United Kingdom
Debt Management
Office

DMO Annual Review 2023-24

19 September 2024

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Foreword by the former DMO Chief Executive

2023-24 was the 26th operational year for the DMO and once again, in addition to the core programme of gilt sales, we successfully delivered our cash management operations, local authority lending via the PWLB lending facility and investment of public sector funds via the Commissioners for the Reduction of the National Debt (CRND).

The market backdrop against which the DMO operated remained challenging. The DMO was not the only significant seller of gilts to the market in 2023-24, as the Bank of England's programme of Asset Purchase Facility sales was conducted in parallel with our operations. This meant that the overall supply of gilts to the market was the largest it has been in the history of the DMO. Our gilt financing requirement was, however, much more stable than in the preceding financing year.

The original gilt financing remit for 2023-24 was announced on 15 March 2023 with planned gilt sales of £241.1 billion (including planned green gilt sales of medium and long conventional gilts totalling £10.0 billion). These sales were to be delivered via 66 gilt auctions and seven syndications. In addition, planned net sales of Treasury bills for debt management purposes of £5.0 billion were announced.

Following publication of the outturn of the 2022-23 financing requirement on 25 April 2023, planned gilt sales for 2022-23 were reduced by £3.3 billion to £237.8 billion, with the reduction delivered by marginally lower average sizes for short and long conventional gilt auctions.

A further modest reduction of £0.5 billion in planned gilt sales, to £237.3 billion, was announced on 22 November 2023 alongside the publication of the Office of Budget Responsibility's Economic and Fiscal Outlook. Overall the DMO's financing requirement for 2023-24 was reduced by £10.5 billion, of which the major part was a £10.0 billion reduction in planned net sales of Treasury bills. This resulted in a £5 billion reduction of net Treasury bill sales for debt management purposes rather than the £5 billion increase envisaged at the start of the year.

The outturn for gilt sales in 2023-24 was £239.1 billion, £1.8 billion above the remit plan, and represented a 41% increase on the £169.5 billion remit in 2022-23. The outturn included green gilt sales of £9.9 billion.

Auctions remained the DMO's primary means of selling gilts, amounting to £204.5 billion (including £20.7 billion of proceeds from the Post Auction Option Facility), and represented 86% of overall sales. The average cover ratio at gilt auctions in 2023-24 was 2.78, a 16% increase compared to 2.39 in 2022-23. Ultimately the DMO undertook 69 gilt auctions in 2023-24.

Auctions were supplemented by seven syndicated offerings (four of conventional gilts and three of index-linked gilts), which raised £34.3 billion (14% of total gilt sales). One gilt tender was held during 2023-24, raising £0.3 billion (0.1% of total gilt sales).

There was sustained demand for Treasury bills in the year and, as with gilts, they continued to attract significant overseas investor interest.

In 2023-24, the DMO also continued to perform strongly in carrying out its cash management function, meeting the financial obligations of the UK government on every business day. The DMO's cash management activities resulted in trading turnover of £5.0 trillion during 2023-24.

The PWLB lending facility has continued to fulfil its statutory function. At 31 March 2024, the loan assets outstanding to the PWLB were £103.7 billion. 808 new loans totalling £11.2 billion were advanced during the financial year.

The DMO again successfully provided a cost-effective service to its clients through the fund management operations of the CRND. The market value of these funds was £100.3 billion at 31 March 2024.

Once again, I need to express my huge gratitude to DMO employees for their outstanding contribution to the DMO's achievements in 2023-24. I also wish to express my thanks to all our market counterparties for their continued support for the government's financing programme.

On this occasion, as I conclude my tenure at the DMO, I would also like to put on record my sincere appreciation for the personal support I have received from colleagues here, at His Majesty's Treasury and in the market since 2003. I wish my successor as Chief Executive, Jessica Pulay, every success in the future.

Sir Robert Stheeman

Chief Executive

26 June 2024

Chapter 1: The Economy and Financial Markets

Macroeconomic developments

Global inflationary pressures continued to subside over the 2023-24 financial year. Headline inflation rates approached their pre-pandemic level in many economies, after peaking in mid-2022. Declining global inflation reflected a number of factors, including the fading of relative price shocks, particularly for energy prices, and the effects of tight monetary policy stances from many central banks around the world.

Global economic activity grew steadily over the financial year, despite higher central bank policy rates aimed at restoring price stability. The resilience in global growth reflected both favourable demand and supply developments. On the demand side, private consumption was buoyed by tight labour market conditions and household spending being supported by a drawdown of accumulated savings from the pandemic era. On the supply side, a resolution of global supply-chain pressures, stronger-than-expected business investment and higher labour force participation rates improved the supply capacity in many regions of the world.

In the UK, real GDP was subdued throughout much of the financial year, with higher energy and food prices, as well as higher interest rates weighing on demand. GDP growth on a quarter-on-quarter (q-o-q) basis was respectively 0.0%, -0.1%, -0.3% and 0.7% in the four quarters of the financial year[1].

With respect to domestic inflation, in the first month of the financial year the UK Consumer Prices Index (CPI) remained elevated at 8.7% year-on-year (y-o-y), significantly above the Bank of England's target rate of 2.0%. Inflation then gradually declined over the financial year, with annual CPI growth slowing to 3.2% in March 2024, its lowest rate since September 2021. Slowing food price inflation and falling prices for electricity and gas were two of the main drivers of the reduction in CPI inflation. Annual growth in the Retail Prices Index (RPI) measure of inflation, which is used to set the cash flows on index-linked gilts, declined considerably over the financial year, from 11.4% in April 2023 to 4.3% in March 2024.

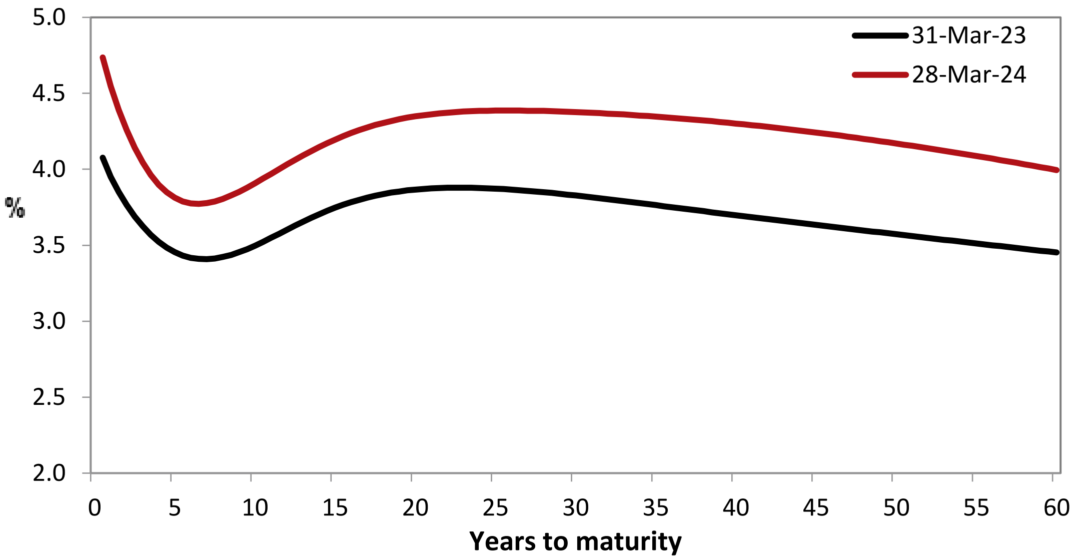
[1] As at June 2024.

Gilt market developments

Nominal par gilt yields[2]

Nominal par gilt yields increased moderately along the curve in 2023-24. 5-year par yields increased by 36 basis points (bp) to 3.81%, 10-year par yields increased by 41bp to 3.91%, 30-year par yields increased by 55bp to 4.38% and 50-year par yields increased by 60bp to 4.17%. See Chart 1.

Chart 1: Nominal par gilt yield curves 2023-24



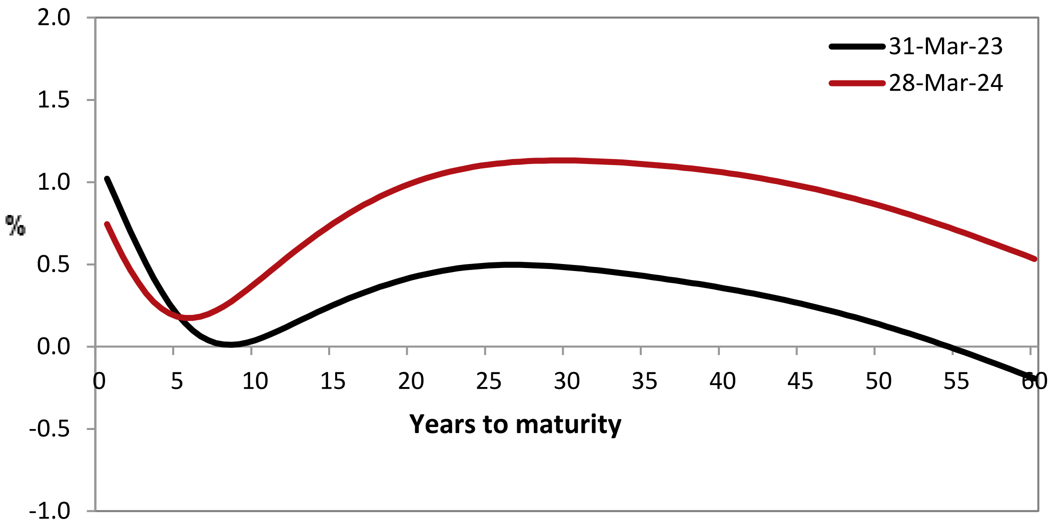
Source: DMO

Real par yields

Real par yields increased significantly across most of the curve, except for sub 5-year yields, which fell. More specifically, real par yields were broadly unchanged at the 5-year point, decreasing just 2bp to 0.18%, while the 50-year real par yield increased by 72bp to 0.86%. At the 10-year and 30-year points, real par yields increased by 35bp to 0.38% and by 65bp to 1.13%, respectively. See Chart 2.

[2] A par yield curve is a graphical representation of the yields of a range of bonds with different maturities, priced at par. On the par yield curve, the coupon rate on each bond will equal the yield-to-maturity of that bond. The changes referred to here are obtained by comparing yields at 31 March 2022 and 31 March 2023.

Chart 2: Real par gilt yield curves 2023-24



Source: DMO

Nominal yields

Chart 3 shows the path of conventional benchmark gilt yields at 5-, 10-, 30- and 50-year maturities in 2023-24. Gilt yields increased over the first half of the financial year, as elevated global inflationary pressures saw central banks continue to tighten monetary policy, before declining somewhat over the second half of the financial year amid expectations that the global tightening cycle had reached its peak. Over the financial year, the yield on the 5-year benchmark gilt increased by 35bp to 3.79%, that on the 10-year by 42bp to 3.92%, that on the 30-year by 62bp to 4.47% and that on the 50-year by 59bp to 3.94%.

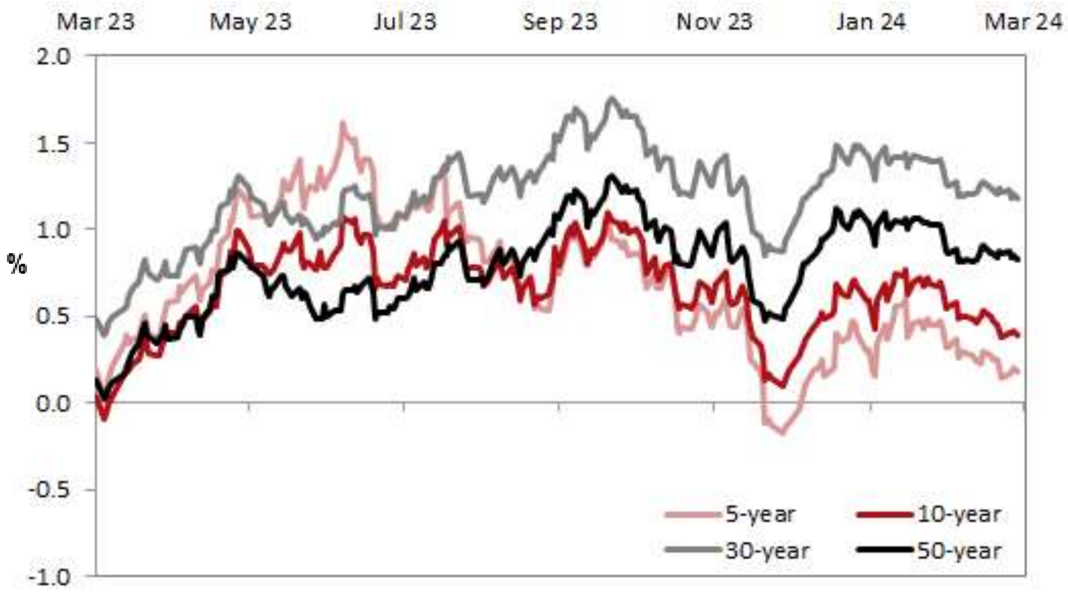
Chart 3: Nominal gilt yields 2023-24

Source: DMO

Real gilt yields

Chart 4 shows the real yields on selected benchmark index-linked gilt maturities in 2023-24. Real yields at longer maturities moved higher over the financial year, while real yields at the shorter maturities ended the financial year relatively unchanged from where they started with the 5-year benchmark real yield which declining by just 1bp to 0.18%. Among longer maturities, the real yield on the 10-year benchmark rose by 35bp to 0.39%, that on the 30-year benchmark rose by 69bp to 1.18% and that on the 50-year rose by 70bp to 0.83%.

