and five years.

All equity index / interest rate derivatives are under the provisions of an ISDA Master Agreement with an English Law Credit Support Annex. The Annex contains provisions that allow the contracts to be valued daily. Collateral securities will be requested from the counterparty, or given / returned to the counterparty, depending on whether the value of the contract has risen or fallen.

10 Investment securities available for sale

Investment securities were all British Government securities.

	2008 Nominal £m	2008 Fair value £m	2007 Nominal £m	2007 Fair value £m
Maturity analysis				
Due within 1 year				
In more than 3 months but not more than 1 year	905	907	2,226	2,267
Due after 1 year				
In more than 1 year but not more than 5 years	6,200	6,595	5,945	6,092
In more than 5 years	18,625	21,661	15,060	16,993
	24,825	**28,256**	**21,005**	**23,085**
	25,730	**29,163**	**23,231**	**25,352**

During the year, gilts were created by the NLF and sold to the DMA for use as collateral. (See note 18.)

11 Other assets

	2008 £m	2007 £m
Due from counterparties	**2,245**	**2,796**

12 Reconciliation of movements in total funding by National Loans Fund

	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 financing £m
At 1 April 2006	**9,714**	**71**	**786**	**56**	**913**	**8,801**
Surplus for the year	-	-	-	27	27	(27)
Released to income and expenditure for the year on disposal of investment securities available for sale	-	-	(15)	-	(15)	15
Other gains/(losses) for the year	-	-	(810)	-	(810)	810
Change in advance from National Loans Fund	-	(71)	-	-	(71)	71
Change in deposit at National Loans Fund	25,625	-	-	-	-	25,625
At 31 March 2007	**35,339**	**-**	**(39)**	**83**	**44**	**35,295**
Surplus for the year	-	-	-	(262)	(262)	262
Reserves transfer	-	-	17	(17)	-	-
Released to income and expenditure for the year on disposal of investment securities available for sale	-	-	(2)	-	(2)	2
Other gains/(losses) for the year	-	-	1,109	-	1,109	(1,109)
Change in advance from National Loans Fund	-	-	-	-	-	-
Change in deposit at National Loans Fund	13,801	-	-	-	-	13,801
At 31 March 2008	**49,140**	**-**	**1,085**	**(196)**	**889**	**48,251**

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

The NLF provided no cash advances during the year. (During 2006-2007, the NLF provided £5 billion on 26 April 2006, and £10 billion on 3 August 2006. The outstanding principal of £15 billion was repaid on 26 January 2007.)

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.

13 Deposits by banks

	2008 £m	2007 £m
Sale and repurchase agreements		
Due in not more than 3 months	14,216	8,585
Due in more than 3 months but not more than 1 year	-	1,247
	14,216	**9,832**
Fixed term deposits		
Due in not more than 3 months	184	1,001
	14,400	**10,833**

All repo transactions are under the provisions of a TBMA/ISMA Global Master Repurchase Agreement. The Agreement contains provisions that allow the collateral securities to be 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. (See note 21 (v) (a) for the year end value of collateral.)

The DMA entered forward starting sale and repurchase agreements with a first cashflow after 31 March 2008.

14 Due to government customers

	2008 £m	2007 £m
Counterparty analysis		
Funds managed by the Commissioners for the Reduction of the National Debt		
Fixed term deposits	497	2,053
Call notice deposits	59,721	46,736
	60,218	**48,789**
Other government counterparties		
Fixed term deposits	2,069	1,111
	62,287	**49,900**
Maturity analysis		
In not more than 3 months		
Fixed term deposits	2,133	2,645
Call notice deposits	59,721	46,736
	61,854	**49,381**
In more than 3 months but not more than 1 year		
Fixed term deposits	433	519
	62,287	**49,900**

Call notice deposits are repayable on demand.

