United Kingdom
Debt
Management
Office

Annual Report and Accounts 2009-2010

of the United Kingdom Debt Management Office and the Debt Management Account

United Kingdom Debt Management Office
Annual Report and Accounts 2009 – 2010

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Presented to the House of Lords by Command

and

Debt Management Account
Annual Report and Accounts 2009 – 2010

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Introduction

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

What this document covers

This document presents the Annual Report and Accounts of the United Kingdom Debt Management Office (DMO) and the Annual Report and Accounts of the Debt Management Account (DMA) for the year ended 31 March 2010.

The **DMO** is an executive agency of HM Treasury. Its main aims 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;
- to manage the funds of selected public sector bodies; and
- to advise and support HM Treasury's financial stability measures.

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 that arise from the DMO's debt management (except for gilts issued by the DMO, which are liabilities of the NLF), cash management and other activities supporting Government initatives and a National Savings and Investments product.

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

The following sections are specific to the DMO:

The following section is specific to the DMA:

Chief Executive's statement

This year, the DMO has continued to operate successfully in a financial market environment that has again posed very testing operational challenges. The DMO has again been required to raise an unprecedented level of financing, with gilt sales totalling almost £228 billion in 2009-2010. This amount was over 50 per cent higher than the record level in 2008-2009 and almost four times that seen in 2007-2008. To deliver this effectively to the market we have introduced new supplementary distribution methods, to support the auction programme, and to help target our core investor base more directly.

A programme of six syndicated offers along with monthly mini-tenders raised over £41 billion of long-dated and index-linked gilts in addition to proceeds from auctions and this helped deliver a doubling of long-dated and index-linked sales over the past two years to £81 billion. In all we held 77 operations (including 58 auctions), 11 more than last year.

The gilt market has absorbed this record level of issuance smoothly and it has done so whilst also facilitating an unprecedented level of secondary market gilt purchases by the Bank of England. The operation during the year by the DMO and the Bank of England of the Asset Purchase Facility is an example of the authorities working together to promote the liquidity and efficient functioning of the gilt market.

The DMO has also performed strongly this year in carrying out its cash management function. All cash management objectives have been successfully met. This is especially impressive in the continued volatile and difficult credit conditions prevailing in the market this year.

February 2010 saw the introduction of electronic bid capture for Treasury bill tenders. This achieved a welcome reduction in the average release times for tender results compared to the telephone bidding system used previously.

During the year, total loans outstanding of the Public Works Loan Board increased marginally to £52 billion. This incorporated over £5 billion of new loans in the year with a similar volume of loans either maturing or redeemed early.

The DMO has again successfully provided a cost effective service to its client funds through the fund management operations of the Commissioners for the Reduction of the National Debt. The market value of these funds was over £53 billion as at 31 March 2010.

The flexibility and adaptability of the DMO have also been demostrated by its successful execution of eight auctions of EU Allowances for the UK's Emissions Trading System, compared to two auctions in 2008-2009, the first year of the scheme. The DMO was appointed to this role by the Department of Energy and Climate Change (formerly DEFRA) in 2008.

The DMO has also continued to play a facilitating role in delivering a range of schemes put in place by HM Treasury and the Bank of England to stabilise financial markets and support the banking system, including the Credit Guarantee Scheme, the Special Liquidity Scheme, and the Discount Window Facility.

Looking forward, the DMO has received a restated remit for 2010-2011 that will require another very high level of gilt sales of £165.0 billion (the second highest on record). This will need to be delivered in a financial environment which may continue to be volatile and unpredictable.

In summary, the DMO has performed strongly once again this year across its whole range of expanded operations. It is therefore with confidence that I can look forward to the challenges of 2010-2011.

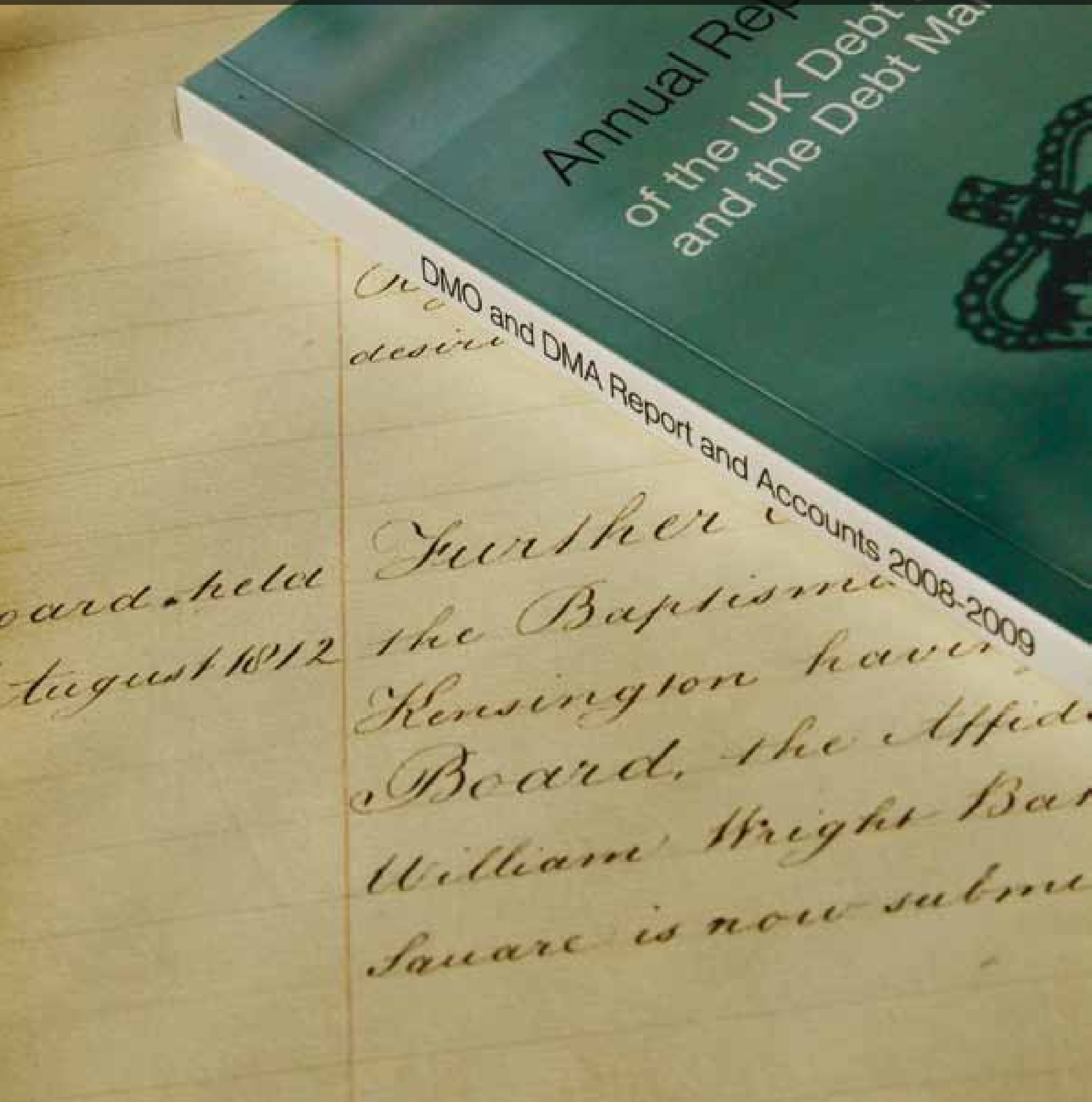
In December 2009 Colin Price retired as a non-executive director of the DMO and a member and Chairman of the DMO's and HM Treasury's Exchequer Funds Audit Committee. My colleagues and I are indebted to him for his support and advice over the years.

Once again I would like to express my sincere appreciation to all DMO staff, to colleagues at HM Treasury and at the Bank of England, and to our market counterparties for their professionalism, commitment and hard work throughout the year. The success of the DMO would not have been possible without their collective contribution.

Robert Stheeman
Chief Executive
30 June 2010

Foreword

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



Principal activities and history of the United Kingdom Debt Management Office

The DMO aims to be a centre of excellence for HM Treasury in the provision of policy advice on and the delivery of HM Government's financing needs and to act as a key gateway for HM Government 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 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 in order 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.

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

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

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 mini-tenders, syndications, switch, conversion or buy-back operations in a particular year. The DMO decides the size of gilt auctions and the choice of gilts to be auctioned, together with the size and choice of gilts to be issued via syndications and mini-tenders in accordance with the terms set out in the remit for the year. The DMO also decides the size and maturity breakdown of Treasury bill tenders.

The DMO publishes Operational Notices describing how it acts in the 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 non-rump gilts, and are the point of access for institutional investors who wish to take part in the DMO's gilt auctions.