Chart 4: Real gilt yields 2023-24



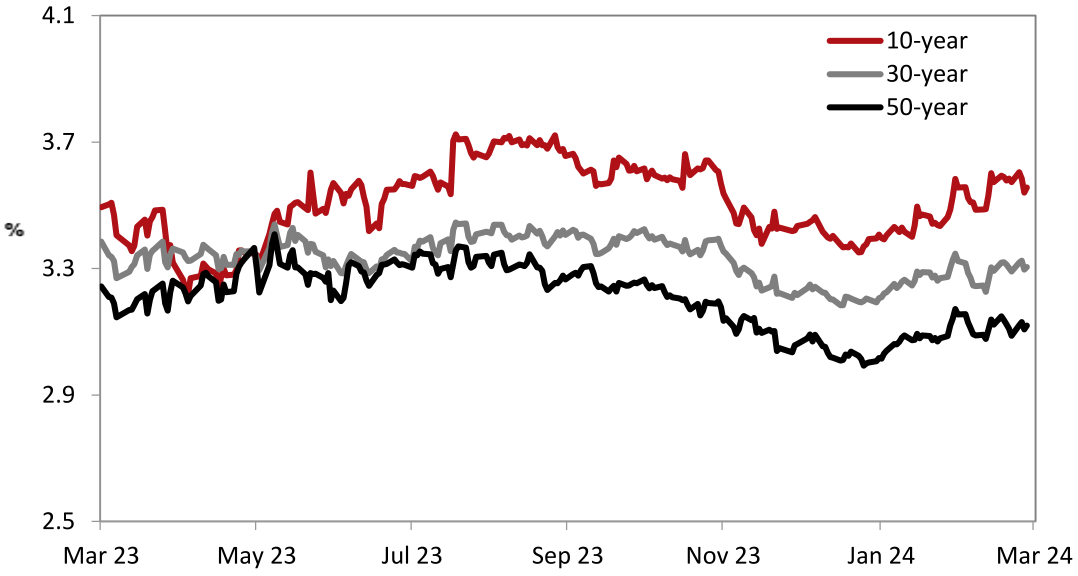
Source: DMO

Break-even inflation rates[3]

Break-even inflation rates (BEIRs) increased over the first six months of 2023-24, and then declined over the final six months to be broadly unchanged over the financial year. 10-year BEIRs increased by 6bp to 3.56%, while 30-year and 50-year BEIRs declined modestly, by 8bp (to 3.30%) and 12bp (to 3.12%) respectively. See Chart 5.

[3] The break-even inflation rate is the annual average inflation rate, which, if realised would equate the nominal yield on a conventional gilt and that on an index-linked gilt of the same maturity, i.e. the rate at which (other things being equal) an investor would be indifferent between holding either type of gilt.

Chart 5: 10-, 30- and 50-year break-even inflation rates 2023-24

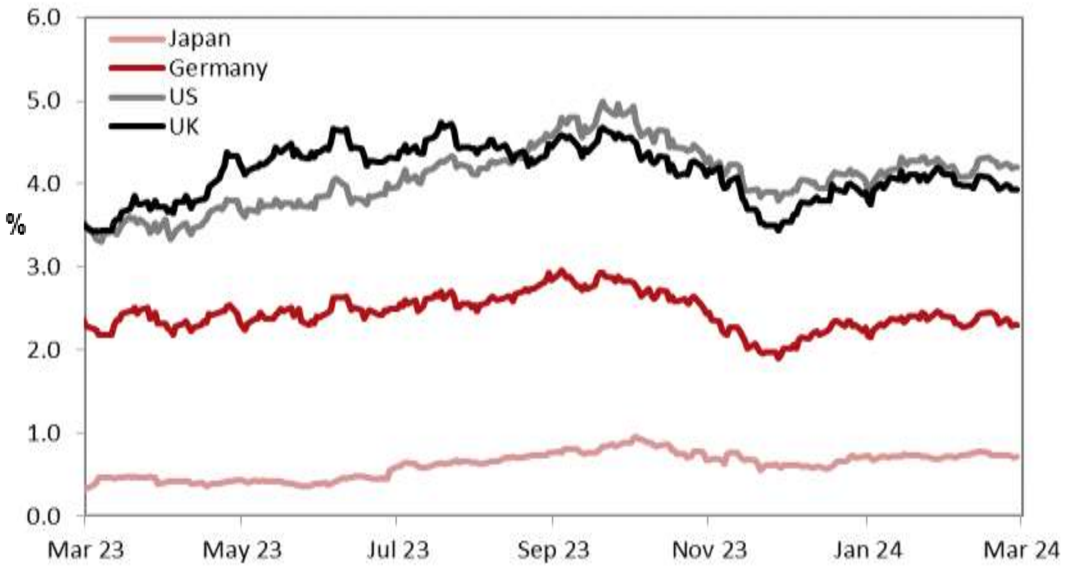


Source: Bloomberg/DMO

International comparisons

Globally, 10-year government bond yields increased over the first half of the financial year in response to continued global monetary policy tightening. Yields in the UK, US and Germany then declined somewhat over the second half of the financial year due to growing expectations for policy rate cuts. Over the financial year as a whole, 10-year yields rose by 44bp in the UK, by 39bp in Japan, and by 73bp in the US, whereas German 10-year yields were unchanged at 2.30%. See Chart 6.

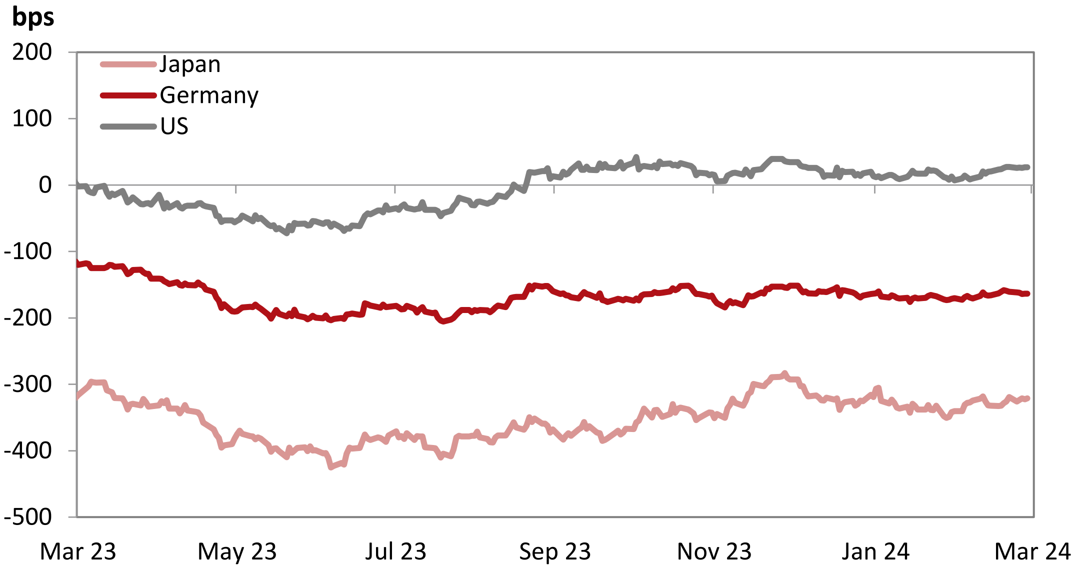
Chart 6: Selected international 10-year benchmark yields 2023-24



Source: Bloomberg

10-year gilts moderately outperformed comparable maturity US Treasuries with the spread increasing by 29bp to finish 2023-24 in positive territory at 29bp. Gilts marginally underperformed comparable German government bonds, with the spread between 10-year gilts and German bonds falling by 44bp to -164bp, while the spread versus 10-year Japanese bonds remained broadly unchanged to finish 2023-24 at -321bp. See Chart 7.

Chart 7: Selected international 10-year benchmark bond yield spreads to 10-year gilts



Source: DMO

Gilt market turnover

Aggregate gilt market turnover in 2023-24, as reported by the Gilt-edged Market Makers (GEMMs)[4] rose by £1,108 billion (12.7%) compared with the previous financial year. Turnover rose in short conventional gilts by 35.4% to £3.01 trillion, in medium conventional gilts by 0.9% to £3.39 trillion, in long conventional gilts by 14.8% to £1.97 trillion and in index-linked gilts by 2.7% to £1.42 trillion. Developments in gilt market turnover are shown in Table 1 and Chart 8 and the growth in the size of the gilt market (by value) over this period is shown in Chart 9.

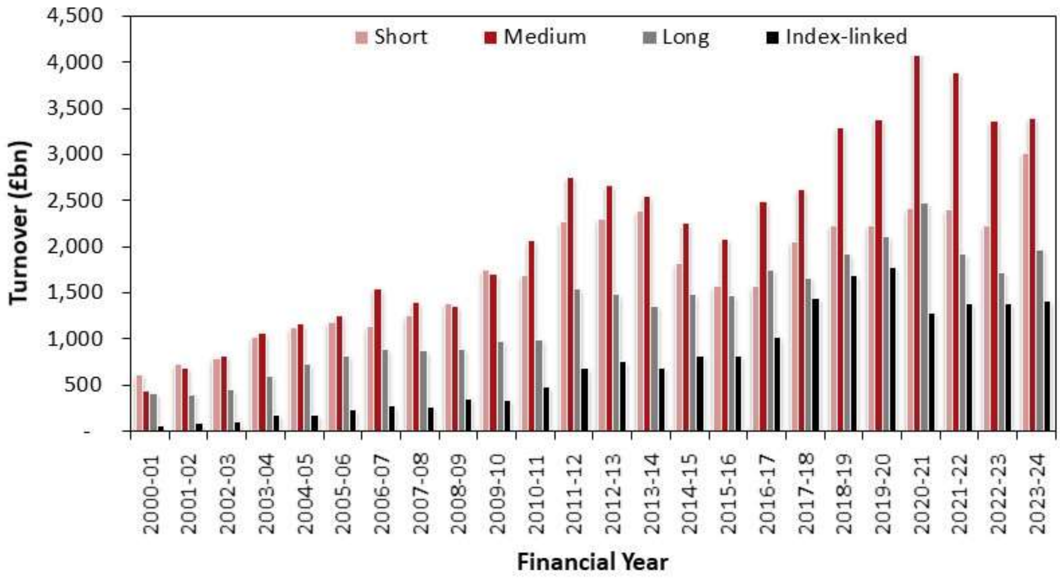
Table 1: Aggregate gilt market turnover (cash terms) by GEMMs 2000-01 to 2023-24 (£ billion)[5]

	Short	Medium	Long	Index-linked	Total
2000-01	608	446	412	65	**1,531**
2001-02	733	692	396	86	**1,907**
2002-03	784	822	460	103	**2,168**
2003-04	1,016	1,071	599	172	**2,858**
2004-05	1,120	1,161	738	176	**3,195**
2005-06	1,186	1,252	825	236	**3,500**
2006-07	1,139	1,548	893	276	**3,856**
2007-08	1,262	1,399	877	271	**3,808**
2008-09	1,389	1,358	894	346	**3,988**
2009-10	1,754	1,702	976	336	**4,769**
2010-11	1,691	2,073	991	485	**5,240**
2011-12	2,280	2,753	1,541	689	**7,263**
2012-13	2,308	2,659	1,488	757	**7,213**
2013-14	2,391	2,555	1,356	690	**6,992**
2014-15	2,145	2,506	1,646	898	**7,196**
2015-16	1,805	2,313	1,615	880	**6,613**
2016-17	1,717	2,670	1,822	1,078	**7,288**
2017-18	2,201	2,817	1,773	1,493	**8,284**
2018-19	2,244	3,321	1,936	1,690	**9,191**
2019-20	2,231	3,375	2,114	1,771	**9,491**
2020-21	2,417	4,275	2,476	1,290	**10,457**
2021-22	2,409	3,885	1,920	1,387	**9,600**
2022-23	2,223	3,365	1,715	1,381	**8,683**
2023-24	3,010	3,394	1,969	1,418	**9,791**