15 Treasury bills in issue

	2008 £m	2007 £m
Carrying value		
Due in not more than 3 months	14,108	13,226
Due in more than 3 months but not more than 1 year	3,333	3,484
	17,441	**16,710**
Fair value	**17,441**	**16,705**

16 Other liabilities

	2008 £m	2007 £m
Due to counterparties	**4**	**29**

17 Analysis of cash flow

	2008 £m	2007 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating (deficit)/surplus	(262)	27
Less: interest income on deposit at National Loans Fund	(2,048)	(1,187)
Less: interest expense on advance from National Loans Fund	-	414
Less: interest on investment securities	(1,238)	(1,258)
Less: gains on investment securities	(2)	(15)
(Increase) in loans and advances to banks	(3,953)	(6,382)
Decrease in securities held for trading	3,120	402
Decrease/(increase) in derivatives (asset)	131	(34)
Decrease/(increase) in other assets	560	(1,257)
Increase in deposits by banks	3,567	5,830
Increase in amounts due to government customers	12,387	28,944
Increase/(decrease) in derivatives (liability)	331	(3)
Increase/(decrease) in Treasury bills in issue	731	(3,800)
(Decrease)/increase in other liabilities	(25)	25
Net cash inflow from operating activities	**13,299**	**21,706**

18 Gilt issuance

	2008 £m	2007 £m
Nominal value of gilts issued on behalf of National Loans Fund	57,850	61,450
Proceeds paid to National Loans Fund	58,514	62,521

There were no uncovered gilt auctions.

During the year, gilts with a nominal value of £3,890 million (2007: £nil) were created by the NLF and sold to the DMA for use as collateral in its Exchequer 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 are used only in 'delivery by value' (DBV) transactions.

19 Events after the balance sheet date

On 16 April 2008, gilts with a nominal value of £11,650 million were created by the NLF and sold to the DMA for use as collateral. On the same day, Treasury bills (maturing on 7 July 2008) with a nominal value of £483 million were created by the DMA for use as collateral. The DMO uses gilts and Treasury bills as collateral in its Exchequer 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 are used only in 'delivery by value' (DBV) transactions. It is intended that the additional Treasury bills will also only be used in DBV transactions.

On 21 April 2008, the Bank of England launched its Special Liquidity Scheme to allow banks to swap temporarily their high quality mortgage-backed and other securities for Treasury bills supplied by the DMO. Treasury bills with a maturity of 9 months are created by the NLF and sold to the DMA, which makes them available to be borrowed by the Bank of England for a fee. The initial purchase of Treasury bills by the DMA was of a nominal value of £50 billion. More details of the scheme are available from the Bank of England's website.

20 Related party transactions

(i) HM Treasury
The DMA and HM Treasury are under the common influence of HM Government. The National Loans Fund is managed by HM Treasury and it is the DMA's principal role to meet the financing needs of this Fund.

(ii) 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.

(iii) 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 Deposit Facility (DMADF). Surplus cash in CRND client accounts is regularly deposited with the DMADF.

The value outstanding of cash deposits taken by the DMA from CRND was £60.2 billion at 31 March 2008 (31 March 2007: £48.8 billion). The DMA bought non-marketable gilts of nominal value £0.2 billion from CRND during the year, and sold non-marketable gilts of nominal value less than £0.1 billion to CRND (2007: purchases £20.6 billion, sales £3.4 billion).

(iv) DMO Managing Board and senior managers
No member of the Managing Board and no senior managers have undertaken any transactions with the DMA during the year.

(v) 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. These are regarded as related parties because HM Treasury has significant influence over all these entities.

21 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 Risk Management Unit.

Exposure is primarily to financial institutions (mainly banks) as intra-HM Government balances are not considered to give rise to 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 2008 were the same as in the prior year.

(i) Credit risk limits and measurement
The DMO has adopted a policy of the DMA dealing only with highly-creditworthy counterparties and issuers. Credit exposure is controlled by counterparty and issuer limits that are approved by the 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 any breaches are reported to the Risk Committee.