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

Cash management

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

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

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

Gilt purchase and sale service

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

Public Works Loan Board (PWLB)

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

The operations of the PWLB (part of the former National Investment and Loans Office) have been integrated with the DMO since 1 July 2002.

The PWLB produces its own annual report and accounts.

Commissioners for the Reduction of the National Debt (CRND)

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

The functions of the CRND (part of the former National Investment and Loans Office) have been carried out within the DMO since 1 July 2002.

Each fund produces its own annual accounts.

Hedging of NS&I's Guaranteed Equity Bonds

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

Special Liquidity Scheme

On 21 April 2008, the Bank of England launched a scheme to allow banks to swap temporarily their high quality mortgage-backed and other securities for UK Treasury bills. The scheme was closed to any new swaps on 30 January 2009, but existing swaps may be extended up to 30 January 2012. The DMO facilitates this operation by purchasing Treasury bills issued by the NLF and lending them to the Bank of England when required.

Discount Window Facility

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

Credit Guarantee Scheme

On 8 October 2008, HM Government announced a Credit Guarantee Scheme as part of a comprehensive package of measures to address the stress in the financial markets. The principle of the scheme is that HM Treasury guarantees debt issued by banks and building societies meeting prescribed criteria. The DMO administers this operation on behalf of HM Treasury. The financial guarantee liability and its related fee income form part of HM Treasury's Accounts.

Emissions Trading System

The EU Emissions Trading System allocates emissions 'allowances' to industry, which can then be traded. The DMO has been appointed by the Department of Energy and Climate Change (DECC) to conduct the auction of EU Allowances in the UK.

Relationship of the Debt Management Account to the National Loans Fund

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

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

As part of both its debt and cash management operations, the DMA issues sterling Treasury bills. However, Treasury bills may also be issued by the NLF in certain circumstances.

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

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

Under the terms of the Finance Act 1998, the NLF made a cash advance of £6 billion to the DMA at inception in order to establish the account. Subsequent cash advances and repayments have been made from time to time as required. By 31 March 2010, the advance had risen to £242 billion. The increase was due to the DMA's purchase of collateral from the NLF, principally to facilitate the DMA's role in the Special Liquidity Scheme (NLF Treasury bill collateral) and the Discount Window Facility (gilt collateral).

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

Retained surpluses and deficits of the DMA are assets or liabilities of the NLF. In the case of a retained surplus, HM Treasury may make a payment from the DMA to the NLF (equal to all or part of the surplus) thereby reducing the liability of the DMA. In the case of a retained deficit, HM Treasury may make a payment to the DMA from the NLF (equal to all or part of the deficit).

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

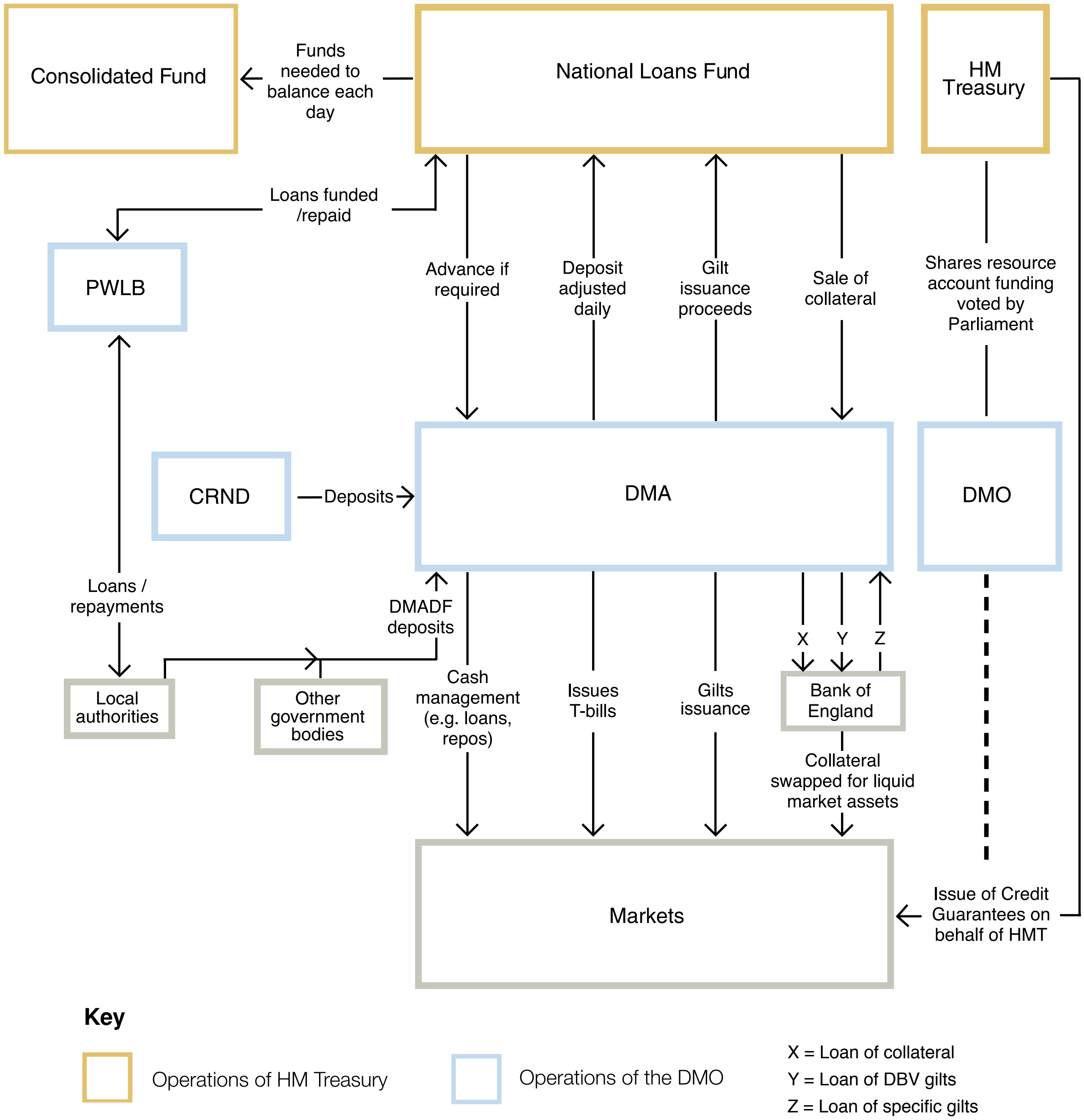
Commissioners for the Reduction of the National Debt (CRND) is a statutory entity within the DMO that performs a fund management service for public sector clients.

The Secretary and 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). Cash in CRND client accounts is regularly deposited with the DMADF. 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 2010 was £53.1 billion (31 March 2009: £61.7 billion).

Key relationships of the DMO and DMA

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



Note:

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

2) The DMA's loan of collateral to the Bank of England facilitates the Special Liquidity Scheme and Discount Window Facility.

Corporate governance

The Chancellor of the Exchequer has overall responsibility for HM Treasury and its executive agencies. He is supported by the other HM Treasury Ministers.

At the beginning of 2009-2010, ministerial responsibility for the DMO was vested in the Economic Secretary to the Treasury, Ian Pearson MP. On 16 June 2009, ministerial responsibility for the DMO was transferred to the Financial Services Secretary to the Treasury and Minister for the City, Lord Myners CBE. In May 2010, following the result of the 2010 General Election, ministerial responsibility for the DMO was transferred to the Commercial Secretary to the Treasury, Lord Sassoon.

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 2009-2010 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
- **Sam Beckett**
  Non-executive HM Treasury representative
- **Colin Price**
  Non-executive director, to 31 December 2009
- **Brian Larkman**
  Non-executive director
- **Brian Duffin**
  Non-executive director, from 1 January 2010

Colin Price was 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 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 FSA until 2006. Brian Duffin was Chief Executive of Scottish Life from 1999 to 2007 and Executive Director of Royal London Mutual from 2001 to 2007.

The Managing Board has an executive committee comprising the executive members and has the following operational committees:

- Debt Management Committee
- Cash Management Committee
- Fund Management Committee
- Credit and Market Risk Committee
- Operational Risk Committee
- Business Delivery Committee
- Performance Review Team

Until 31 December 2009, the Chief Executive was 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. Since 1 January 2010, the Chief Executive has been supported by a single audit committee for all the activities covered by the previous audit committees that relate directly to the United Kingdom Debt Management Office. Further details are set out in the statement on internal control on page 50 to 55.

Risk management

The DMO has a comprehensive risk framework approved by the Managing Board and a range of risk policies and supporting processes to identify and manage its risks and to promote a strong culture of risk awareness throughout its operations.

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 DMO and 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 page 50 to 55 and notes 21 to 23 of the DMA accounts on page 80 to 117.