Source: GEMMs

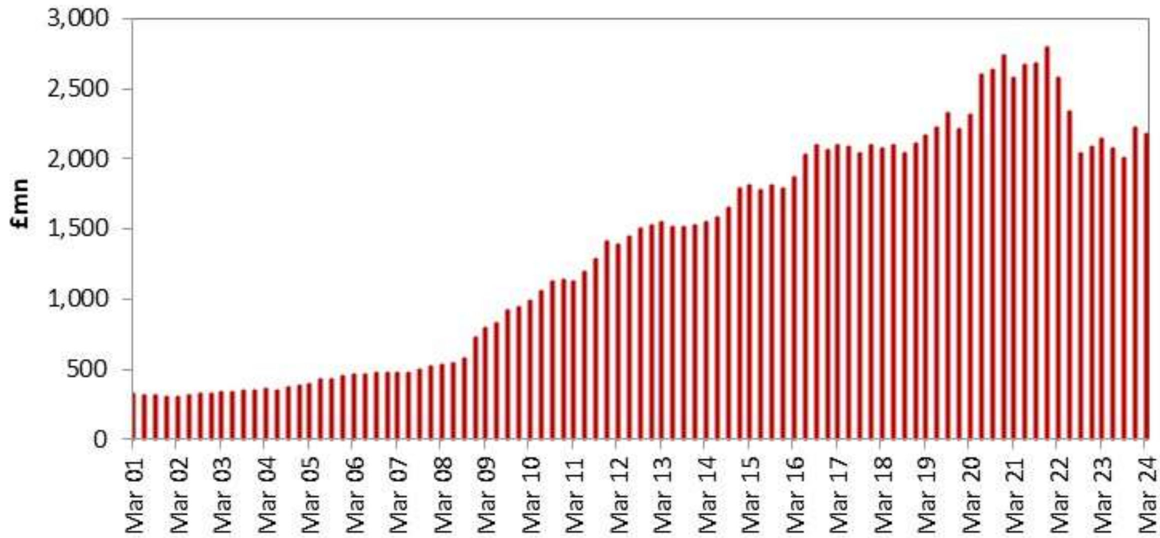
[4] The current list of GEMMs and their addresses are available on the DMO website via https://www.dmo.gov.uk/responsibilities/gilt-market/market-participants/
[5] These data cover only those transactions conducted by GEMMs and are, therefore, not wholly comprehensive in terms of turnover in the entire gilt market. Nevertheless, they should represent a significant proportion of total transaction volume.

Chart 8: GEMM gilt market turnover (cash terms) 2000-01 to 2023-24 (£ billion)



Source: GEMMs

Chart 9: Gilt market (market value) 2000-01 to 2023-24 (£ billion)



Source: DMO

Monetary policy background

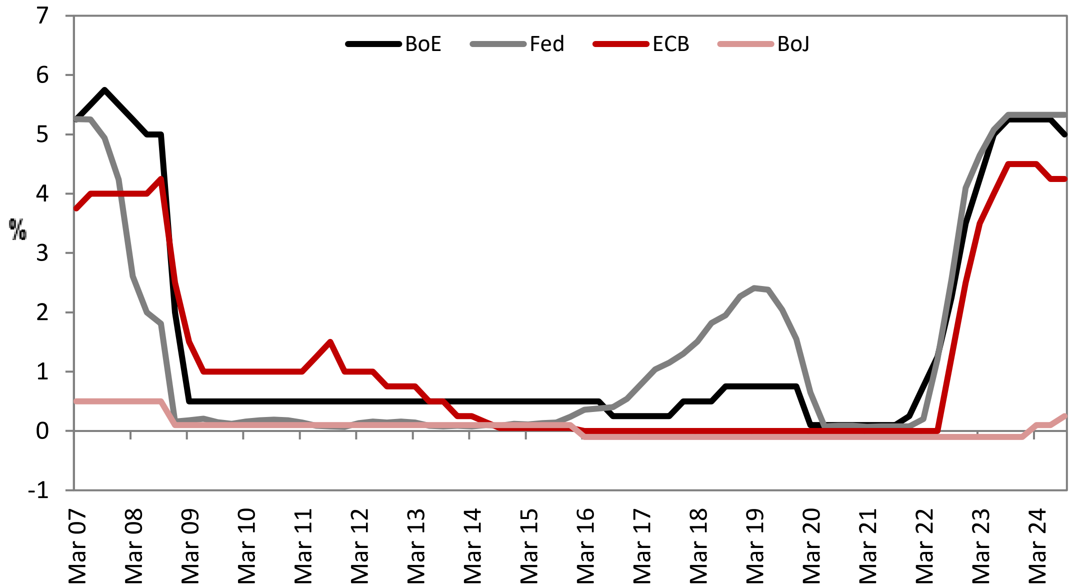
Inflation remained well above the target bands of central banks in many countries at the beginning of the 2023-24 financial year. In response, major central banks further tightened monetary policy at the start of the financial year, before generally holding policy rates at levels estimated by many to be restrictive.

The Bank of England's Monetary Policy Committee (MPC) raised Bank Rate three times at consecutive meetings at the start of the financial year, from 4.25% to 5.25%. Bank Rate was then left unchanged by the MPC for the remainder of the 2023-24 financial year. At its September 2023 meeting, the MPC voted to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the period from October 2023 to September 2024, to a total of £658 billion. This reduction would be achieved by a combination of active sales and redemptions.

The European Central Bank (ECB) raised the interest rate on its main refinancing operations four times over the 2023-24 financial year, from 3.50% to 4.50%. On 4 May 2023 the ECB Governing Council announced it expected to discontinue reinvestments under the asset purchase programme (APP) as of July 2023. On 15 June 2023 the Governing Council confirmed that reinvestments under the APP would be discontinued as of July 2023.

In the US, the Federal Reserve raised the Federal Funds Rate (FFR) target rate range twice over the 2023-24 financial year. These increases took place at the May 2023 and July 2023 policy meetings respectively. The FFR target range remained unchanged at 5.25% to 5.50% for the remainder of the financial year. The size of the Federal Reserve's balance sheet continued to decline over the financial year, from around $8.6 trillion in April 2023 to $7.5 trillion by the end of March 2024.

Chart 10: Major central bank rates



Source: Bloomberg

Chapter 2: Government Debt Management

DMO financing remit for 2023-24

The DMO's initial gilt financing remit for 2023-24 was announced at the Spring Budget on 15 March 2023, with planned gilt sales of £241.1 billion. It was planned that these sales would be delivered via 66 gilt auctions and seven syndications. It was announced that green gilt sales of £10.0 billion were planned for 2023-24, with an expectation that sales would focus on re-openings of the existing two green gilts.

The structure of the original gilt financing remit for 2023-24 is summarised in Table 2.

Table 2: Original remit structure for 2023-24

(£ billion proportions in brackets)	Auction	Syndication	Gilt tender	Unallocated	Total
Short	86.7	-	-	-	86.7 (36.0%)
Medium[1]	65.3	-	-	-	65.3 (27.1%)
Long[2]	32.9	18.0	-	-	50.9 (21.1%)
Index-linked	17.2	9.0	-	-	26.2 (10.9%)
Unallocated	-	-	-	12.0	12.0 (5.0%)
Total	**202.1 (83.8%)**	**27.0 (11.2%)**	**- -**	**12.0 (5.0%)**	**241.1**

Figures may not sum due to rounding.

Source: DMO

[1]Including green gilt sales.
[2]Including green gilt sales.

This remit structure is compared with outturn remits since 2007-08 (the financial year before the supplementary issuance methods of syndications and gilt tenders were introduced) in Table 3.

Table 3: Remit structures since 2007-08

	Cash raised (£bn) via			Total gilt sales (£bn)	Cash raised (%) via		
	Auctions*	Syndications	Tenders		Auctions	Syndications	Tenders
2007-08	58.5	0.0	0.0	58.5	100.0%	0.0	0.0
2008-09	138.3	0.0	8.1	146.5	94.4%	0.0	5.6%
2009-10	187.0	30.5	10.1	227.6	82.2%	13.4%	4.4%
2010-11	133.1	26.9	6.3	166.4	80.0%	16.2%	3.8%
2011-12	142.5	34.5	2.6	179.4	79.4%	19.2%	1.4%
2012-13	126.0	32.8	6.3	165.1	76.3%	19.9%	3.8%
2013-14	124.5	23.3	5.6	153.4	81.2%	15.2%	3.7%
2014-15	105.6	19.6	1.2	126.4	83.5%	15.5%	0.9%
2015-16	99.5	26.6	1.7	127.7	77.9%	20.8%	1.3%
2016-17	112.0	33.0	2.6	147.6	75.9%	22.4%	1.8%
2018-19	79.4	19.2	0.0	98.6	80.5%	19.5%	0.0%
2019-20	115.1	20.4	2.4	137.9	83.5%	14.8%	1.7%
2020-21	429.5	52.3	3.9	485.8	88.4%	10.8%	0.8%
2021-22	151.6	43.0	0.0	194.7	77.9%	22.1%	0.0%
2022-23	144.1	24.0	1.4	169.5	85.0%	14.1%	0.8%
2023-24 Initial remit**	**202.1**	**27.0**	**0.0**	**241.1**	**85.0%**	**11.2%**	**0.0%**

** includes PAOF proceeds. **In addition there was an initially unallocated portion of £12.0 billion (5.0%). Figures may not sum due to rounding*

In addition, net Treasury bill issuance for debt management purposes of £5.0 billion was announced for 2023-24.

On 25 April 2023 a £3.3 billion reduction in planned gilt sales was announced alongside the publication of the outturn for the Central Government Net Cash Requirement (excluding NRAM ltd, Bradford & Bingley and Network Rail) (CGNCR ex NRAM, B&B and NR) in 2022-23.

Planned gilt sales declined from £241.1 billion to £237.8 billion, achieved by a planned reduction of £2.1 billion in sales of short conventional gilts and a planned reduction of £1.2 billion in sales of long conventional gilts. The reductions were planned to be implemented via marginally lower average short and long conventional gilt auction sizes.

There were no changes to the planned syndication programme in 2023-24 alongside the 25 April 2023 announcement. The size of the unallocated portion of gilt issuance (£12.0 billion) and planned green gilt issuance (£10.0 billion) were also both unchanged.

There was also no change to the planned increase in the Treasury bill stock for debt management purposes in 2023-24, which remained at £5.0 billion.

The structure of the gilt financing remit for 2023-24 at the first in-year revision is summarised in Table 4.

Table 4: Revised remit structure for 2023-24 (April 2023)

(£ billion proportions in brackets)	Auction	Syndication	Gilt tender	Unallocated	Total
Short	84.6	-	-	-	84.6 (35.6%)
Medium[1]	65.3	-	-	-	65.3 (27.5%)
Long[2]	31.7	18.0	-	-	49.7 (20.9%)
Index-linked	17.2	9.0	-	-	26.2 (11.0%)
Unallocated	-	-	-	12.0	12.0 (5.0%)
Total	**198.8 (83.6%)**	**27.0 (11.4%)**	**- -**	**12.0 (5.0%)**	**237.8**

Figures may not sum due to rounding.

Source: DMO

[1]Including green gilt sales.
[2]Including green gilt sales.

Following the publication of the Office for Budget Responsibility's (OBR's) Economic and Fiscal Outlook (EFO) at the Autumn Statement on 22 November 2023, the DMO's Net Financing Requirement (NFR) for 2023-24 was reduced by £10.5 billion to £232.3 billion. This reduction was principally managed by a £10.0 billion reduction in net Treasury bill issuance for debt management purposes, taking the planned net contribution to financing from such bills in 2023-24 to -£5.0 billion.

There was also a £0.5 reduction in planned gilt sales, taking the planned total in 2023-24 to £237.3 billion.

The remaining unallocated portion of issuance prior to the Autumn Statement revision was £10.7 billion. This was reduced by £0.5 billion, and two transfers were made from the unallocated portion.

Firstly, £4.3 billion was transferred to the gilt auction programme. Three gilt auctions (one each of a short and medium conventional, and one index-linked) were added, taking the planned total number of auctions in 2023-24 to 69.

Secondly, £3.4 billion was transferred to syndication programme, increasing planned gilt sales in 2023-24 via syndication to £31.4 billion. The planned number of syndications in 2023-24 remained unchanged at seven.

The structure of the gilt financing remit for 2023-24 at the November 2023 revision is summarised in Table 5.