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

The DMO analyses the creditworthiness of potential counterparties and security issuers using the information provided by three external credit assessment institutions: Standard and Poor's, Moody's Investors Service, and Fitch Ratings. Information from these and other information 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 of their three external credit ratings at the time the transaction is entered into.

There are limits on total unsecured lending and on holdings of debt securities issued by financial institutions and corporate entities. There are also limits on the maximum maturity of loans made and securities held.

(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 balance sheet 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
For funds advanced under reverse repo contracts, the DMA takes stock collateral as a means of mitigating risk.

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 of AA- (Standard and Poor's), Aa3 (Moody's) and AA- (Fitch) or above or other highly-rated securities, as agreed from time to time. All collateral is held in the CREST, Euroclear and Clearstream systems.

No collateral held was realised to offset credit losses during the year ended 31 March 2008 (31 March 2007: £nil value), or subsequently.

The DMA also receives cash collateral in the form of margin calls under certain derivative contracts.

(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 2008. The Clearstream system is owned by Clearstream Banking S.A., which had a Standard and Poor's credit rating of AA at 31 March 2008.

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
Due to the conservative nature of the DMO's credit policy and the DMA's history of no impairment of assets, no provisioning is considered necessary. However, counterparties are monitored for downgrading of credit rating and late settlements and any collateral is valued on a daily basis.

There were no assets considered impaired, nor whose terms had been renegotiated, at 31 March 2008 (31 March 2007: nil assets).

There were no late repayments of loans and advances to banks at 31 March 2008 (31 March 2007: no late payments) and past due (failed) settlements of open trades amounted to £3 million at 31 March 2008 (31 March 2007: less than £1 million).

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

Credit risk exposures on non-HM Government balance sheet assets are included below:

	Internal to HM Government		External to HM Government Financial institutions		External to HM Government Corporate entities		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Cash and balances at the Bank of England	-	-	500	427	-	-	500	427
Loans and advances to banks								
- Reverse repos	-	-	14,198	7,499	-	-	14,198	7,499
- Fixed term deposits	-	-	8	2,754	-	-	8	2,754
Trading assets	17	19	-	3,019	-	99	17	3,137
Derivatives (see note 9)	-	-	81	212	-	-	81	212
Available for sale investment securities	29,163	25,352	-	-	-	-	29,163	25,352
Other assets	-	-	2,245	2,796	-	-	2,245	2,796
Deposit at National Loans Fund	49,140	35,339	-	-	-	-	49,140	35,339
Total gross exposure	**78,320**	**60,710**	**17,032**	**16,707**	**-**	**99**	**95,352**	**77,516**

The non-HM Government balances above represent credit risk exposure at 31 March 2008 (and 31 March 2007), without taking into account any collateral held or other credit enhancements attached. The exposures set out above are based on carrying amounts as reported in the balance sheet. Exposures can be subject to seasonal fluctuations.

The DMA has not issued any financial guarantees and has no off-balance sheet financial commitments.

(v) Collateral

(a) Sale and repurchase agreements

Sale and repurchase agreements ('repos') and purchase and resale agreements ('reverse repos'), with collateral backing, are:

Settled transactions:

	2008 Balance sheet carrying value £m	2008 Fair value of securities collateral £m	2007 Balance sheet carrying value £m	2007 Fair value of securities collateral £m
Reverse repos				
(within loans and advances to banks)	14,198	14,301	7,479	7,652
- Securities collateral shortfall		1		10
- Securities collateral 'resold' via repo agreement		-		-
Repos				
(within deposits by banks)	11,977	12,038	8,274	8,289
- Securities collateral surplus		13		-

Unsettled transactions:

	2008 Balance sheet securities value £m	2008 Fair value of carrying collateral £m	2008 Weighted average days to settlement	2007 Balance sheet carrying value £m	2007 Fair value of securities collateral £m	2007 Weighted average days to settlement
Reverse repos						
(within loans and advances to banks)	-	-	-	20	20	3
Repos						
(within deposits by banks)	2,239	2,249	22	1,558	1,550	26

All repo and reverse repo transactions are with bank (or bank subsidiary) counterparties.