Other organisational arrangements

Equal opportunities

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

Staff sickness absence

Recorded working days lost due to permanent DMO staff sickness absence in 2009-2010 were 468.5 or 2.6 per cent of the total available (2008-2009: 278.5 days or 1.7 per cent of the total available).

Pension liabilities

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in the Remuneration Report on page 42 to 47. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of these elements over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

Supplier payment policy

All the DMO's supplier invoices are processed for payment by HM Treasury, which during the year was committed to the payment of all valid invoices not in dispute within 10 working days. HM Treasury group paid 94 per cent of invoices within 10 working days.

HM Treasury services

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

Sustainable development

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.

Auditors

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

The auditors have been provided with all information and explanations that they required to conduct their audit.

Reporting of personal data related incidents

The DMO had no protected personal data related incidents during 2009-2010, nor during any previous period.

Robert Stheeman
Chief Executive
30 June 2010

Management commentary

In 2009-2010, the DMO successfully delivered record financing in the face of a challenging financial market environment. This success was due, in part, to the innovations that the DMO introduced during the year.

Review of activities in 2009-2010

2009-2010 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 page 26 to 32.

Debt management

Debt issuance

2009-2010 again saw the DMO aim to deliver record gilt sales, as a result of HM Government's funding requirements. The financial year began with a record gilt financing requirement of £220.0 billion. This was increased to £225.1 billion in the Pre-Budget Report in December 2009. This challenging remit was successfully delivered, with overall gilt sales of £227.6 billion.

A record-equalling total of 58 gilt auctions were held in 2009-2010 (the previous record was 58 in 2008-2009) and the average release time for auction results fell from 7.6 minutes to 6.4 minutes.

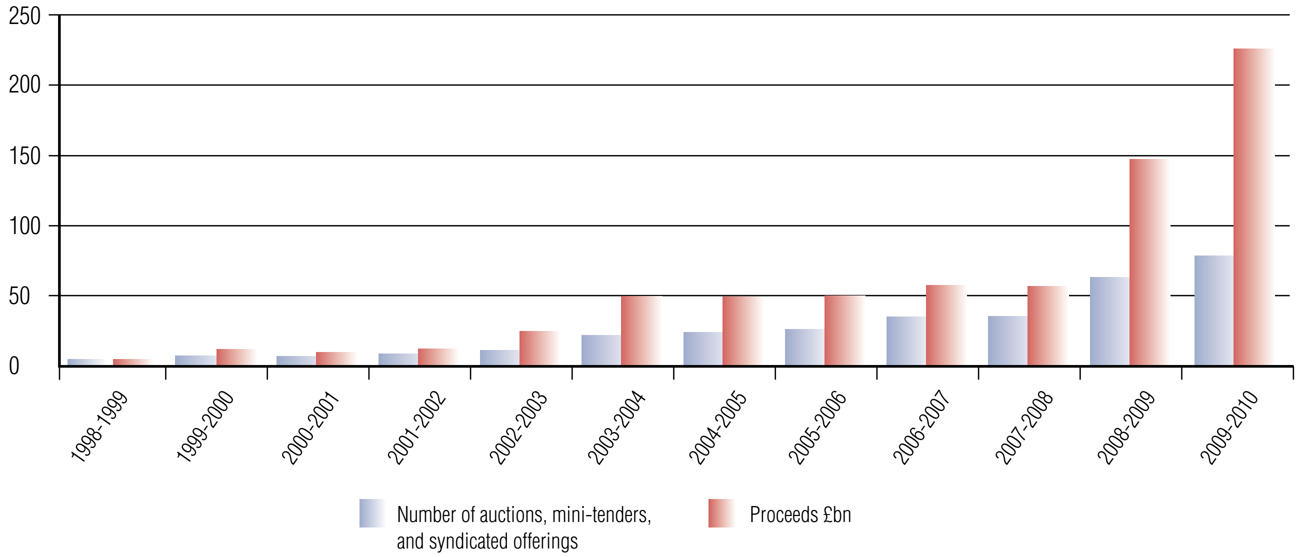
The debt issuance profile remained similar to that of 2008-2009, though it was spread more evenly by gilt maturity. The need to raise a large amount of cash again led the DMO to plan the largest proportion of its issuance in the deepest and most liquid part of the market (and consequently that part with lowest execution risk), short-dated conventional gilts. The size and proportion of the short-dated gilt programme was £74.2 billion (33.0 per cent) in the revised remit for 2009-2010 announced in the Pre-Budget Report. This compared to £62.8 billion (42.9 per cent) in the revised remit for 2008-2009.

Mini-tenders of gilts continued to supplement sales at auctions, as a means of accessing pockets of demand with a much shorter period of pre-commitment than auctions. 13 such tenders were held, raising £10.1 billion.

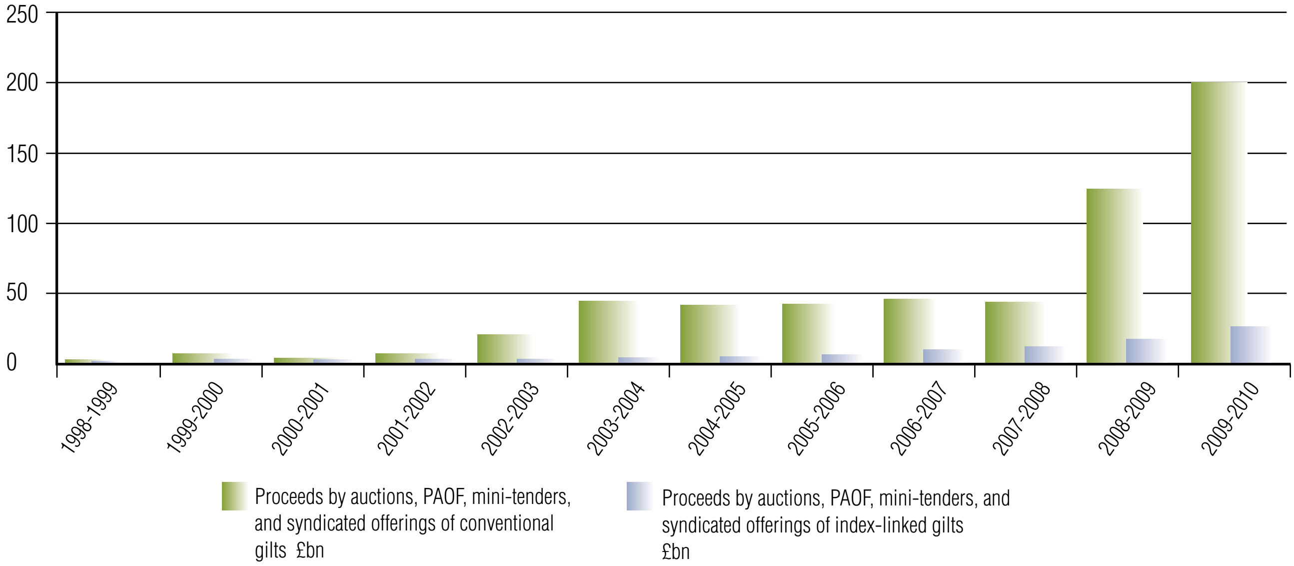
The consultation exercise on supplementary gilt issuance methods in December 2008 resulted in the DMO indicating that it saw merit in the use of syndication. The DMO judged that this would allow issuance of larger volumes of long-dated and index-linked gilts per operation than would be possible via auctions. As a result, the DMO sold £30.5 billion of gilts in a programme of six syndicated offerings.

The consultation exercise also resulted in the DMO indicating that it saw merit in the use of a post auction option facility. The DMO judged that it could both incentivise bidding in an auction – bidders would only get access to the option if they had bid

Issuance operations and proceeds



Proceeds from conventional and index-linked issuance



successfully – and offered the prospect of raising additional proceeds. The facility was introduced from the auction held on 2 June 2009. Since then, successful bidders at gilt auctions have had the right to acquire up to an additional 10 per cent of their auction allocation between 12pm and 2pm on the day of the auction, at the average accepted/strike price of the auction. During the year to 31 March 2010, the option was activated 34 times out of 46 auctions, raising an additional £9.8 billion.

Despite the difficult market environment, gilt market turnover and liquidity has been maintained in 2009-2010 with average daily turnover of £18.5 billion, up from £16.1 billion in 2008-2009, and more than double that of 2002-2003. Maintaining market liquidity is a key factor in addressing the needs of a diversified investor base. In this context, the year saw a continuation of the trend of recent years, with another increase from £216.4 billion to £224.3 billion in the estimated value of gilts held by overseas investors.

The DMO received its remit for 2010-2011 on 24 March 2010, which showed planned gilt sales of £187.3 billion.

The remit for 2010-2011 was restated as part of the Budget on 22 June 2010, which showed planned gilt sales of £165.0 billion.