Table 5: Revised remit structure for 2023-24 (November 2023)

(£ billion proportions in brackets)	Auction	Syndication	Gilt tender	Unallocated	Total
Short	86.6	-	-	-	86.6 (36.5%)
Medium[1]	68.3	-	-	-	68.3 (28.8%)
Long[2]	30.2	20.8	0.3	-	51.3 (21.6%)
Index-linked	18.0	10.6	-	-	28.6 (12.1%)
Unallocated	-	-	-	2.5	2.5 (1.1%)
Total	**203.1 (85.6%)**	**31.4 (13.2%)**	**0.3 (0.1%)**	**2.5 (1.1%)**	**237.3**

Figures may not sum due to rounding.

Source: DMO

[1]Including green gilt sales.
[2]Including green gilt sales.

The outturn for gilt sales in 2023-24 was £239.1 billion (£1.8 billion above the remit plan). The details are shown in Table 6. Green gilt issuance raised a total of £9.9 billion (cash).

Table 6: Gilt sales outturn 2023-24

(£ million)	Conventional gilts			Index-linked gilts	Total
	Short	Medium	Long		
Auction proceeds	76,310	63,553	27,635	16,383	183,881
PAOF proceeds	10,363	5,688	2,972	1,631	20,654
Auction and PAOF proceeds	**86,673**	**69,242**	**30,607**	**18,014**	**204,536**
Syndication sales	-	-	22,641	11,641	34,282
Gilt tender sales	-	-	263	-	263
Total gilt sales	**86,673**	**69,242**	**53,511**	**29,655**	**239,081**
Number of auctions held	20	20	15	14	69
Syndications held	-	-	4	3	7
Gilt tenders held	-	-	1	-	1
Total planned gilt sales	**-**	**-**	**-**	**-**	**237,300**

Figures may not sum due to rounding.

Source: DMO

Pace of financing in 2023-24

As shown in Table 7, gilt sales averaged around £20.7 billion per month over the first four months of the financial year. The pace of monthly gilt sales then declined slightly from August to October 2023, averaging £16.1 billion per month, before picking up again to £21.6 billion in the final five months of the financial year.

Table 7: Monthly gilt sales in 2023-24

(£bn)	Gilt sales	Cumulative	% of total
Apr-23	21.9	21.9	9.2
May-23	21.0	42.9	17.9
Jun-23	19.4	62.3	26.1
Jul-23	20.5	82.8	34.6
Aug-23	11.6	94.4	39.5
Sep-23	18.3	112.6	47.1
Oct-23	18.5	131.2	54.9
Nov-23	24.1	155.2	64.9
Dec-23	14.1	169.3	70.8
Jan-24	27.6	196.9	82.3
Feb-24	23.0	219.8	92.0
Mar-24	19.2	239.1	100.0

Source: DMO

Chart 11 shows how these sales accumulated over the financial year towards the final gilt sales outturn, relative to a counterfactual even-flow delivery of that outturn.

Chart 11: Cumulative gilt financing over 2023-24

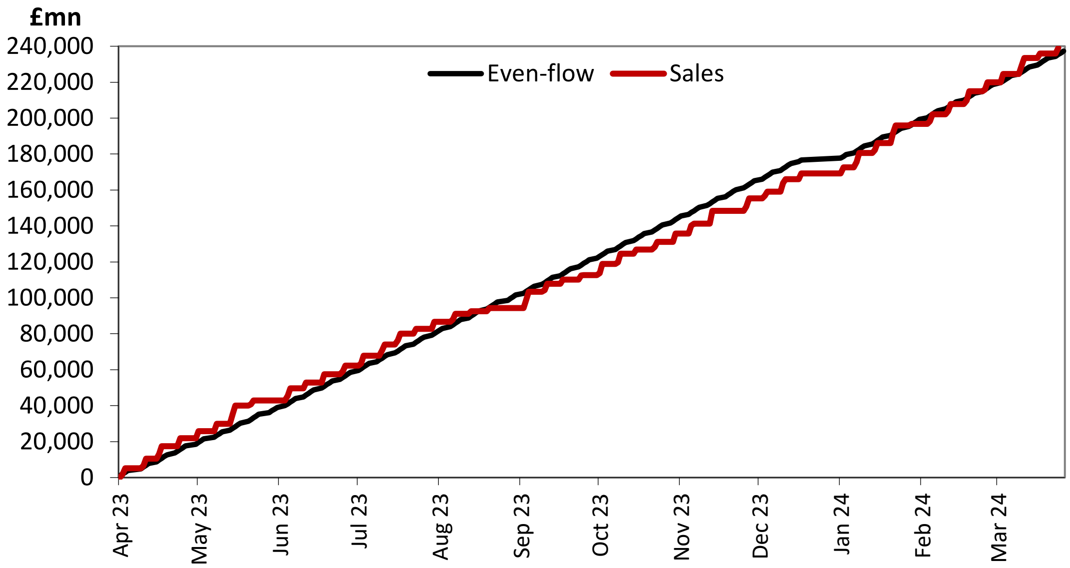
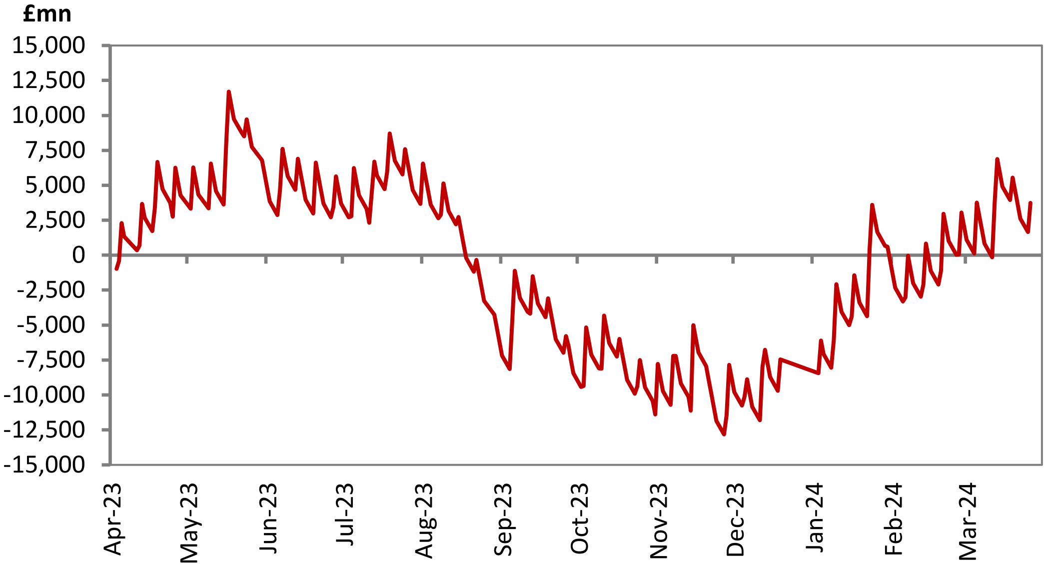


Chart 12 shows in more detail the cumulative proceeds from all gilt sales operations, compared with a counterfactual even-flow pace of financing required to deliver the final gilt sales total in 2023-24. Over the first four months of the year, cumulative financing was running at around £5 billion above an even-flow position. However, this surplus relative to the counterfactual even-flow pace then declined through the summer and early Autumn period, before rising again over the final four months of the financial year.

Chart 12: Cumulative financing relative to the even-flow position[6] 2023-24



Source: DMO

[6] The even-flow counterfactual assumes that the same amount of cash is raised on every business day sufficient to meet the final total annual gilt sales requirement.

The gilt financing arithmetic

The initial financing arithmetic for 2023-24, as published at Spring Budget 2023, was restated as usual at the April 2023 CGNCR ex NRAM, B&B and NR outturn[7], and again in the November 2023 remit revision. Developments in the 2023-24 financing arithmetic are shown in Table 8.

Table 8: The 2023-24 financing arithmetic[8]

(£ billion)	Spring Budget 2023	April 2023 revision	November 2023 revision	April 2024 outturn
CGNCR (ex NRAM, B&B and NR)	159.5	159.5	150.5	158.8
Gilt redemptions	117.0	117.0	117.0	117.0
Financing adjustment carried forward from previous financial years	-21.3	-24.6	-24.6	-24.6
Gross financing requirement	**255.1**	**251.9**	**242.8**	**251.1**
less:				
NS&I net financing	7.5	7.5	7.5	11.3
NS&I Green Savings Bonds	n.a.	n.a.	n.a	1.0
Other financing[9]	1.5	1.5	3.0	-1.7
Net financing requirement (NFR) for the DMO	**246.1**	**242.8**	**232.3**	**240.6**
DMO's NFR will be financed through:				
a) Gilt sales of which:	**241.1**	**237.8**	**237.3**	**239.1**
Short conventional gilts	86.7	84.6	86.6	86.7
Medium conventional gilts	65.3	65.3	68.3	69.2
Long conventional gilts	50.9	49.7	51.3	53.5
Index-linked gilts	26.2	26.2	28.6	28.7
Unallocated amount of gilts	12.0	12.0	2.5	0.0
b) Total net contribution of Treasury bills for debt financing	**5.0**	**5.0**	**-5.0**	**-5.1**
Total financing	**246.1**	**242.8**	**232.3**	**234.0**
DMO net cash position	2.3	2.3	2.3	-4.2

Source: DMO

[7] Central Government Net Cash Requirement (excluding NRAM ltd, Bradford and Bingley, and Network Rail).
[8] Figures may not sum due to rounding.
[9] Prior to publication of the end-year outturn in April each year, this financing item will mainly comprise estimated revenue from coinage. At outturn it will include outturn revenue from coinage and additional financing through non-governmental deposits, certificates of tax deposit and foreign exchange transactions relating to the Exchange Equalisation Account.

Gilt financing operations

The DMO held a total of 77 financing operations in 2023-24, 11 more than in the previous financial year. In addition, the Post Auction Option Facility (PAOF) was activated, in whole or in part, at 40 of the 69 gilt auctions; including these transactions, there was a total of 117 gilt sales operations in 2023-24. The history of DMO outright gilt sales operations is shown in Table 9.

Table 9: DMO outright gilt sales operations history 1998-99 to 2023-24

	Cash raised (£bn) and number and type of operations						
	Auctions	Syndications	Tenders*	Taps**	Residual tenders***	Total	Gilt sales (£bn)
1998-99	4			4		8	8.2
1999-00	8			1	1	10	14.4
2000-01	7					7	10.0
2001-02	8					8	13.7
2002-03	13				1	14	26.3
2003-04	24					24	49.9
2004-05	26					26	50.1
2005-06	25	1				26	52.3
2006-07	36					36	62.5
2007-08	34					34	58.5
2008-09	58		8			66	146.5
2009-10	58	6	12		1	77	227.6
2010-11	49	5	7			61	166.4
2011-12	49	8	3			60	179.4
2012-13	44	8	4			56	165.1
2013-14	43	5	4			52	153.4
2014-15	41	4	1			46	126.4
2015-16	39	6	2			47	127.7
2016-17	48	7	3			58	147.6
2017-18	40	5	1			46	115.5
2018-19	36	4				40	98.5
2019-20	43	5	4			52	137.9
2020-21	150	7	2			159	485.8
2021-22	64	7				71	194.7
2022-23	59	6	1			66	169.5
2023-24	69	7	1			77	239.1

Mini-tenders from 2008-09 to 2015-16. Gilt tenders thereafter.

***Index-linked taps in 1998-99. Tap for market management in 1999-2000.*

**** Tenders of residual stock from uncovered auctions.*

Source: DMO

- ### Gilt auctions

Auctions (including the associated PAOF proceeds) accounted for £204.5 billion or 85.6% of gross gilt sales in 2023-24. Of the 69 auctions held, 20 were of short, 20 of medium and 15 were of long conventional gilts, and 14 were of index-linked gilts[10].

The average cover ratio at gilt auctions in 2023-24 was 2.78x, an increase on the average of 2.39x in 2022-23. The average concentration of bidding at conventional gilt auctions, as

[10] The results of gilt auctions and other operations are available on the DMO's website at: https://www.dmo.gov.uk/data/gilt-market/results-of-gilt-operations/

measured by the tail[11], was an average of 0.7bp, a slight decrease from an average tail of 0.9bp in the previous financial year. Details are shown in Table 10.

Table 10: Auction cover and tail 2022-23 and 2023-24

	Average cover ratio (x)		Average yield tail (bp)	
	2023-24	**2022-23**	**2023-24**	**2022-23**
Short conventional	2.70	2.26	0.8	1.0
Medium conventional	2.86	2.43	0.7	0.9
Long conventional	2.73	2.45	0.8	0.9
Index-linked	2.85	2.49	N/A	N/A
All	**2.78**	**2.39**	**0.7**	**0.9**

Source: DMO

- **PAOF**

PAOF was taken-up in whole or in part at 40 of the 69 auctions held in 2023-24 raising £20.7 billion. The rate of take-up declined slightly compared with 2022-23, but, at 44.9% of the options available remained close to the level that might be expected (i.e. over the year as a whole on any operation day, the option may be equally likely to be in or out of the money at the close of the window). Recent PAOF performance is summarised in Table 11.