Collateral surplus and shortfall have been calculated at the level of individual counterparties.

Collateral to the value of the unsettled cash amounts is not taken until settlement occurs.

(b) Derivatives
Equity index / interest rate derivative assets and liabilities, with collateral backing, are:

	2008		2007	
	Balance sheet carrying value £m	Market value of securities collateral £m	Balance sheet carrying value £m	Market value of securities collateral £m
Equity index / interest rate derivative assets	81	78	212	193
- Securities collateral shortfall		5		19
- Securities collateral 'resold'		-		-
Equity index / interest rate derivative liabilities	9	4	-	-
- Securities collateral surplus		10		-

Collateral surplus and shortfall have been calculated at the level of individual counterparties.

(vi) Sale and repurchase agreements – analysis by credit rating
Repos and reverse repos, by Standard and Poor's long-term designation of the bank (or bank subsidiary) counterparty at 31 March 2008 (and 31 March 2007), based on the rating of the DMA's counterparties (individual contracting entities rather than ultimate parent entities), were:

	Reverse repos		Repos	
	2008 £m	2007 £m	2008 £m	2007 £m
AAA	-	468	503	21
AA- to AA+	12,612	6,438	12,839	7,548
A- to A+	1,586	593	874	2,263
Total	**14,198**	**7,499**	**14,216**	**9,832**

(vii) Fixed term deposits at banks and trading assets - analysis by credit rating
Non-HM Government deposits and debt securities, by Standard and Poor's long-term rating designation of the counterparty or (for trading assets) issuer at 31 March 2008 (and 31 March 2007), were:

	Cash and balances at the Bank of England		Fixed term deposits at banks (unsecured)		Bank debt securities		Corporate debt securities	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
AAA	500	427	-	250	-	-	-	99
AA- to AA+	-	-	8	2,504	-	2,351	-	-
A- to A+	-	-	-	-	-	668	-	-
Total	**500**	**427**	**8**	**2,754**	**-**	**3,019**	**-**	**99**

(viii) Derivative assets – analysis by credit rating

Derivative assets, by Standard and Poor's long-term rating designation of the bank counterparty at 31 March 2008 (and 31 March 2007), were:

	Interest rate / equity index derivatives	
	2008 £m	2007 £m
AA- to AA+	39	212
A- to A+	42	-
Total	**81**	**212**

Further details of derivative contracts are given in note 9.

(ix) Other assets – analysis by credit rating

Other assets (unsettled trades), by Standard and Poor's long-term rating designation of the counterparty at 31 March 2008 (and 31 March 2007), were:

	2008 £m	2007 £m
AA- to AA+	2,241	1,945
A- to A+	-	821
Unrated	4	30
Total	**2,245**	**2,796**

(x) Concentration of exposures

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

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

Credit exposures at 31 March 2008 (and 31 March 2007) by geographical region, based on the country of domicile of the ultimate parent entities of the DMA's counterparties or (for trading assets) issuers were:

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Cash and balances at the Bank of England	500	427	-	-	-	-	-	-	500	427
Loans and advances to banks - Fixed term deposits	8	500	-	1,703	-	551	-	-	8	2,754
Trading assets	-	1,003	-	1,724	-	99	-	292	-	3,118
Derivatives	3	13	3	15	75	184	-	-	81	212
Other assets	1,352	816	890	1,718	3	232	-	30	2,245	2,796
Total	**1,863**	**2,759**	**893**	**5,160**	**78**	**1,066**	**-**	**322**	**2,834**	**9,307**

Available for sale securities have been excluded from the above table since they are issued by HM Government.