Gilt holdings

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

- Purchase and sale service (fair value of £28 million at 31 March 2010) – this portfolio of gilts is used for purchase and sale transactions with retail investors.
- Rump stocks (fair value of £5 million at 31 March 2010) - these are gilts in which the DMO will make a bid price upon request from a GEMM. GEMMs are not required to make a market in such gilts, due to the small nominal values outstanding.
- Other tradable gilts (fair value of £248 million at 31 March 2010) - this portfolio comprises a residual from each gilt auction. A small amount of each gilt auction may be retained due to rounding of the allotment to the successful bidders of the gilts in the auction. Gilts are also retained in the case of an uncovered gilt auction. The portfolio may also include any gilts bought by the DMO in the secondary market for other reasons.

Cash management

The DMO met its cash management remit for 2009-2010 against a backdrop of difficult money market conditions. To meet Exchequer borrowing needs, the DMO continued to raise cash principally through the sterling repo market, though there remained a strong market demand to buy Treasury bills at tender and sometimes through bilateral agreement. Additionally, historically large cash deposits continued to be taken via the Debt Management Account Deposit Facility (DMADF), which allows local authorities and government agencies to place surplus funds with the DMA for up to six months. The use of this facility increased significantly after the collapse of Northern Rock and has continued to run at high levels, as a result of continued credit risk aversion among customers.

The emergence of the credit crisis in 2008-2009 required the DMO to be increasingly active as it conducted its cash management operations. This was also the case in 2009-2010 as high aggregate Exchequer borrowing requirements, combined with the unpredictability of government cash flows, caused high trade volumes and large average aggregate cash management balances in the DMA.

Repos and reverse repos were the DMO's principal tools for carrying out its cash management operations. Throughout 2009-2010, the DMO held gilts for use as collateral in repo transactions. The collateral is held in the DMA on a continuing basis and has been purchased on various occasions since 3 February 2000. At 31 March 2010, gilts held specifically for use as cash management collateral had a carrying value of £86.5 billion.

The DMO's performance is monitored and assessed using a range of key performance indicators, details of which will be reported in the DMO Annual Review 2009-2010.

Hedging of NS&I's Guaranteed Equity Bonds

The DMA held a number of equity derivatives in the year. These had aggregate nominal value of £375 million at 31 March 2010 (31 March 2009: £635 million). Both NS&I's equity index exposure and the DMA's hedge are reported at fair value on the respective statements of financial position. The net fair value of the derivatives in the DMA accounts was negative £10 million at 31 March 2010 (31 March 2009: negative £103 million).

PWLB

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

During 2009-2010, the lending arrangements under which local authorities may borrow from the PWLB did not change significantly. During this period, the PWLB agreed 586 applications for loans totalling £5.1 billion (2009: £6.4 billion). The reduction in new advances was a continuation of a trend which emerged in 2008-2009. Low rates for local authorities' cash investments and perceptions of heightened credit risk attached to investment counterparties, led local authorities to apply their cash investments to capital expenditure or debt redemption. The reduction in new advances resulted in a reduction in fee income from PWLB borrowers to £1.8 million (2009: £2.2 million).

In total, 320 local authorities applied for advances, including 143 non-principal authorities.

At 31 March 2010, the overall level of nominal debt outstanding to the PWLB amounted to £51.2 billion (31 March 2009: £50.9 billion).

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

CRND

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

Special Liquidity Scheme

Since its launch by the Bank of England in April 2008, the DMO has supported the Special Liquidity Scheme by lending unsecured Treasury bills, which were issued by and bought from the NLF, to the Bank of England for a fee. The DMO established, and subsequently refreshed monthly, the stock of Treasury bills available for this scheme by purchasing specially created Treasury bills from the NLF in quantities informed by the Bank of England's estimates of future demand. Held by the DMA, the Treasury bills earn interest from the NLF. Treasury bills loaned to the Bank of England have been returned on or before the due date. By agreement with HM Treasury, stock lending fees received from the Bank of England, less recovery of costs to cover HM Treasury and DMO involvement in the scheme, have been shared between the DMA and the NLF.

The initial purchase of Treasury bills by the DMA had a nominal value of £50 billion. Further purchases were made throughout 2008-2009 and 2009-2010. As at 31 March 2010, the nominal value of Treasury bills held on the DMA's statement of financial position for the purpose of providing collateral under the Special Liquidity Scheme was £176.4 billion (31 March 2009: £205.7 billion).

Although the drawdown window to access the SLS has closed, the scheme will remain in place until 30 January 2012. During this time, participant banks may replace existing stock swaps under the scheme with new stock swaps under the same terms and maturing prior to the scheme closure. Therefore, under current arrangements, the DMA's stock of NLF Treasury bills held for the Special Liquidity Scheme will not increase.

Discount Window Facility

Under the Discount Window Facility, the DMO may lend gilt-edged securities to the Bank of England, so that it may swap them with participating banks for eligible securities. In October 2008, gilts with a nominal value of £47.8 billion were created by the NLF and sold to the DMA for this purpose.

Guarantee Schemes

The DMO administers the operational elements of the 2008 Credit Guarantee Scheme, on behalf of HM Treasury. This has principally involved assessing applications to the scheme, issuing guarantees for specific bond issues upon request by eligible banks, collecting fees payable by the participating banks, and accounting.

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

The DMO also supported HM Treasury's work on the 2009 Asset-backed Securities Scheme, which closed on 31 December 2009.

Asset Purchase Facility

The DMO met the funding requirements of the Bank of England to support its Asset Purchase Facility.

During 2009-2010, the DMA also lent gilts to the Bank of England in delivery by value (DBV) transactions, and borrowed specific gilts of the same value.

Emissions Trading System

During 2007-2008, the DMO was commissioned to act as auctioneer for the Department for Environment, Food and Rural Affairs (later to become the Department of Energy and Climate Change) for phase II of the European Union Emissions Trading System.

During 2009-2010, the DMO conducted eight (2008-2009: two) successful auctions of EU Allowances for carbon emissions.

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

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 2009-2010 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 2009-2010 against the backdrop of a continued very high forecast financing requirement, continued perceived structural demand for long-dated and index-linked gilts (particularly from the UK pension and insurance industries which it was judged to be cost-effective to meet) and continued volatility in international capital markets.

This backdrop led to a significant change in the structure of the DMO's financing remit with a core auction programme accounting for 82 per cent of the planned sales being supported by supplementary issuance programmes (or syndicated offerings and mini-tenders) accounting for the remainder. The supplementary methods were designed to facilitate a greater issuance of long-dated and index-linked gilts than would have been possible by auctions alone, and were introduced after consultation with the market which was supportive of their introduction. The scale of the financing requirement required, however, significant contributions from the short- and medium- dated gilt sectors.

In addition, from June 2009 the DMO introduced the Post-Auction Option Facility (PAOF) under which successful bidders at auctions received an option to buy up to 10 per cent of their allocation in a period up to 2.00pm on the day of the auction at the average accepted/strike price of the auction. This was designed to help incentivise bidding as well as increasing proceeds from individual operations. Proceeds from the option facility in 2009-2010 totalled £9.8 billion.

Planned gilt sales of £220.0 billion were announced in the DMO remit published alongside the Budget in April 2009, an increase of £73.5 billion (50 per cent) on the previous year's total. Planned issuance at auctions comprised £74 billion in short, £70 billion in medium and £27 billion in long-dated conventional gilts, with £12 billion of index-linked gilt sales. Issuance by syndicated offerings was expected to raise £25 billion and mini-tenders £12 billion (all of long-dated conventional and index-linked gilts).

At the Pre-Budget Report 2009 planned gilt sales rose by £5.1 billion to £225.1 billion, with the bulk of this increase coming from planned sales from the supplementary programmes (planned sales via syndications rising by £5 billion to £30 billion, those from mini-tenders falling by £1 billion to £11 billion).

The DMO successfully delivered the financing remit with gilt sales of £227.6 billion (slightly above the planned target, principally reflecting the impact of PAOF).

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

The DMO successfully delivered its cash management objectives for 2009-2010 despite ongoing challenging market conditions prevalent throughout the period.

The DMO monitored and assessed its overall performance in meeting HM Government's objectives in Exchequer active cash management using a number of key performance indicators.

A full account of cash management performance will be included within the DMO's Annual Review 2009-2010.

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

The DMO has continued to provide advice and analysis to HM Treasury to support the management of the wider statement of financial position for HM Government, including in relation to the implementation of HM Government's Credit Guarantee Scheme for the banking sector. The drawdown window for the issuance of new debt eligible for the Guarantee closed on 28 February 2010.

4. To provide advice and operational services to HM Government's departments on whole markets-related issues and activities (e.g. Credit Guarantee Scheme, Emissions Trading System etc.).

The DMO has continued to work with the Department for Energy and Climate Change to implement the Government's sale by auction of EU allowances in the UK for Phase II of the EU Emissions Trading System (EU ETS). The DMO successfully conducted eight EU ETS auctions.