Table 11: PAOF performance 2020-21 to 2023-24

	Rate (%)	Take-up (%)	Take-up rate* (%)	Proceeds (£bn)
2020-21	25.0	13.1	52.4	49.6
2021-22	25.0	12.1	48.4	16.4
2022-23	25.0	11.9	47.5	15.3
2023-24	25.0	11.2	44.9	20.7
*The percentage of total available PAOF that was taken-up in the financial year.				

Source: DMO

[11] The tail is the difference in basis points between the yield at the average and lowest accepted prices at multiple price auctions (conventional gilts only).

- ## Syndicated offerings

Seven syndicated offerings were held in 2023-24, raising £34.3 billion or 14.3% of gross gilt sales. The results of the syndication programme in 2023-24 are summarised in Table 12.

Table 12: Syndications in 2023-24

Date	Gilt	Size (£mn nominal)	Issue Price (£)	Issue Yield (%)	Proceeds (£mn cash)
26 Apr 2023	0⅝% Index-linked Treasury Gilt 2045	4,500	99.40	0.654	4,464
16 May 2023	4% Treasury Gilt 2063	5,500	97.66	4.119	5,359
13 Jul 2023	0⅝% Index-linked Treasury Gilt 2045	3,500	88.32	1.241	3,169
05 Sep 2023	4% Treasury Gilt 2063	5,000	88.13	4.656	4,396
15 Nov 2023	4¾% Treasury Gilt 2043	7,000	101.48	4.636	7,090
23 Jan 2024	4⅜% Treasury Gilt 2054	6,000	96.81	4.570	5,796
13 Mar 2024	1¼% Index-linked Treasury Gilt 2054	4,000	100.40	1.235	4,008
Total					**34,282**

Source: DMO

Green gilt issuance

In the third year of the government's Green Financing Programme (the Programme), green gilt issuance in financial year 2023-24 raised a total of £9.9 billion (cash) across six auctions (Table 13). The focus was on continuing to re-open the existing medium and long maturity green gilts first issued in 2021, in order further to build up liquidity in these gilts. At the end of 2023-24, these gilts had a combined £47.1 billion nominal in issue (£27.5 billion for the 2033 maturity and £19.6 billion for the 2053 maturity).

Table 13: Green gilt issuance in 2023-24

Date	Gilt name	Operation	Cash proceeds (£mn)	Cover ratio (x)
24-May-23	0⅞% Green Gilt 2033	Auction	2,172	3.02
04-Jul-23	1½% Green Gilt 2053	Auction	1,041	2.64
26-Sep-23	0⅞% Green Gilt 2033	Auction	2,180	2.56
03-Oct-23	1½% Green Gilt 2053	Auction	1,050	2.83
06-Dec-23	0⅞% Green Gilt 2033	Auction	2,237	2.66
06-Feb-24	1½% Green Gilt 2053	Auction	1,265	3.05

Publication of the UK Green Financing Allocation and Impact Report

In line with its reporting commitments, the government published its second allocation and the first impact report for the Programme in September 2023. In order to ensure transparency, the government has committed to annual reporting on the allocation of green expenditure and biennial reporting on environmental impacts and social co-benefits. The report presented impact data, where available, from 27 expenditures, and allocation data from 51 expenditures, all financed by the Programme. These expenditures covered all six categories for eligible green expenditure identified in the Framework; clean transportation; renewable energy; energy efficiency; pollution prevention and control; living and natural resources; and climate change adaption.

Spring Budget 2024

As announced alongside Spring Budget 2024, green gilt issuance of £10.0 billion (cash) is planned in 2024-25, the fourth year of the Programme. The expectation is that the focus in 2024-25 will continue to be on further re-openings of the two existing green gilts. This approach will be kept under review taking into account market conditions.

All reports and documents relating to green gilts are available in the Green Gilts section of the DMO's website[12].

[12] https://www.dmo.gov.uk/responsibilities/green-gilts/.

Debt management performance

This section includes data on the DMO's performance in the execution of the gilt financing remit in 2023-24.

HM Treasury's annual Debt Management Report (DMR) sets out how the government's debt management objective – to minimise the cost of borrowing over the long run taking account of risk – shapes both the debt management framework and the forthcoming annual financing remit which the DMO is charged with delivering. Detailed information on developments in debt management and the gilt market over the previous financial year are then reported in this Annual Review. This section includes a brief overview of debt management performance considerations as well as an analysis of the performance of the remit and data on the DMO's performance in the execution of the gilt financing remit in 2023-24.

The challenges of producing a robust performance measure for debt management are well understood by HM Treasury, the DMO and by peer sovereign issuers. The outcomes of debt management are generally subject to significant 'external' influences including monetary policy and macroeconomic conditions, which lie outside of the issuer's control. Although a counterfactual analysis can be constructed, a number of important simplifying assumptions are needed in order to do so, which make it inappropriate to rely on this analysis as the sole means to assess debt management performance.

As reflected in the DMR, there are ways in which the issuer can contribute to minimising the long term cost of debt management, primarily through reducing unnecessary premia demanded by investors in the form of higher yields over and above the fundamental value of the debt. The issuer can contribute to lowering premia in yields by reducing uncertainty from the investor perspective. For example, this is achieved by the DMO consistently taking a predictable and transparent approach to debt issuance following open engagement with market participants, thereby growing confidence amongst market stakeholders that its actions will avoid introducing unnecessary volatility into the market. The DMO also takes steps to encourage the development of a liquid and efficient gilt market. For example, the DMO builds individual gilts to large sizes thereby increasing the ease with which transactions in the market can be conducted and the attractiveness of the products to investors. This may have the effect of reducing premia such as might otherwise be demanded by investors to compensate for illiquidity, in turn reducing cost to the issuer.

Whilst it is challenging to produce a measure that captures all of the above considerations, the government recognises the need continually to review and improve on how it manages the costs and risks associated with debt management. HM Treasury and the DMO will therefore seek to continue improving the evidence base, and will report further on their approach to performance measurement in forthcoming publications.

Below are presented two analyses which have been regularly reported on in this annual publication. In addition, Table 10 above is relevant in a performance measurement context as it reports on the average cover ratios at all gilt auctions in 2023-24 and on the concentration of bidding (the tail) at conventional gilt auctions.

Analysis (a) compares the actual cost of gilt issuance (measured by the average yield at which gilts were sold in accordance with the DMO's financing remit) with illustrative counterfactual costs of different patterns of gilt financing. Analysis (b) looks at the performance of gilt auctions by comparing the average accepted/strike price of an auction with prevailing secondary market price levels.

a) Gilt issuance counterfactuals

Since 2001 the DMO has published in its Annual Reviews the results of its measurement of relative performance of outright issuance in each financial year against counterfactuals. Although the UK's debt management objective is concerned with minimising the cost of issuance "over the long term" rather than in any one year, the intention here is to illustrate whether different non-discretionary issuance patterns during a particular year could theoretically have resulted in higher or lower costs of financing.

The calculations compare the cash weighted yield of actual issuance with the yield on various counterfactual issuance patterns but on the basis of a key assumption that the different issuance patterns modelled would not have impacted the levels of yields relative to those achieved in practice (see below).

There are a number of limitations to this analysis. In particular, a major assumption that is unlikely to hold in practice is that the shape of the yield curve remains fixed over time. This is particularly relevant when considering the refinancing timeframes associated with different maturities of debt (i.e. short issuance needs to be refinanced much more frequently than long issuance) so this analysis is not comparing like-for-like in this regard. In principle, therefore, if yields evolve as reflected by the forward yield curve it would be too simplistic to say that, in any one year, one issuance pattern has outperformed another.

Another relevant assumption is that the counterfactual issuance patterns themselves would not have had any impact on yields. This is unlikely to hold in practice particularly where the gilt issuance pattern under the counterfactual is significantly different from actual issuance (e.g. a heavy skew to a certain maturity). Whilst it is likely, certainly over the medium- to longer-term, that the greatest influences on the level of yields will be macroeconomic conditions, market expectations of interest rates, and other external factors over which the debt manager has no control, establishing the extent to which changes in volumes and patterns of supply might affect yields is more difficult.

The underlying rationale for considering issuance performance against counterfactuals is that it provides one means by which to analyse the performance of the debt management authorities in achieving the debt management objective, in particular regarding the decisions on the split between maturities/types of gilt sold in a given year. It is worth noting in this context that measuring performance against the primary debt management objective is not straightforward, a fact widely acknowledged by many other sovereign debt managers and international institutions. Hence, presentation of annual counterfactuals should not be interpreted as a complete or authoritative means by which to test achievement against the debt management objective – which as noted above is a long-term test. For these reasons, caution is required when interpreting the yield impact of counterfactual issuance patterns in comparison with the actual issuance yield.

The cash weighted average yield of actual issuance at the gilt auctions and syndicated offerings in 2023-24 was 4.307% (112.9bp higher than the 3.178% in the previous financial year).

The cash weighted average yield of issuance by type of gilt and maturity is shown in Table 14. Note that the index-linked yields reported in Tables 14 and 15 are nominalised yield equivalents of real yields assuming 3% RPI inflation.

Table 14: Average issuance yield by type and maturity of gilt in 2023-24

	Cash (£mn)	Yield (%)
Conventional		
Short	86,673	4.415
Medium	69,242	4.180
Long	53,511	4.490
Total conventional	**209,426**	**4.356**
Index-linked		
Medium	10,086	3.689
Long	19,569	4.021
Total index-linked	**29,655**	**3.908**
All issuance	**239,081**	**4.307**

Source: DMO

The actual yield of 4.307% can be compared with yields derived by applying the actual annual cash weighted yield on total issuance for that year of different maturities/types of gilt to different gilt issuance patterns. Table 15 contrasts the actual average issuance yield in 2023-24 with three counterfactuals which assume the same yields by maturity and type as shown above, but with alternative issuance skews, namely:

- a significantly greater skew towards short issuance;
- a more even distribution of financing between maturity buckets; and
- a significantly greater skew towards long issuance.

Table 15: Illustrative average issuance yields assuming different issuance distributions

	Yield (%)	Actual distribution £mn	Shorter distribution £mn	Even distribution £mn	Longer distribution £mn
Conventional					
Short	4.415	86,673	104,713	69,809	52,357
Medium	4.180	69,242	52,357	69,809	52,357
Long	4.490	53,511	52,357	69,809	104,713
Total conventional	**4.356**	**209,426**	**209,426**	**209,426**	**209,426**
Index-linked					
Medium	3.689	10,086	22,241	14,827	7,414
Long	4.021	19,569	7,414	14,827	22,241
Total index-linked	**3.908**	**29,655**	**29,655**	**29,655**	**29,655**
All issuance		**239,081**	**239,081**	**239,081**	**239,081**
Average issuance yield	**4.307%**	**4.307%**	**4.300%**	**4.299%**	**4.337%**
Difference (bp)			**-0.7**	**-0.8**	**3.0**

Figures may not sum due to rounding.

Source: DMO

The more even distribution to financing by maturity produces an average yield of issuance 0.8bp lower than the actual average yield. The shorter distribution[13] produces an implied issuance yield 0.7bp lower than the actual average yield while the longer distribution[14] produces an issuance yield 3.0bp higher than the actual average yield, reflecting the higher proportion of higher yielding long maturity gilts.

The results from counterfactual modelling of this kind need to be considered in the context of an objective that requires the DMO (and many other sovereign issuers with similar objectives) to pursue policies designed to minimise long-term cost whilst taking account of the risks to which debt issuance exposes the Exchequer; i.e. the DMO does not seek exclusively to minimise yield at the expense of other considerations. In order to determine the maturity and composition of debt issuance, the government takes into account a number of factors including:

- the government's own appetite for risk, both nominal and real;
- the shape of both the nominal and real yield curves; and
- investors' demand for gilts.

[13] This skew assumes 50% of conventional issuance is short with medium and long shares of 25% each. Index-linked issuance is assumed to be split 75% medium/25% long.
[14] This skew assumes 50% of conventional issuance is long with short and medium shares of 25% each. Index-linked issuance is assumed to be split 25% medium/75% long.

b) Auction concession analysis

As set out in the DMR, auctions remain the government's primary method of issuing gilts. This analysis aims to shed light on the performance of auctions as an issuance method in the last financial year. There are a number of ways to measure auction performance and in particular whether the prices achieved by the auction process are fair and effective. The method presented below shows the value of any price concession/premium at gilt auctions by measuring the difference between the actual proceeds received and those that would have been generated had each gilt at auction been sold at the secondary market price of the gilt prevailing at the close of bidding i.e. at 10.00am or 11.30am on the two occasions (17 January and 14 February 2024) when the bidding window was changed to accommodate data events.