(b) Geographical sectors – sale and repurchase agreements
Credit exposures at 31 March 2008 (and 31 March 2007) by geographical region, based on the country of domicile of the ultimate parent entities of the DMA's counterparties, were:

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Reverse repos (within loans and advances to banks)	7,116	4,141	6,456	1,546	53	1,812	573	-	14,198	7,499
Repos (within deposits by banks)	10,347	4,094	3,074	4,657	777	932	18	149	14,216	9,832

22 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.

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, amounts due to the funds managed by the Commissioners for the Reduction of National Debt (CRND) and all balances with the National Loans Fund (NLF).

(i) Market risk measurement
The major 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 and interest rate risk limits are in place, expressed in present value of a basis point (rather than value at risk) terms.

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

(a) Value at risk
Value at Risk (VaR) is a method that summarises the worst mark to market loss over a target horizon with a given level of confidence.

The DMO uses a time horizon of one day and a confidence level of 95 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 95 per cent VaR of, say, £1 million, it can be expected to lose more than £1 million on only one trading day out of 20.

Calculation of the worst possible loss is outside the scope of VaR.

For interest rate risk, DMO uses the variance-covariance VaR methodology. Assumptions as to how data will be distributed are based on historical data.

For exposure related to equity index swaps, the DMO uses 'Monte Carlo' VaR and the exposure measured is that of National Savings & Investments and the DMA taken together.

Additionally, stress-testing is performed for the Cash Management portfolio to describe the possible scenarios falling outside of the 95 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 change in interest rates when all other factors are held constant. The change 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 ended 31 March 2008 (and 31 March 2007). 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 Risk Committee.

(ii) VaR summary for 2008
VaR at 31 March 2008 was:

	2008 £m	2007 £m
Interest rate risk and currency risk - Cash Management	0.84	0.11
Interest rate risk and other price risk - equity index swaps	0.01	0.01
Interest rate risk - retail gilts	0.10	0.05

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

VaR is calculated monthly for retail gilt exposures and daily for other exposures.

The ranges of end of day VaR at the year end were:

(a) Interest rate risk and currency risk – Cash Management
(based on daily calculations)

	2008 £m	2007 £m
Highest in the year	1.67	0.52
Average for the year	0.72	0.20
Lowest in the year	0.11	0.03

(b) Interest rate risk and other price risk - equity index swaps
(based on daily calculations)

	2008 £m	2007 £m
Highest in the year	0.01	0.01
Average for the year	0.01	0.01
Lowest in the year	0.00	0.00

(c) Interest rate risk – retail gilts
(based on monthly reporting)

	2008 £m	2007 £m
Highest in the year	0.10	0.11
Average for the year	0.08	0.07
Lowest in the year	0.05	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 are: index-linked gilts, with a carrying value of £10,790 million at 31 March 2008 (31 March 2007: £8,426 million); the deposit at the National Loans Fund, with a carrying value of £49,140 million at 31 March 2008 (31 March 2007: £35,339 million); and call notice deposits from customers, with a carrying value of £59,720 million at 31 March 2008 (31 March 2007: £46,736 million). The index-linked gilts are linked to the General Index of Retail Prices in the UK (the 'RPI').

(a) Interest rate risk profile (based on the earliest possible repayment date)
The DMA's interest rate risk profile at 31 March 2008 (and 31 March 2007) was:

	Fixed rate instruments Weighted average interest rate 2008 %	Fixed rate instruments Weighted average period 2008 Years	Fixed rate instruments 2008 £m	Floating rate instruments 2008 £m
Currency				
Sterling				
Assets	5.31	6.93	32,595	60,430
Liabilities (before funding by National Loans Fund)	5.09	0.12	34,408	59,721
	2007 %	**2007 Years**	**2007 £m**	**2007 £m**
Currency				
Sterling				
Assets	5.32	6.98	30,316	44,192
Liabilities (before funding by National Loans Fund)	5.31	0.13	30,707	46,736

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

The DMA held undated gilts with a balance sheet carrying value of £29 million as at 31 March 2008 (31 March 2007: £30 million). This lending is 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:

	2008 £m	2007 £m
Interest rate risk - Cash Management	0.06	(0.04)
Interest rate risk - retail gilts	(0.01)	(0.01)

The ranges of end-of-day PV01 exposure were:

Cash Management
(based on daily calculations)

	Cash Management	
	2008 £m	2007 £m
Highest positive in the year	0.09	0.10
Average for the year	(0.12)	(0.04)
Highest negative in the year	(0.27)	(0.13)

Retail gilts
(based on monthly reporting)

	Retail gilts	
	2008 £m	2007 £m
Highest positive in the year	0.00	0.00
Average for the year	(0.01)	(0.01)
Highest negative in the year	(0.01)	(0.02)

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

(iv) Currency risk
The DMA enters into certain transactions in instruments denominated in Euros, for diversification purposes, with currency exposure hedged via foreign exchange transactions.

A foreign exchange risk limit is in place that is designed to constrain 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 ended 31 March 2008 (and the year ended 31 March 2007) was to fully match all currency cash flows. Monitoring of this hedging is performed daily and any breaches are reported to the Risk Committee.

Forward foreign currency contracts outstanding at 31 March 2008 (and 31 March 2007) are disclosed in note 9 and 23(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 9). 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, dividend yield, implied volatility, and 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 Risk Committee.

23 Liquidity risk

Liquidity risk is the risk that 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

There is a daily liquidity risk limit in place that 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 (MCF) 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 ended 31 March 2008 (and 31 March 2007) 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. Monitoring against these limits is performed daily and any breaches are reported to the 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:

As at 31 March 2008:

	On demand £m	0-6 months £m	Total flows (not discounted) £m	Adjustment for discount £m	Balance sheet carrying value £m
Deposits by banks	-	14,441	**14,441**	(41)	**14,400**
Due to government customers	59,720	2,583	**62,303**	(16)	**62,287**
Treasury bills in issue	-	17,576	**17,576**	(135)	**17,441**
Other liabilities	-	4	**4**	-	**4**
Total non-derivative liabilities before funding by National Loans Fund	**59,720**	**34,604**	**94,324**	**(192)**	**94,132**

As at 31 March 2007:

	On demand £m	0-6 months £m	Total flows (not discounted) £m	Adjustment for discount £m	Balance sheet carrying £m
Deposits by banks	-	10,874	**10,874**	(41)	**10,833**
Due to government customers	46,736	3,184	**49,920**	(20)	**49,900**
Treasury bills in issue	-	17,126	**17,126**	(416)	**16,710**
Other liabilities	-	29	**29**	-	**29**
Total non-derivative liabilities before funding by National Loans Fund	**46,736**	**31,213**	**77,949**	**(477)**	**77,472**

There were no liabilities that the DMA intended to repay before maturity as at 31 March 2008 (31 March 2007: £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

As at 31 March 2008:

Sterling cash flows

	0-6 months £m	Total undiscounted flows £m
Forward foreign exchange contracts		
- Outflow	5	**5**
- Inflow	7,413	**7,413**

Euro cash flows

	0-6 months €m	Total undiscounted flows €m
Forward foreign exchange contracts		
- Inflow	9,687	**9,687**
- Outflow	6	**6**

As at 31 March 2007:

Sterling cash flows

	0-6 months £m	Total undiscounted flows £m
Forward foreign exchange contracts		
- Outflow	-	**-**
- Inflow	7	**7**

Euro cash flows

	0-6 months €m	Total undiscounted flows €m
Forward foreign exchange contracts		
- Outflow	10	**10**
- Inflow	-	**-**

Balance sheet carrying values are shown in note 9.