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

The DMO continued to provide a cost-effective service to client funds through the Commissioners for the Reduction of the National Debt (CRND). The DMO charged £0.6 million in 2009-2010 for services relating to the management of funds with a value exceeding £54.0 billion at 31 March 2010.

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

The Public Works Loan Board (PWLB) agreed £5.1 billion of new loans to borrowers in 2009-2010. The rates applied to loans by the PWLB continued to be set close to the government's own cost of borrowing.

The DMO received fees of £1.8 million from the PWLB's borrowers in respect of new loans issued.

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

During 2009-2010, the DMO employed an average of 112 full-time equivalent staff, of which 80 were permanent members of staff and 32 were short-term contract staff.

The DMO values skills and expertise and is committed to training and development. It is a rewarding place to work and has an open management culture and a common sense of purpose.

The Investors in People award was achieved in June 2000 and the DMO was re-accredited in December 2002, September 2005 and September 2008. This illustrates the DMO's commitment to the training and development of its staff.

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

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

The DMO continued to operate an effective risk and control framework throughout the year as detailed in the statement on internal control on page 50 to 55.

There were no significant breaches of controls during the year.

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 2009-2010).

Achieved. The DMO complied fully with the financing remit in 2009-2010.

The gilt sales outturn was £227.6 billion (cash) relative to the final revised target of £225.1 billion as published at the 2009 Pre-Budget Report. Sales were achieved through the conduct of 58 auctions (46 conventional and 12 index-linked), 6 syndicated offerings and 13 mini-tenders. All syndications and mini-tenders were of long-dated conventional or index-linked gilts.

Outright gilt sales of £147.9 billion were planned for 2009-2010 in a provisional remit announced on 18 March 2009. The provisional remit was based on the forecast Central Government Net Cash Requirements for 2009-2010 as published at PBR 2008. With the remit published at Budget 2009 planned gilt sales for 2009-2010 rose to £220.0 billion. A planned supplementary issuance programme of £37.0 billion was included in the remit, alongside the core issuance programme. This comprised an envisaged programme of up to eight syndicated gilt offerings (raising £25.0 billion) and monthly mini-gilt tenders (raising £12.0 billion). In addition a Post-Auction Option Facility (PAOF) was introduced from auctions beginning in June 2009 through which successful bidders at auction acquired an option to purchase up to a further 10 per cent of their auction allocation at the average accepted/strike price of the auction.

Planned gilt sales were increased to £225.1 billion at the Pre-Budget Report in December 2009, with the increase principally being accommodated by an increase to £30.0 billion in planned sales from syndications. The gilt sales outturn was £227.6 billion (£198.3 billion from conventional gilts and £29.3 billion from index-linked gilts). As regards distribution methods, sales from auctions totalled £187.0 billion (of which £9.8 billion were proceeds from the PAOF), from syndications £30.5 billion and from mini-tenders £10.1 billion.

The 58 outright gilt auctions, 6 syndications and 13 mini-tenders are shown in the table in target 2, along with proceeds and the auction announcement release times.

The auction results throughout the year were generally good and were achieved despite difficult market conditions. Cover, the ratio of the total amount of bids to the amount of gilts on offer at an auction, ranged from 1.53 times at the auction of 4½% Treasury Gilt 2034 on 4 November 2009 to 3.12 times at the auction of 5¼% Treasury Gilt 2012 on 2 February 2010. Average cover at gilt auctions in 2009-2010 was 2.04 times compared to 1.83 times in 2008-2009.

The stock of Treasury bills (in market hands) rose from £44.0 billion at the end of March 2009 to £63.0 billion at the end of March 2010, primarily as a planned contribution to the DMO's financing remit during the financial year.

There were no credit breaches during the financial year.

2009-2010 Gilt sales

	Conventional gilts (£m)			Index-linked	Total
	Short-term	Medium-term	Long-term	gilts (£m)	(£m)
Gilt programme at 2009 Budget	74,000	70,000	46,000	30,000	220,000
Gilt programme revision (Pre-Budget Report 2009)	74,200	70,100	50,600	30,200	225,100
Gilt sales at 31 March 2010	**75,398**	**71,280**	**51,590**	**29,322**	**227,589**

Note:
In addition a tender was held on 29 April 2009 for the residual stock remaining after the uncovered auction of 4¼% 2049 on 25 March 2009.

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

Date	Gilt	Proceeds (£m)	Release time (mins)
1-Apr-2009	4¾% Treasury Stock 2015	3,937	7
2-Apr-2009	4¼% Treasury Gilt 2039	2,247	6
7-Apr-2009	4½% Treasury Gilt 2019	3,260	8
8-Apr-2009	1¼% Index-linked Treasury Gilt 2032	1,101	6
15-Apr-2009	1⅛% Index-linked Treasury Gilt 2037	536	9
16-Apr-2009	2¼% Treasury Gilt 2014	3,893	6
28-Apr-2009	4% Treasury Gilt 2022	3,022	6
29-Apr-2009	4¼% Treasury Gilt 2049	184	5
30-Apr-2009	1⅞% Index-linked Treasury Gilt 2022	1,196	5
6-May-2009	4½% Treasury Gilt 2019	3,765	7
12-May-2009	4¾% Treasury Gilt 2030	2,362	6
14-May-2009	0¾% Index-linked Treasury Gilt 2047	705	7
19-May-2009	4¾% Treasury Stock 2038	1,312	5
21-May-2009	2¼% Treasury Gilt 2014	4,845	7
28-May-2009	1¼% Index-linked Treasury Gilt 2032	1,259	7
2-Jun-2009	4¼% Treasury Gilt 2049	2,032	7
3-Jun-2009	4½% Treasury Gilt 2019	4,066	8
9-Jun-2009	5% Treasury Stock 2014	6,078	7
11-Jun-2009	0¾% Index-linked Treasury Gilt 2047	719	7
16-Jun-2009	4½% Treasury Gilt 2034	6,836	n/a*
23-Jun-2009	4% Treasury Gilt 2022	3,976	6
25-Jun-2009	1⅛% Index-linked Treasury Gilt 2037	563	5
1-Jul-2009	2¼% Treasury Gilt 2014	5,444	9
2-Jul-2009	4¼% Treasury Gilt 2039	2,413	6
7-Jul-2009	3¾% Treasury Gilt 2019	3,973	6
8-Jul-2009	1¼% Index-linked Treasury Gilt 2027	1,152	7
16-Jul-2009	4¼% Treasury Gilt 2032	1,213	5
21-Jul-2009	4% Treasury Gilt 2016	4,157	7
23-Jul-2009	0 ⅝% Index-linked Treasury Gilt 2042	4,613	n/a*
29-Jul-2009	2¼% Treasury Gilt 2014	5,215	7
4-Aug-2009	4¼% Treasury Gilt 2027	2,643	7
11-Aug-2009	3¾% Treasury Gilt 2019	3,786	7
13-Aug-2009	0¾% Index-linked Treasury Gilt 2047	479	5
20-Aug-2009	1¼% Index-linked Treasury Gilt 2032	1,211	6
2-Sep-2009	5¼% Treasury Gilt 2012	5,548	6
3-Sep-2009	4¼% Treasury Gilt 2039	2,329	6
8-Sep-2009	3¾% Treasury Gilt 2019	4,111	5
14-Sep-2009	6% Treasury Stock 2028	1,274	4
17-Sep-2009	2¼% Treasury Gilt 2014	5,675	5
24-Sep-2009	0½% Index-linked Treasury Gilt 2050	4,918	n/a*
29-Sep-2009	4% Treasury Gilt 2022	4,091	5
1-Oct-2009	4¾% Treasury Gilt 2030	2,713	17