On this basis, a total premium of £115.0 million was achieved across the 70 gilt operations (69 auctions and one gilt tender) held in 2023-24: an average of £1.7 million per auction. The average premia for auctions at the different maturities and types of gilt were as follows[15]:

- Short conventional: £0.8 million
- Medium conventional: £2.0 million
- Long conventional: £2.0 million
- Index-linked: £1.8 million

[15] The premium at the one gilt tender held in 2023-24 was £0.8 million.

The DMO’s financing remit in 2024-25

The DMO’s financing remit for 2024-25 was published alongside the Spring Budget on 6 March 2024. Planned gilt sales of £265.3 billion were announced, including £10.0 billion of green gilt sales, and an unallocated portion of £10.0 billion for issuance of any type or maturity of gilt (apart from green gilts). In addition, it was announced that planned Treasury bill sales for debt management purposes were anticipated to make a zero net contribution towards meeting the NFR in 2024-25.

The 2024-25 financing remit was revised on 23 April 2024, alongside the publication of the 2023-24 outturn of the CGNCR ex NRAM, B&B and NR. Planned gilt sales were increased by £12.4 billion, to £277.7 billion and there was no change to the planned net sales of Treasury bills for debt management purposes: these remained at zero.

Chapter 3: Exchequer Cash Management

Exchequer cash management remit 2023-24

The DMO's cash management remit for 2023-24, published alongside Budget 2023 on 15 March 2023, specified that the government's cash management objective remains:

> "*to ensure that sufficient funds are always available to meet any net daily central government cash shortfall and, on any day when there is a net cash surplus, to ensure this is used to best advantage*".

HM Treasury and the DMO work together to achieve this, with HM Treasury providing information to the DMO about flows into and out of the National Loans Fund (NLF) and the DMO making arrangements for funding and for placing net cash positions, primarily by carrying out market operations on the basis of HM Treasury forecasts.

The DMO successfully delivered its cash management remit for 2023-24. The DMO monitored and assessed its performance using a range of key performance indicators, details of which are in Annex B.

During the year, the DMO continued to meet the government's net cash requirements primarily by raising and investing cash in the sterling repo market.

The DMO also used weekly Treasury bill tenders to support its daily cash management activities. Throughout the year, there remained a strong market demand to buy Treasury bills at tender and through bilateral agreement.

The Debt Management Account Deposit Facility (DMADF) continued to take cash deposits from local authorities and government agencies, which may place surplus funds with the Debt Management Account (DMA) for up to six months. Deposit levels remained fairly stable throughout the year.

Additionally, the DMO traded a number of other money market instruments to ensure that the government's daily cash requirements were met.

In 2023-24 the DMO carried out its cash management objective primarily through a combination of:

- Treasury bill sales; and
- market transactions with DMO counterparties.

The average accepted yields achieved at the weekly Treasury bill tenders are assessed against the SONIA[16] rates for the relevant maturities. These are reported in Annex B.

The stock of Treasury bills in issue can vary within year and across the financial year-end according to cash management requirements[17].

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[16] Sterling Overnight Index Average.

[17] Details are published on the DMO website at: https://www.dmo.gov.uk/data/treasury-bills/treasury-bill-issuance-and-stock/ The breakdown of the Treasury bill portfolio by maturity date is published on the DMO website at: https://www.dmo.gov.uk/data/treasury-bills/treasury-bills-outstanding/.

Cash management transactions

In practice, the most significant portion of cash management operations in 2023-24, as in previous years, was via transactions negotiated by the DMO with market counterparties. To ensure competitive pricing, the DMO maintains relationships with a wide range of money market counterparties with whom it transacts both directly and via voice and electronic brokers. The DMO transacts both bilaterally and on a cleared basis.

Cash management is conducted using market instruments in order to minimise cost whilst operating within agreed risk limits. Sterling denominated repurchase agreements (repo) and reverse repurchase agreements (reverse repo) currently dominate these transactions, although short-dated cash bonds, certificates of deposit, commercial paper, reverse repo of foreign currency bonds swapped into sterling, unsecured loans and deposits can also be used.

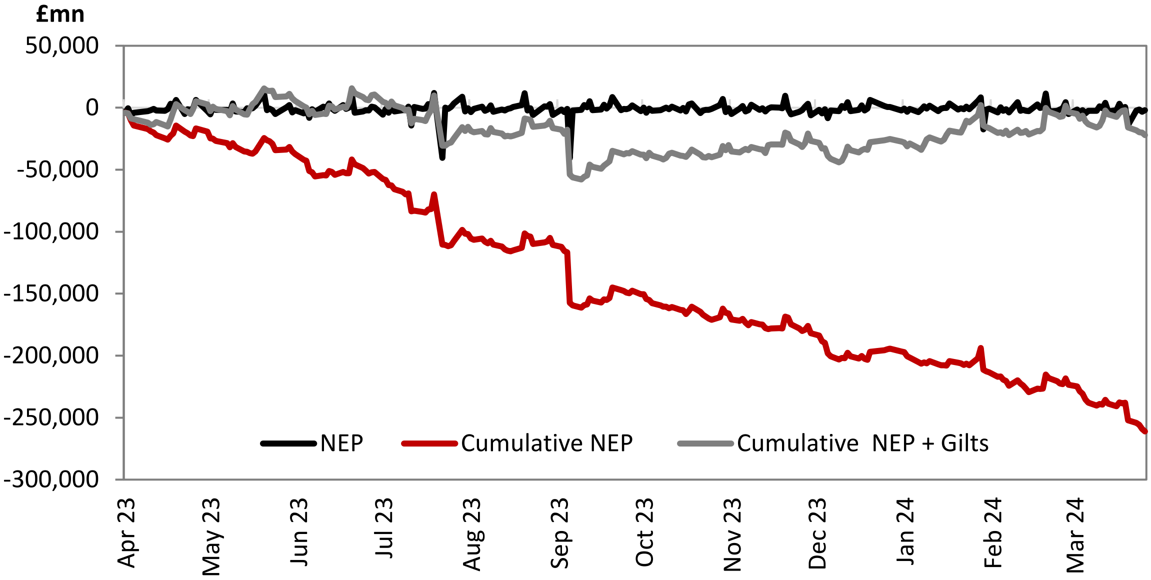
The DMO's money market dealers borrow from and/or lend to the market on each business day to balance the position on the NLF. In order to do so, the DMO receives from HM Treasury forecasts of each business day's cash flows into and out of central government. Additionally, the DMO obtains up-to-date intra-day monitoring of cash flows as they occur. The DMO trades only with the purpose of offsetting current and forecast future government cash flows, subject to the agreed risk limits. The DMO does not take interest rate positions, except in so far as that is necessary to offset forecast future cash flows.

Over the course of a financial year, the Exchequer's cash flow has typically had a fairly regular and predictable pattern associated with the tax receipts and expenditure cycles. Outflows associated with gilt coupons and redemptions are also known in advance.

Chart 13 shows the scale of daily cash flows measured in terms of the Net Exchequer Position (NEP) in 2023-24 on a daily and cumulative basis. The NEP excludes the effects of gilt sales, Treasury bill issuance and NS&I's overall net contribution to financing, and therefore shows the cumulative in-year deficit which has to be financed.

Chart 13 also shows the net effect including gilt sales demonstrating how the timing of these flows made a significant contribution to reducing the in-year financing required by Exchequer cash management operations.

Chart 13: Exchequer cash flows 2023-24



Source: HM Treasury/DMO

Active cash management performance framework

Since 2000, the in-year cash needs of the government have been managed actively by HM Treasury and the DMO, with HM Treasury providing short- and medium-term forecasts of daily net cash surpluses and deficits and the DMO transacting with its market counterparties in a range of instruments at a range of different maturities to offset the current and forecast future cumulative net cash position.

This active cash management framework is designed to allow specialist cash managers to select appropriate counterparties, instruments and maturities with which to deliver the cash management remit at minimum cost subject to the agreed risk limits. Formal performance reporting is in place as a means of enhancing effectiveness and ensuring accountability. The results for 2023-24 are presented below.

HM Treasury and the DMO recognise that performance measurement needs to capture the wider policy objectives the government sets the DMO as its cash manager, as well as the cost minimisation objective, and for this reason a number of key performance indicators are used, including a quantifiable measure of net interest saving, which is shown under key performance indicator (KPI) 1.4.

HM Treasury and the DMO equally recognise that to measure performance solely in terms of net interest savings does not fully capture the ethos or the wider policy objectives the government sets the DMO as its cash manager. Exchequer cash management differs from that of a commercial entity in that it does not seek to maximise profits, but rather to minimise costs subject to risk, while playing no role in the determination of sterling interest rates. Consequently, the DMO and HM Treasury monitor and assess overall performance in meeting the government’s objectives using a number of quantitative and qualitative KPIs and controls.

The cash management performance report

The DMO's high level cash management objective as set out above has been subdivided into a series of objectives, to each of which has been attached a KPI as shown in Table 16. The following section explains how performance was delivered against these objectives in 2023-24.

Table 16: Components of the cash management objective

CASH MANAGEMENT OBJECTIVE	KEY PERFORMANCE INDICATORS AND CONTROLS
The DMO must supply sufficient cash each day to enable government to meet its payment obligations. This is fundamental and unconditional.	Ways and Means transfers must be avoided for cash management purposes by ensuring that there is always a positive Debt Management Account (DMA) balance. (NB: HM Treasury is responsible for monitoring and reporting performance of the forecasting function against outturns).
Cash management operations and arrangements should be conducted in a way that does not interfere with monetary policy operations.	The DMO will conduct market operations with a view to achieving, within a very small range, the weekly cumulative target balance for the DMA at the Bank of England. The DMO will maintain formal and informal channels of communication with the Bank on conditions in the Sterling money markets. The DMO will seek to avoid holding weekly or ad hoc Treasury bill tenders if and when the Bank conducts its weekly open market operations.
Cash management operations and arrangements should be conducted without impeding the efficient working of the Sterling money markets.	The DMO will advise HM Treasury as appropriate on the impact of Exchequer cash flows on liquidity conditions in the Sterling money markets.
The DMO should maintain a system in which the costs and risks are transparent, measured and monitored and the performance of government cash management is assessed. The DMO maintains an ethos of cost minimisation rather than profit maximisation.	The DMO will report to HM Treasury on a quarterly basis the details of its cash management activity, its active management performance against the government's marginal cost of funds and the market and credit risks incurred. Performance may also be reported in the DMO Annual Review.
The DMO should maintain a credible reputation in the market that leads to lower costs in the long term and a cash management system that is sustainable.	The DMO should maintain channels of communication with money market participants and Treasury bill counterparties both formally and informally to explain, as far as possible, the nature and intent of its operations in the money markets. The DMO should monitor compliance with its operational notices; provide complete, accurate and timely instructions to counterparties, agents, external systems and operators; and achieve the successful settlement of agreed trades on the due date.

Objective 1.1: DMO must supply sufficient cash each day to enable government to meet its payment obligations. This is fundamental and unconditional.

The core requirement of Exchequer cash management is to secure the day-to-day funding of Exchequer cash needs. This objective is supported by HM Treasury's daily net cash flow forecasts for 19 weeks ahead and intraday updates of same-day scheduled expenditure and revenue flows. The DMO cash dealers raise and place current and future anticipated net daily balances in the Debt Management Account (DMA) with counterparties in the sterling money markets, transacting in a range of instruments and at a range of different maturities to smooth the profile of the forecast cumulative net cash position.

The DMA is used to manage the Exchequer's net cash position. Balances in central government accounts contained within the Exchequer pyramid are swept on a daily basis into the NLF and the DMA is required to offset the resultant NLF balance through its borrowing and lending in the money markets. The DMA is held at the Bank of England and a positive end-of-day balance must be maintained at all times; it cannot be overdrawn. Automatic transfers from the government Ways and Means (II) account at the Bank of England would offset any negative end-of-day balances, though it is an objective to minimise such transfers. Thus, evidence of meeting this objective is provided by reference to the number of occasions the DMA goes overdrawn.

KPI 1.1: Ways and Means end of day transfers for cash management purposes must be avoided by ensuring that there is always a positive DMA balance.

- The DMO ensured a positive end-of-day DMA balance for every day in 2023-24.

Objective 1.2: Cash management operations and arrangements should be conducted in a way that does not conflict with the operational requirements of the Bank of England for monetary policy implementation.