(b) Derivatives settled on a net basis

As at 31 March 2008:

Sterling cash flows

	0-6 months £m	6-12 months £m	1-5 years £m	Total undiscounted flows £m	Adjustment for discount £m	Balance sheet carrying value £m
Equity index derivatives						
- Outflow	-	-	11	**11**	(2)	**9**
- Inflow	42	9	33	**84**	(3)	**81**

As at 31 March 2007:

Sterling cash flows

	0-6 months £m	6-12 months £m	1-5 years £m	Total undiscounted flows £m	Adjustment for discount £m	Balance sheet carrying value £m
Equity index derivatives						
- Outflow	-	-	-	**-**	-	**-**
- Inflow	32	30	170	**232**	(20)	**212**

There were no derivative contracts that the DMA intended to terminate before maturity as at 31 March 2008 (or 31 March 2007). Management expects actual undiscounted cash flows in relation to derivatives to be the same as contractual undiscounted cash flows.

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

1. The Treasury shall prepare accounts for the Debt Management Account ("the Account") for the year ending 31 March 2008 and each subsequent financial year that give a true and fair view of the state of affairs of the Account at the balance sheet date and of its income and expenditure, total recognised gains and losses and cash flows for the year then ended. The accounts shall be prepared under the historical cost convention modified to include certain investments at valuation and in accordance with applicable accounting standards and where appropriate, although not subject to the Companies Act and technically not being the accounts of a bank, the special provisions of Schedule 9 of the Companies Act 1985 relating to banking companies.

2. The accounts shall also be consistent with relevant requirements of the Government Financial Reporting Manual, except to the extent set out in sub-paragraphs a. and b. below and shall meet the extra information requirements set out in Appendix A:

   a. An income and expenditure account shall be prepared instead of Schedule 2, the operating cost statement, and both it and the balance sheet shall be prepared in the same format as those required by Schedule 9 of the Companies Act 1985. Schedule 1 (Statement of Parliamentary Supply) and Schedule 5 (Statement of Operating Costs by Departmental Aim and Objectives), are also not relevant;

   b. The accounts shall follow the requirements of FRS 23 (IAS 21) *The Effects of Changes in Foreign Exchange Rates* (instead of SSAP 13, *Foreign Currency Translation*), FRS 25 (IAS 32) *Financial Instruments: Presentation*), FRS 26 (IAS 39) *Financial Instruments: Recognition and Measurement*, and FRS 29 (IFRS 7) *Financial Instruments: Disclosures* (instead of FRS 13 *Derivatives and other financial instruments: disclosures*) other than Appendix E, *Capital Disclosures*;

3. This Accounts Direction shall be reproduced as an Appendix to the Accounts.

4. This Accounts Direction supersedes that issued on 22 June 2006.

David Watkins
Head, Financial Reporting Policy
HM Treasury
12 July 2007

Appendix A

EXTRA INFORMATION REQUIRED TO BE DISCLOSED

1. In addition to meeting appropriate requirements of the Companies Act and the Financial Reporting Manual, the following extra information shall be disclosed, including in order to facilitate the preparation and consistency of Whole of Government Accounts.

Annual Report

2. The Annual Report shall include:

a) A brief history of the Account, and its statutory background;
b) An outline of the scope of the Account, its status in relation to HM Treasury and other central funds, and its management arrangements;
c) A Management Commentary:
   i) Taking into consideration the recommendations outlined in the Accounting Standards Board's Reporting Statement 1, *Operating and Financial Review*; and
   ii) Including appropriate information on financial performance and position reflecting the relationship between the Account and other relevant central funds, and information on targets set by HM Treasury and their achievement.

Notes to the accounts

3. The notes to the accounts shall include the following:

a) Analyses of assets, between fixed and current assets;
b) Analyses of debtors and creditors, between those falling due within and after one year;
c) Where not separately disclosed on the face of the income and expenditure accounts, analyses of income and expenditure giving totals for the following:
   i) Interest receivable and similar income
   ii) Interest payable and similar charges
   iii) Other operating income, including income derived from the provision of services
d) Disclosure of income and expenditure, and assets and liabilities, relating to other central government funds, including the National Loans Fund.

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