Date	Gilt	Proceeds (£m)	Release time (mins)
6-Oct-2009	4½% Treasury Gilt 2012	5,815	5
7-Oct-2009	0 ⅝% Index-linked Treasury Gilt 2042	860	5
14-Oct-2009	4¾% Treasury Gilt 2020	3,857	5
15-Oct-2009	1¼% Index-linked Treasury Gilt 2017	704	5
21-Oct-2009	4% Treasury Gilt 2060	6,722	n/a*
22-Oct-2009	5% Treasury Stock 2014	5,364	5
3-Nov-2009	2¾% Treasury Gilt 2015	5,111	6
4-Nov-2009	4½% Treasury Gilt 2034	2,059	5
10-Nov-2009	3¾% Treasury Gilt 2019	4,067	5
12-Nov-2009	1¼% Index-linked Treasury Gilt 2032	1,130	5
19-Nov-2009	1⅛% Index-linked Treasury Gilt 2037	560	5
24-Nov-2009	4% Treasury Gilt 2022	4,107	5
1-Dec-2009	2¾% Treasury Gilt 2015	5,487	5
2-Dec-2009	4¼% Treasury Gilt 2039	2,511	5
8-Dec-2009	3¾% Treasury Gilt 2019	4,104	5
16-Dec-2009	4¼% Treasury Gilt 2032	979	4
17-Dec-2009	1¼% Index-linked Treasury Gilt 2027	1,082	6
6-Jan-2010	2¾% Treasury Gilt 2015	4,325	5
13-Jan-2010	4¼% Treasury Gilt 2049	2,382	9
18-Jan-2010	1¼% Index-linked Treasury Gilt 2017	705	6
21-Jan-2010	3¾% Treasury Gilt 2019	3,476	8
27-Jan-2010	0 ⅝% Index-linked Treasury Gilt 2040	3,413	n/a*
2-Feb-2010	5¼% Treasury Gilt 2012	4,351	5
3-Feb-2010	5% Treasury Stock 2018	3,271	5
9-Feb-2010	4½% Treasury Gilt 2034	2,159	5
11-Feb-2010	1⅞% Index-linked Treasury Gilt 2022	1,027	4
18-Feb-2010	0¾% Index-linked Treasury Gilt 2047	431	5
23-Feb-2010	4% Treasury Gilt 2060	3,989	n/a*
24-Feb-2010	3¾% Treasury Gilt 2019	3,199	12
2-Mar-2010	4¼% Treasury Gilt 2039	2,050	6
3-Mar-2010	2¾% Treasury Gilt 2015	4,311	5
9-Mar-2010	4% Treasury Gilt 2022	3,195	4
11-Mar-2010	1¼% Index-linked Treasury Gilt 2032	958	5
16-Mar-2010	6% Treasury Stock 2028	1,180	5
18-Mar-2010	4¾% Treasury Gilt 2020	3,796	4
		227,589	

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

Achieved. The release times for the 58 auctions held during the financial year ranged from 4 to 17 minutes and averaged 6.4 minutes (2008-2009: 7.6 minutes).

The release times for the 8 EU ETS auctions held during the financial year ranged from 5 to 12 minutes and averaged 8 minutes.

The release times for the 51 weekly Treasury bill tenders conducted during the financial year ranged from 26 to 6 minutes and averaged 16 minutes. Electronic bid capture at Treasury bill tenders was introduced from the tenders held on 19 February 2010; this resulted in a significant reduction in release times for tenders (from 17 minutes to 8 minutes).

There were no ad hoc or other Treasury bill tenders.

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 PWLB and the CRND.

Achieved. Management accounts and other internal control procedures did not identify any significant errors. The Comptroller and Auditor General certified that the 2008-2009 financial statements of the DMO, the DMA, the PWLB, and the CRND client funds each give a true and fair view of the accounts involved.

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

Partially achieved in respect of routine business letters and e-mail inquiries.

Over the financial year there were 411 inquiries (of which 399 were e-mails, of which 108 were received via the web strategy e-mail address).

On 9 occasions the initial response of four working days was breached. On 4 occasions this was due to e-mails being caught in the DMO's e-mail filters. On 3 occasions enquiries were responded to late due to staff absences. On 2 occasions the enquiries were received when the DMO was lightly staffed and unable to respond in time. Upon discovery the enquiries were responded to immediately. The average response time was 2 working days.

25 requests were received and handled in accordance with the provisions of the Freedom of Information Act: all were responded to within the statutory timeframe.

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

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 according to the agreed schedule.

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

However, there have been three occasions where the Ways and Means facility was required to balance the DMA to zero: (i) an internal error leading to a £600 million overdrawn balance on 7 July 2009, (ii) an external forecast error on 13 November 2009 leading to a £13 million overdrawn balance, and (iii) an external forecast error on 3 February 2010 leading to a £300 million overdrawn balance.

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

Achieved. No trades failed due to DMO processing failures. During the year trades with a value of £3,251 million (0.1 per cent by value) failed as a result of circumstances outside the DMO's control. All failed trades were due to market counterparties having insufficient securities to satisfy their delivery obligations to the DMO.

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

The target to release all market sensitive data and announcements in a timely manner was successfully achieved.

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 was 23, comprising 13 website errors, 6 errors in published material and 4 other errors. Each error was corrected upon detection.

Appropriate steps have been taken to reduce the risk of such errors in the future.

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

Achieved. During 2009-2010 all loan or early settlement applications from local authorities were processed 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.

Achieved. The gilt sale and purchase scheme during 2009-2010 was conducted fully in line with its terms and conditions. The pattern of sales and purchases through the financial year is shown in the following table.

	Sales	Purchases	Aggregate retail sales	Aggregate retail purchases
	(transactions)	(transactions)	£m	£m
Apr-Jun 2009	909	1,631	10.01	64.80
Jul-Sep 2009	1,058	1,487	16.13	20.20
Oct-Dec 2009	927	1,562	11.35	28.56
Jan-Mar 2010	1,110	419	14.44	8.00
Total	**4,004**	**5,099**	**51.93**	**121.56**

11. To administer the Credit Guarantee Scheme, together with the Asset-backed Securities Guarantee Scheme, on behalf of HM Treasury in accordance with the relevant Scheme's published rules.

Both the Credit Guarantee Scheme and the Asset-backed Securities Guarantee Scheme were administered by the DMO fully in accordance with the schemes' published rules.

Financial results of the United Kingdom Debt Management Office

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

The DMO's net operating cost for 2009-2010 was £15.7 million (2009: £12.1 million). This increase of £3.6 million is due to:

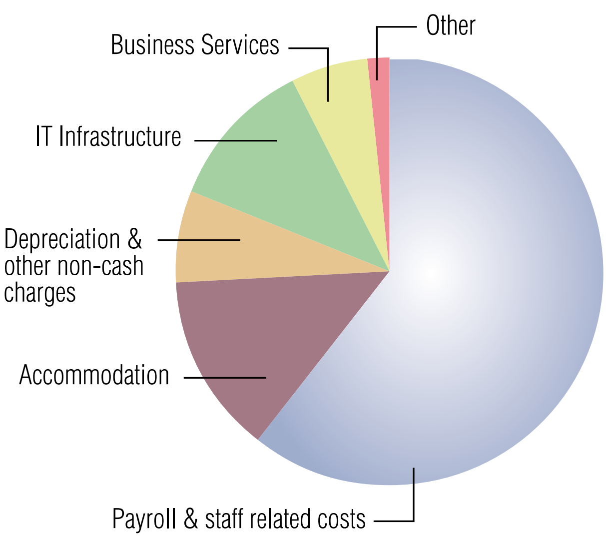
	£m
Increase in gross administration costs	2.1
Decrease in administration income	0.4
Increase in gross programme costs	1.1
	3.6

These changes are explained below.

Administration

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

Administration expenditure and income



During 2009-2010, the gross administrative expenditure amounted to £15.1 million (2009: £13.0 million). The **increase of £2.1 million** was mostly driven by staff costs (£1.3 million higher than the previous year). Average staff numbers were higher than in the previous year as the DMO increased its operational capacity in order to manage its increased workload.

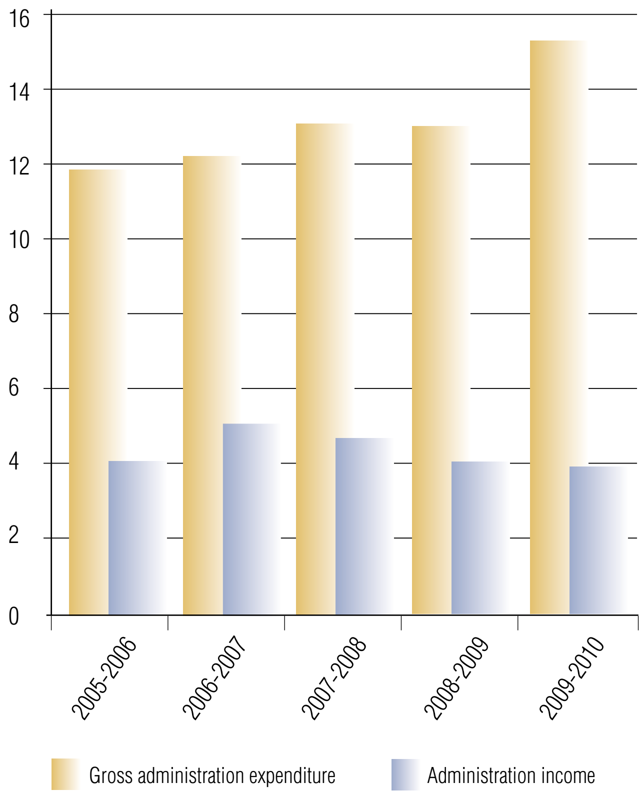
Other administrative costs increased for similar reasons and were driven by the increased delivery requirements for gilt issuance (legal costs), the first full-year management of the Guarantee Schemes, the delivery of increased IT infrastructure and greater market data wire services to support the fiscal stability measures.