The DMA target balance at the Bank of England serves as a buffer against unexpected payments that occur after the wholesale money markets have closed for same-day settlement. It serves to mitigate the risk of going overdrawn. All changes to the daily net cash forecast that occur before markets are closed should as far as practicable be offset by transactions by DMO cash dealers with market counterparties. The DMO cash forecasters notify the Bank of England, in advance, of the weekly target balance on the DMA for the week ahead. It is an important goal that actual cumulative end-of-day balances do not differ significantly from target.

KPI 1.2: The DMO will conduct market operations with a view to achieving, within a very small range, the weekly cumulative target balance for the DMA at the Bank of England. The DMO will maintain formal and informal channels of communication with the Bank on conditions in the sterling money markets. The DMO will seek to avoid holding weekly or ad hoc Treasury bill tenders when the Bank conducts its operations.

- The DMO achieved its target weekly cumulative balance for the DMA within a very small range (+/-2% of its weekly cumulative target) in 28 out of 53 weeks in 2023-24[18] (compared with 40 out of 52 weeks in 2022-23). All significant known daily and forecast cumulative weekly variations from target were notified to the Bank of England in a timely

[18] The +/-2% target pre-dates the current challenging money market conditions. Measured against, for example, a +/- 5% target, the weekly cumulative target balance would have been achieved in 43 out of 52 weeks in 2023-24 (49 in 2022-23).

fashion. The DMO and the Bank held regular meetings to review the operation of these arrangements.

- No cash management operations were undertaken that, by their nature or timing, could be perceived as clashing with the Bank's operations.

Objective 1.3: Cash management operations and arrangements should be conducted to avoid undermining the efficient functioning of the sterling money markets.

While this objective is difficult to capture in a KPI, the DMO interprets this as a responsibility to seek to minimise the impact of individual daily flows on the sterling money markets while ensuring it transacts at competitive prices. The DMO operates as a customer but also at the core of the money markets, seeking to ensure the widest possible access to maturities, instruments, trading arrangements and counterparties across which to diversify its cash management operations. Limits have been set on the amount of dealing with individual counterparties and in individual instruments; exposure to sterling overnight liquidity and sterling interest rates are also subject to limits. In accordance with objective 1.3, limits and controls are intended to avoid concentration of exposures and are reviewed regularly to ensure consistency with market trends and developments; they find their expression in KPI 1.3.

KPI 1.3: The DMO will advise HM Treasury as appropriate on the impact of Exchequer cash flows on liquidity conditions in the sterling money markets.

Throughout 2023-24, the DMO undertook regular formal and informal communication with the Bank of England, money market counterparties, and industry groups to assess liquidity in the sterling money markets. It also maintained frequent and regular dialogue to update HM Treasury on market liquidity and, working with HM Treasury, reviewed its trading policies and risk controls to respond to significant sterling liquidity trends and developments.

Objective 1.4: The DMO should maintain a system in which the costs and risks are transparent, measured and monitored and the performance of government cash management is assessed. The DMO maintains an ethos of cost minimisation rather than profit maximisation.

The active cash management framework encompasses a series of quantitative liquidity, interest rate, foreign exchange and credit risk limits that together reflect the government's risk preferences and are designed to be consistent with the wider policy objectives which the government sets its cash manager.

Under the current approach active cash performance is measured and evaluated by comparing actual net interest paid and received with proxy for the associated cost of funds (i.e. deducting net interest on daily cash management balances using the Bank of England repo rate).

KPI 1.4: The DMO will report to HM Treasury on a quarterly basis the details of its cash management activity, including active cash management performance after cost of funds and the liquidity, interest rate, foreign exchange and credit risks incurred. Performance may also be reported in the DMO Annual Review.

The DMO provides regular reports to HM Treasury on the details of Exchequer cash management activity carried out through the DMA, including active cash management performance and usage of liquidity, interest rate, foreign exchange and credit risk limits.

Net returns on active cash management (over the proxy for cost of funds) to the DMA are affected by market conditions, including any differential between the DMA's internal cost of funds and prevailing market rates, and the non-discretionary size and volatility of the Exchequer's cumulative cash position, both of which vary significantly over time. The Exchequer cash management results should not therefore be considered a reflection of, for example, the DMO's cash management trading strategies or performance.

The Exchequer cash management activity is carried out in accordance with the government's ethos of cost minimisation: cash transactions are intended to support the statutory objectives of the DMA and, in particular, to enable the Exchequer's daily net cash positions to be offset over time by using a range of products and instruments, within agreed risk parameters, and are not intended to seek risk opportunities to generate excess return.

Active cash management recorded positive net interest after cost of funds, but before transaction and management costs, of £4.7 million for 2023-24. The DMO's estimated transaction and management costs during 2023-24 were £13.2 million.

Positive net interest after cost of funds has been recorded by virtue of funding the Exchequer's daily cash needs in the wholesale money markets at rates that have been on average below the DMA's internal cost of funds (Bank Rate) and from investing surpluses at market rates that were on average very close to this.

There were no breaches of the daily settlement, interest rate, foreign exchange or liquidity risk limits in 2023-24 and the Exchequer's net cash position was successfully offset each day. However, there was one credit limit breach, which returned to within limit the next day.

Objective 1.5: The DMO should maintain a credible reputation in the market that leads to lower costs in the long term and a system that is sustainable.

The DMO seeks to maintain and enhance its reputation in the market by being open, transparent and consistent about the aims and intentions of its operations and transactions. This has allowed it to continue to widen its market and counterparty access and to deal at fair and competitive rates.

In addition, DMO personnel, processes and internal systems have to be capable of complying with market standards and following market practice in respect of speed and accuracy in negotiation, clearing and settlement of trades.

KPI 1.5: The DMO should maintain channels of communication with money market participants and Treasury bill counterparties both formally and informally to explain, as far as possible, the nature and intent of its operations in the money markets. The DMO should monitor compliance with its operational notices; provide complete, accurate and timely instructions to counterparties, agents, external systems and operators; and achieve the successful settlement of agreed trades on the due date.

As stated in the report on KPI 1.3 above, in 2023-24 the DMO maintained an active and open dialogue with money market counterparties and other market stakeholders to explain its cash management approach and strategy and to explain the context for and receive feedback on Treasury bill tenders and other market operations.

The DMO's operational target for trade settlement[19] was achieved. The release time for the 51 Treasury bill operations ranged from 3 to 22 minutes and averaged 4.5 minutes[20] – the published results were accurate in all cases.

Treasury bill tender performance

Table 17 and Charts 14 to 16 compare the results (in terms of the average accepted yield) of all Treasury bill tenders held in 2023-24 with the corresponding SONIA rates. Over the financial year the average accepted yields at one-month tenders outperformed the corresponding SONIA rates by 0.4bp whereas the average accepted yields at three- and six-month tenders underperformed the corresponding SONIA rates by 4.3bp and 5.1bp respectively.

The average size of six-month Treasury bill tenders was more than two times that of the average for one-month tenders. However, the average cover ratios were more consistent across the three maturities (See Table 18).

Table 17: Comparison of average Treasury bill tender yields with SONIA rates in 2023-24

	Average tender yield (%)	Average SONIA rate (%)	Difference (bp)
One-month	5.014	5.017	-0.4
Three-month	5.171	5.128	4.3
Six-month	5.284	5.234	5.1
Average	**5.156**	**5.126**	**3.0**

Source: DMO/Bloomberg

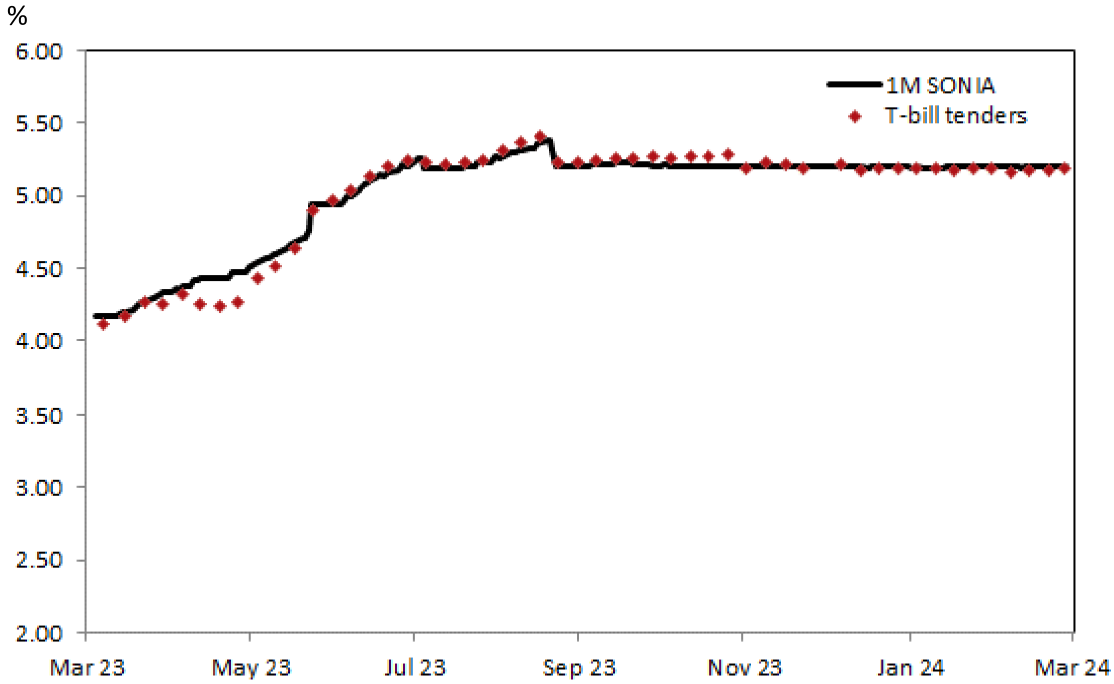
Table 18: Comparison of average Treasury bill tender sizes and cover ratios 2023-24

	Average tender size (£mn)	Average cover ratio (x)
One-month	813.7	3.75
Three-month	1,921.6	3.47
Six-month	2,215.7	3.64

Source: DMO

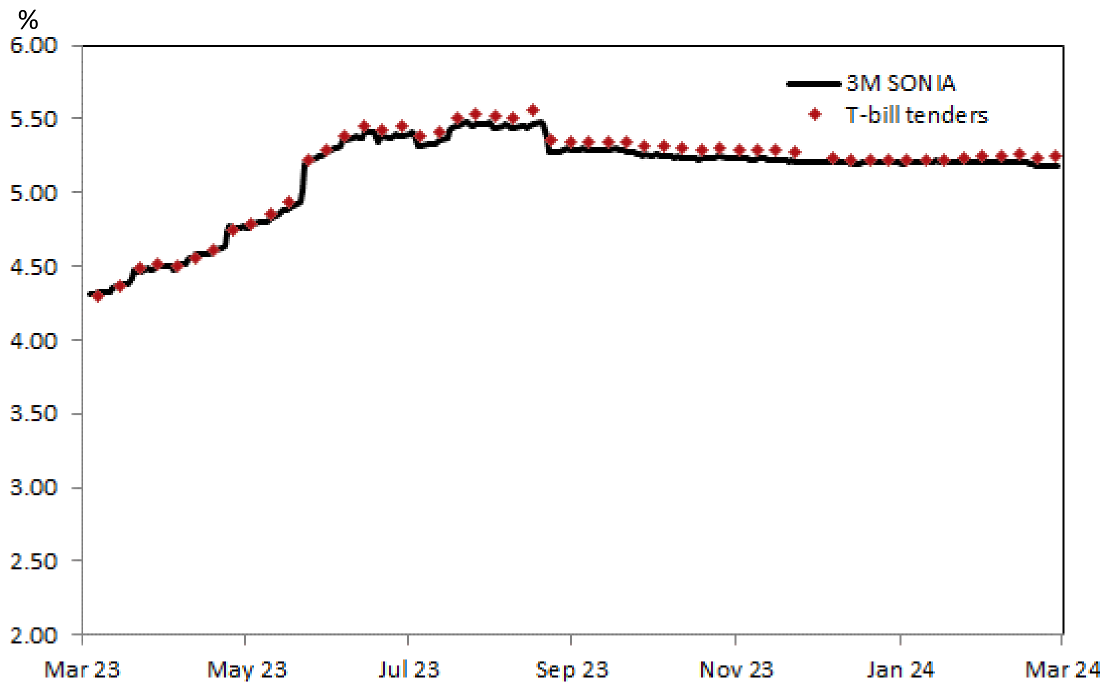
[19] The target was to settle at least 99% of trades by value on the due date, where the DMO was responsible for delivering stock or cash: the level achieved was over 99.99%.
[20] The target was to release Treasury bill tender results within 15 minutes of the close of offer.