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

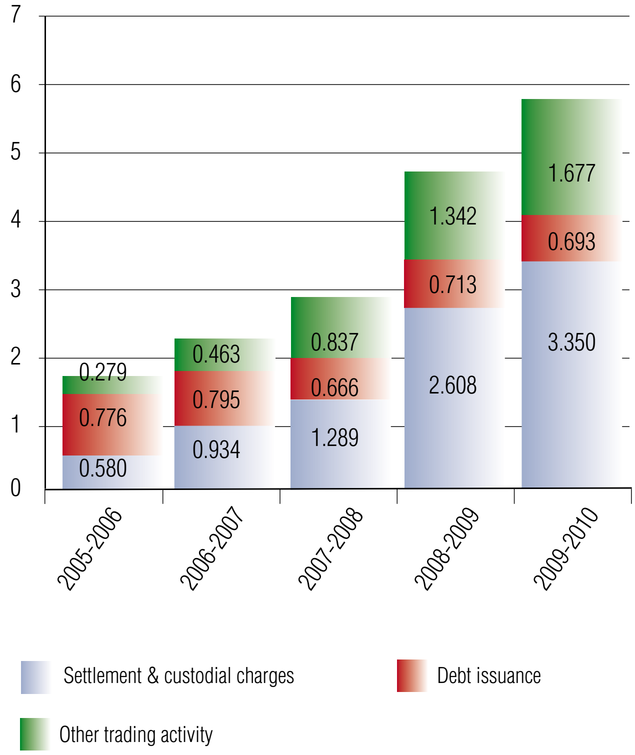
During 2009-2010, the administration income **decreased by £0.4 million** to £3.7 million (2009: £4.1 million). Fees from PWLB customers fell to

£1.8 million (2009: £2.2 million) due to lower demand for new loans in 2009-2010 relative to the previous year. Costs recovered from DECC for the Emissions Trading System were lower as the DMO completed the development stage of this workstream.

Administration expenditure and income (£m)



Programme expenditure (£m)



The chart does not include gilt syndication expenditure incurred in 2005-2006.

Debt issuance costs are recovered from the National Loans Fund and are included in reported programme income.

Programme

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

Gross programme expenditure **increased by £1.1 million** to £5.7 million (2009: £4.7 million). This mainly related to the DMO's increased level of trading activity over the course of the financial year.

The DMO also has parliamentary approval to off-set programme expenditure with associated income. During 2008-2009, the DMO received £1.5 million, being equal to the income target and has been able to apply this total in full.

Statement of financial position

At 31 March 2010, the DMO's statement of financial position showed a deficit. This is a product of the relationship between the DMO and HM Treasury as its parent department. The DMO is an executive agency operating at arm's length from ministers but its funding is an allocation of the total voted by Parliament to HM Treasury. The DMO has no operating capital or cash of its own; its liabilities are paid by HM Treasury. The cash funding thus provided by HM Treasury to the DMO does not equate to the net operating cost recorded by the DMO on an accrual basis. As required by the Government Financial Reporting Manual, funding is recorded in the General Fund within Taxpayers' Equity, along with net operating cost.

The balance of Taxpayers' Equity can therefore be particularly affected by:

- Unpaid and accrued liabilities recognised as an expense by the DMO but not yet funded by HM Treasury
- Outstanding receivables
- Income recognised in the operating cost statement in excess of what can be appropriated in aid, which is recorded as a liability and must be paid over to the Consolidated Fund.

A statement of financial position deficit therefore reflects the DMO's net operating funding requirement at that date rather than operating performance or solvency.

Financial results of the Debt Management Account

Income statement

The DMA's operations for the financial year 2009-2010 gave rise to **net interest income of £5,301 million** (2009: £2,678 million), **other gains of £20 million** (2009: other losses of £123 million), and fee income of £63 milliion (2009: £32 million). This resulted in an **income statement surplus for the year of £5,384 million** (2009: £2,587 million). **Net unrealised losses on investment securities recorded in the revaluation reserve were £3,707 million** (2009: net unrealised gains of £6,759 million).

Net interest income £5,301m

Interest income and associated cost of funds	£m
Cash management (excluding non-interest gains and losses)	51
Facilitation of HM Treasury and Bank of England schemes	
Gilts held for the Discount Window Facility	3,376
Treasury bills held for the Special Liquidity Scheme	897
Other interest income	
Collateral pool	1,195
Deposit at National Loans Fund (part not allocated as cost of funds)	304
Other	34
Other interest expense	
Deposits from CRND funds	(281)
Treasury bills issues	(262)
Advance from National Loans Fund (part not allocated as cost funds)	(11)
Other	(2)
	5,301

Net interest income was generated mainly by the DMA's involvement in the **Discount Window Facility** (£3,376 million) and the **Special Liquidity Scheme** (£897 million). This resulted in net interest income because interest income on gilts and Treasury bills, for use as collateral or for lending to the Bank of England to facilitate the Discount Window Facility or the Special Liquidity Scheme, was greater than the interest expense on the liabilities that funded these assets. Interest income on the gilts and Treasury bills reflects the yields available when they were purchased from the NLF. Critically, these historic yields were greater than the average prevailing rates paid on the relevant liabilities during 2009-2010. The DMA funds its purchase of such gilts and Treasury bills with an advance from the NLF, which incurs interest at the Bank Rate. The Bank Rate decreased to 0.5 per cent on 5 March 2009, and remained at this historic low, having been 5.25 per cent at the time of the majority of the purchases. The funding cost of the gilts and Treasury bills fell in line with the decrease in the Bank Rate, while the interest income they generated was affected far less. The impact of this interest rate differential on the Discount Window Facility was greater than during 2008-2009, as the relevant gilts were held for the whole of 2009-2010. The impact of this interest rate differential on the Special Liquidity Scheme was less than during 2008-2009, as the relevant Treasury bills yielded rates closer to the Bank Rate. The total carrying value of these assets at 31 March 2010 was £314,882 million (31 March 2009: £352,595 million).

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

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

Relative to HM Government's marginal cost of funds, cash management operations achieved a net interest surplus. Details of the DMO's cash management performance can be found in the DMO Annual Review 2009-2010.

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

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Other gains and losses £20m

The DMA holds derivatives to hedge foreign exchange risk and HM Government's exposure to equity index risk relating to Guaranteed Equity Bonds issued by National Savings & Investments (NS&I). Valuation changes net of realised gains on the equity index / interest rate derivatives used for hedging the Guaranteed Equity Bonds resulted in net income of £26 million (2009: expense of £139 million) in the DMA, largely due to a rise in the FTSE 100 index in the year to 31 March 2010. The gain incurred by the DMA is mirrored by higher borrowing costs incurred by NS&I. Taking account of the positions of both the DMA and NS&I the Government incurred no material gain or loss.

The DMA holds gilts and Treasury bills as collateral. Disposal of a limited number of these assets resulted in net income of £16 million (2009: £7 million). The DMA holds assets as part of its cash management operations. Changes in the value of these assets resulted in net expense of £22 million (2009: net income of £9 million).

Unrealised losses on investment securities £3,707m (revaluation: £3,691m; disposals: £16m)

Rising yields on conventional gilts, held by the DMA for use as collateral in its Exchequer cash management operations and for use in the Discount Window Facility, and rising yields on Treasury bills, used in the Special Liquidity Scheme, reflected the decrease in value of these instruments. The market value of these gilts and Treasury bills tends to decrease when market interest rates rise. Demand for HM Government gilts and Treasury bills increased as a result of the Bank of England's Asset Purchase Facility (for the purposes of quantative easing). However, this was outweighed by market expectations of future inflation, stronger risk appetite in the market, concerns about the large volume of future gilt supply, unease about the UK credit rating, as well as other economic factors. This resulted in an overall decreased demand for HM Government gilts and Treasury bills, and caused the price of these instruments to decrease.

Because of their classification as investment securities available-for-sale, changes in the fair value of the gilt collateral pool, Discount Window Facility gilts, and Special Liquidity Scheme Treasury bills are not reflected as gains and losses in the income statement, but in the revaluation reserve. During 2009-2010, the revaluation reserve decreased by £3,707 million (2009: increased by £6,759 million).

Fee income £63m

The DMA earned fee income in 2009-2010 of £63 million (2009: £32 million) from activities that included lending Treasury bills to the Bank of England to facilitate the Special Liquidity Scheme.

Composition of the statement of financial position

Investment securities classified as available-for-sale had a fair value of £314,882 million at 31 March 2010 (31 March 2009: £352,595 million). This decrease was principally due to reduced holdings of Special Liquidity Scheme Treasury bills.