Chart 14: One-month Treasury bill tender yields compared with SONIA rates in 2023-24



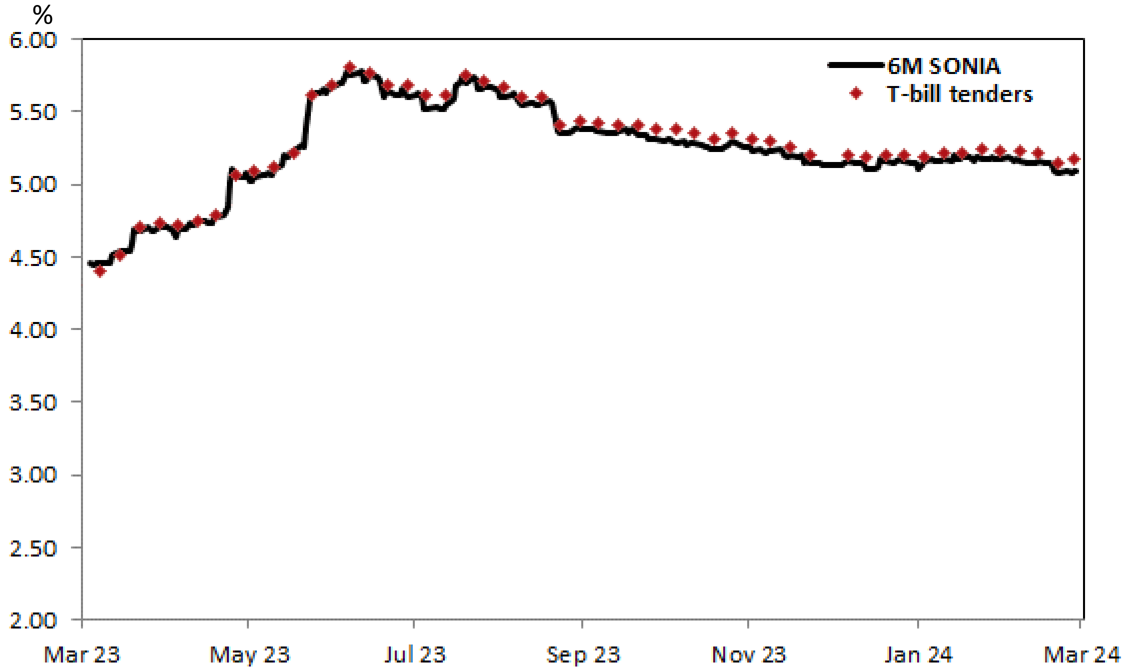
Source: DMO/Bloomberg

Chart 15: Three-month Treasury bill tender yields compared with SONIA rates in 2023-24



Source: DMO/Bloomberg

Chart 16: Six-month Treasury bill tender yields compared with SONIA rates in 2023-24



Source: DMO/Bloomberg

Annexes

a) The gilt portfolio

The key statistics of the government's marketable debt portfolio at end-March 2024 compared with end-March 2023 are shown in Tables 19 and 20 below.

Tables 19 and 20: Debt portfolio statistics

Gross values (including DMO holdings)	31 March 2023	28 March 2024
Uplifted nominal value		
Debt portfolio	£2,378bn	£2,533bn
Conventional gilts	£1,742bn	£1,860bn
Index-linked gilts	£566bn	£604bn
Treasury bills	£70bn	£69bn
Market value		
Debt portfolio	£2,212bn	£2,248bn
Conventional gilts	£1,547bn	£1,612bn
Index-linked gilts	£595bn	£568bn
Treasury bills	£69bn	£68bn
Average maturity (nominal value-weighted)		
Debt portfolio	14.54 years	14.30 years
Gilt portfolio	14.98 years	14.69 years
Conventional gilts	13.98 years	13.70 years
Index-linked gilts	18.04 years	17.76 years
Average maturity (market value-weighted)		
Debt portfolio	13.71 years	12.87 years
Average yield (market value-weighted)		
Conventional gilts	3.68%	4.19%
Index-linked gilts	0.12%	0.64%
Average modified duration (market value-weighted)		
Conventional gilts	9.17 years	8.39 years
Index-linked gilts	16.80 years	16.22 years

Source: DMO

Net values (excluding DMO holdings)	31 March 2023	28 March 2024
Uplifted nominal value		
Debt portfolio	£2,217bn	£2,376bn
Conventional gilts	£1,588bn	£1,711bn
Index-linked gilts	£559bn	£597bn
Treasury bills	£70bn	£69bn
Market value		
Debt portfolio	£2,051bn	£2,098bn
Conventional gilts	£1,395bn	£1,471bn
Index-linked gilts	£587bn	£560bn
Treasury bills	£69bn	£68bn
Average maturity (nominal value-weighted)		
Debt portfolio	14.57 years	14.36 years
Gilt portfolio	15.04 years	14.78 years
Conventional gilts	13.94 years	13.69 years
Index-linked gilts	18.17 years	17.89 years
Average maturity (market value-weighted)		
Debt portfolio	13.72 years	12.89 years
Average yield (market value-weighted)		
Conventional gilts	3.68%	4.19%
Index-linked gilts	0.12%	0.64%
Average modified duration (market value-weighted)		
Conventional gilts	9.13 years	8.37 years
Index-linked gilts	16.93 years	16.29 years

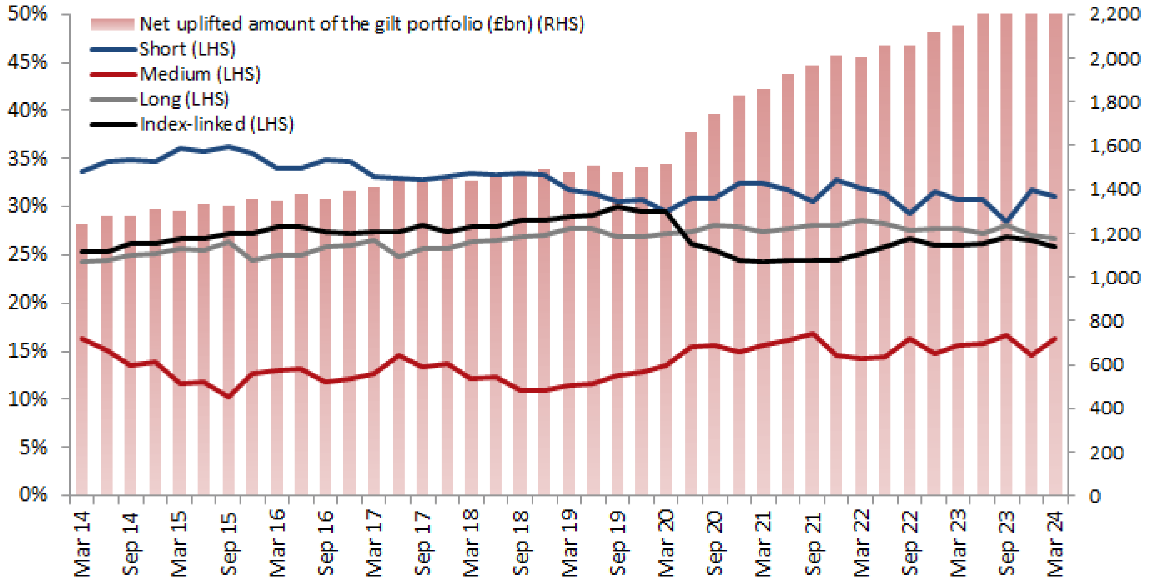
Source: DMO

The gross nominal value[21] of the gilt portfolio rose by 6.8% to £2,464 billion as gross gilt issuance together with inflation accrual on index-linked gilts exceeded gilt redemptions. The gross market value of the portfolio increased by 1.8% to 2,180 billion[22], as the increase in the nominal value of the gilt portfolio outweighed the fall in gilt prices/increase in gilt yields, over the course of the financial year (an increase by 50bp in the case of nominal yields and by 52bp in the case of real yields).

The growth and changing composition of the gilt portfolio is shown in Chart 17. Developments in portfolio maturity are shown in Chart 18.

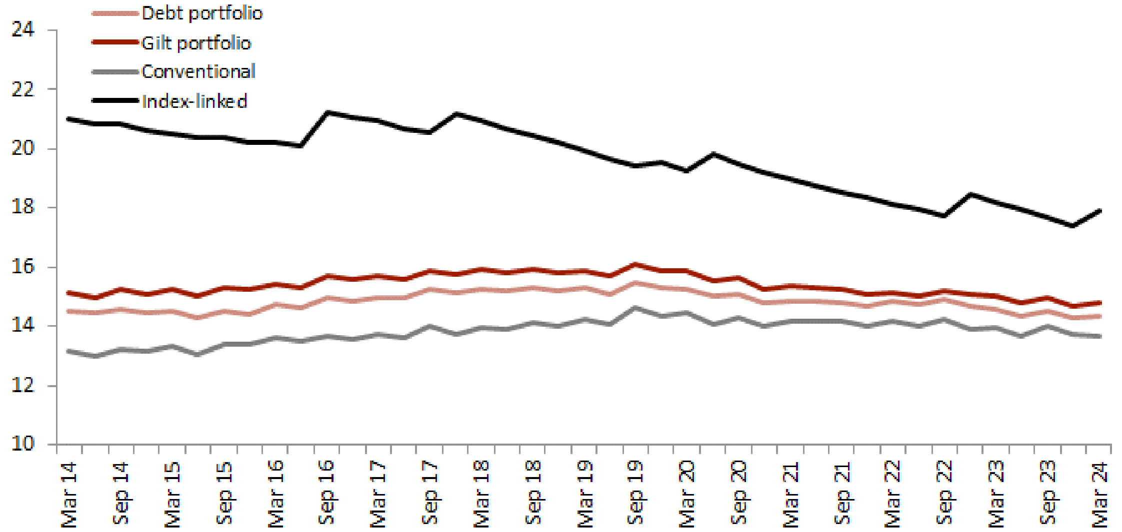
[21] Including inflation uplift on index-linked gilts.
[22] Figures may not sum due to rounding.

Chart 17: Portfolio composition[23]



Source: DMO

Chart 18: Portfolio maturity (years)



Source: DMO

23 A list of gilts, including first issue and coupon dates and nominal amounts outstanding (updated daily) is available on the DMO website at: https://www.dmo.gov.uk/data/pdfdatareport?reportCode=D1A.

b) Other published information on DMO activities

- ### General DMO performance

Aspects of the DMO's performance each financial year are reported in the DMO's Annual Report and Accounts. These comprise (page references refer to the 2023-24 Accounts published on 19 July 2024):

- The purpose and principal activities of the DMO (pages 11-12);

- A performance summary of the DMO's main activities (pages 18-22);

- A report on achievements against agency objectives as set by HM Treasury (pages 26-27);

- A report on performance against agency targets (pages 28-30), including:

    - Compliance with the financing remit
    - Gilt and Treasury bill operation results - release times
    - Accuracy of the recording of transactions through the Debt Management Account
    - Compliance with the Freedom of Information Act 2000
    - Avoidance of breaches of operational notices
    - Compliance with the schedule for reporting cash management operational balances
    - Accurate and timely administration of settlement procedures
    - Accuracy of publications and timeliness of announcements
    - Timeliness of processing of local authority loan and early repayment applications
    - Appropriate operation of the DMO (retail) gilt purchase and sales service

- ### Debt management operations

The principal publications[24] describing the DMO's activities in the gilt market are:

- Official Operations in the Gilt Market – An Operational Notice, which provides details on the operational procedures conducted by the DMO in the gilt market;

- The GEMM Guidebook - a guide to the roles of the DMO and Primary Dealers (GEMMs) in the UK government bond market, which is aimed at DMO gilt market counterparties and outlines their obligations as gilt-edged market makers and the DMO's obligations to them.

The legal details behind the DMO's gilt issuance activities are set out in the:

- Information memorandum – Issue, Stripping and Reconstitution of British Government Stock

[24] These publications can be accessed via the gilt market operational rules section of the DMO website: https://dmo.gov.uk/publications/gilt-market/operational-rules/.

- **Cash management operations**

The principal publication describing the DMO's activities in carrying out Exchequer Cash Management in the UK and also the legal and technical background to the issuance of Treasury bills is the:

- Cash Management Operational Notice & UK Treasury Bills Information Memorandum:

  https://www.dmo.gov.uk/media/ogqlg1di/cmopnot280324.pdf

Other relevant sources of information include:

- About Treasury bills:

  https://www.dmo.gov.uk/responsibilities/money-markets/about-treasury-bills/

- Discretionary bilateral Treasury bill Issuance

  https://www.dmo.gov.uk/responsibilities/money-markets/discretionary-bilateral-treasury-bill-facility/

- A list of Treasury bill Primary Participants:

  https://www.dmo.gov.uk/responsibilities/money-markets/primary-participants/