As during 2008-2009, Treasury bills were sold by the NLF to the DMA for use in the Special Liquidity Scheme. As at 31 March 2010, the DMA's statement of financial position still included such Treasury bills with a nominal value of £176,354 million (2009: £205,694 million), and a fair value of £176,108 million (2009: £205,148 million). For operational reasons, the balance of Treasury bills sold by the NLF to the DMA tended to exceed the value of Treasury bills loaned to the Bank of England throughout the year.

These assets continued to be funded largely by the advance from the NLF to the DMA. As at 31 March 2010, the carrying value of the NLF advance was £242,127 million (31 March 2009: £292,166 million).

The lending and borrowing that the DMA engaged in, as part of its cash management operations, varied in response to the funding requirements of the National Loans Fund, which reflect HM Government's daily cash flows. Loans and advances to banks, securities held for trading, and deposits by banks are particularly affected in this respect. During 2009-2010, the DMA continued to hold large asset and liability balances, as it sought to manage historically large aggregate Exchequer borrowing requirements. As at 31 March 2010, securities held for trading were £924 million (31 March 2009: £4,841 million), loans and advances to banks were £44,187 million (31 March 2009: £34,863 million), and deposits by banks were £15,355 million (31 March 2009: £29,344 million).

Issuance of Treasury bills by the DMA

During the year, the DMA issued Treasury bills with a nominal value of £217.9 billion (2009: £165.4 billion) of which £63.3 billion was still in issue at 31 March 2010 (31 March 2009: £44.0 billion). Such Treasury bills had a carrying value of £63.0 billion (31 March 2009: £43.9 billion). This increase was planned in order for the DMO to meet its remit for 2009-2010.

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

Forward look

Vision statement

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

The DMO's strategic objectives for 2010-2011

The DMO's strategic objectives for 2010-2011 are set out in the published business plan which is available on the DMO website at www.dmo.gov.uk.

1. To develop, provide advice on and implement HM Government's debt management strategy.
2. To develop, provide advice on and implement HM Government's cash management requirements.
3. To provide advice and operational services to HM Treasury on issues relating to the management of HM Government's statement of financial position.
4. To provide advice and operational services to HM Government departments on wholesale market-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.

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

The DMO's operational targets for 2010-2011

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 2010-2011).
2. To ensure that the maximum time taken to issue the results of auctions and mini-tenders of gilts, Treasury bill tenders and Emissions Trading System auctions does not exceed 15 minutes – although the DMO will aim to publish the results of the operations within 10 minutes of the close of offer - whilst achieving complete accuracy.
3. To achieve accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and 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 PWLB and the CRND.
4. To ensure that the DMO will respond to enquiries under the Freedom of Information Act within the statutory timeframe.
5. To avoid breaches of the DMO's operational market notices.
6. To ensure that, for cash management purposes, target weekly balances and expected daily variations are notified according to the agreed schedule.

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

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

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

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

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

The DMO's key planning themes for the period to 2012-2013

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

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

This will include the following:

- Delivering the debt and cash management remits for 2010-2011 adapting as necessary to changes in market and other conditions;
- Developing in due course the debt and cash management remits for 2011-2012;
- Continuing to lend to local authorities through the Public Works Loan Board; improving the service while minimising cost and risk to the Exchequer;
- Managing the funds of the Commissioners for the Reduction of the National Debt in accordance with the mandates from clients;
- Delivering the gilt purchase and sale service for retail investors efficiently and effectively;
- Managing the registration contract with Computershare, on behalf of HM Treasury, in an effective and efficient way;
- Continuing to manage hedging transactions to meet NS&I's requirements in respect of its financing programme;
- Delivering the ongoing capability to execute and develop Emissions Trading System auctions on behalf of the Department of Energy and Climate Change;
- Managing the administration of the Credit Guarantee Scheme on behalf of HM Treasury, in an effective and efficient way;
- Producing the annual report and accounts for the DMO as an agency, the DMA, the Public Works Loan Board and Commissioners for the Reduction of the National Debt funds to the highest standards of quality and timeliness;
- Ensuring that the DMO's website, publications and information are managed effectively and are available to stakeholders when required.

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

This will include the following:

- Developing further our understanding of key issues relating to the financial markets in which the DMO operates by liaising directly with domestic and international stakeholders – including primary dealers, end-investors etc;
- Where necessary, working with HMT on the development of pragmatic solutions relating to HM Government schemes and initiatives;
- Developing further analytical expertise, tools and techniques that help inform and contribute to the delivery of the debt and cash management remits; 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 the DMO's operations within the budget "envelope" agreed with HM Treasury;
- 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;
- Continuing to develop and enhance the DMO's business delivery capability to enhance the operational resilience of the agency;
- Continuing to enhance the DMO's risk management analytical and reporting framework and capability;
- Continuing to implement a programme of strategic Information Technology work to enhance the DMO's core infrastructure and applications;
- Developing further the structure and production of business knowledge and information to support the DMO's business and agency functions; and
- Continuing to manage information requests effectively and efficiently and in line with statutory and other requirements.

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

This will include the following:

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

Planning uncertainties

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

Remuneration report

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

Remuneration report

The DMO has a Pay Committee, which during 2009-2010 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
- **Colin Price**
  Non-executive director (to 31 December 2009)
- **Brian Larkman**
  Non-executive director
- **Brian Duffin**
  Non-executive director (from 1 January 2010)

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

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

Non-executive directors

Colin Price was originally contracted for a 3-year period from 21 February 2001. Upon completion, his contract was extended to 20 February 2007 and was subsequently extended for an additional 3-year term. On 31 December 2009, Colin retired from his role of non-executive director of the DMO.

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.

Brian Duffin was recruited to the role of non-executive director to replace Colin Price and commenced his employment on 1 January 2010. His contract is for a 3-year period, which finishes on 31 December 2013.

The employment contract for Brian Larkman is subject to a one-month early termination notice period, while the contract for Brian Duffin is subject to a 5 week 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

	2009-2010 Salary £000	2008-2009 Salary £000
Senior DMO Staff		
Robert Stheeman - Chief Executive	155-160	140-145
Jo Whelan - Deputy Chief Executive and Joint Head of Policy and Markets *	110-115	105-110
Full time equivalent salary	*150-155*	*140 -145*
Jim Juffs - Chief Operating Officer	145-150	135 -140
Joanne Perez – Joint Head of Policy and Markets **	75-80	105-110
Full time equivalent salary	*130-135*	*125- 130*
Non-executive directors		
Colin Price	10 -15	15 -20
Brian Larkman	15-20	15 -20
Brian Duffin	0-5	-

(This disclosure has been audited.)

* The salary disclosed reflects part time hours and is calculated on a pro rata basis from a full time equivalent of 0.72 in 2009-2010 (0.72 in 2008-2009).

** The salary disclosed reflects part time hours and is calculated on a pro rata basis from a full time equivalent of 0.50 for the period between 1 April and 30 September and 0.60 for the remainder of 2009-2010 (full-time for the period between 1 April and 30 November 2008 and 0.50 for the period between 1 December and 31 March 2009).

'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 DMO and thus recorded in its accounts.

The DMO is not responsible for the remuneration of any Ministers or the non-executive HM Treasury representative (Sam Beckett), who is an employee of HM Treasury.

In addition, Colin Price and Brian Larkman were entitled to remuneration from HM Treasury for their service during the year on the Exchequer Funds Audit Committee, which was operational until 31 December 2009. Colin Price filled the role of chairman and received £0 - £5,000, while Brian Larkman was an independent committee member and received £0 - £5,000.

Pension benefits

	Accrued pension at age 60 at 31 March 2010 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31 March 2010	CETV at 31 March 2009 * Restated	Real increase in CETV
	£000	£000	£000	£000	£000
Robert Stheeman	10-15	2.5-5	229	177	37
Jo Whelan	5-10	0-2.5	130	98	23
Jim Juffs	60-65	7.5-10	271	218	37

(This disclosure has been audited.)

* The CETV figure at 31 March 2009 is different from the closing figures reported in last year's accounts. This is due to the CETV factors having been updated.

CETV is an abbreviation for 'Cash Equivalent Transfer Value'. This measure of value is explained on page 46.

Joanne Perez has chosen to join a partnership pension scheme rather than the Principal Civil Service Pension Scheme (PCSPS). The total contributions paid to the partnership pension provider amounts to £12,300 (2009: £14,700).


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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 who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent 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 his/her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent 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 per cent and 12.5 per cent (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 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent 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 in accordance within the guidelines and framework prescribed by the Institue and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

Real increase in CETV

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

Robert Stheeman
Chief Executive
30 June 2010

Statement of Accounting Officer’s responsibilities

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

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, 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 79.

Under Schedule 5A of the National Loans Act 1968, HM Treasury has directed the DMO to prepare a statement of the Debt Management Account in the form and on the basis set out in the accounts direction on page 117.

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 Debt Management Account respectively.

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.

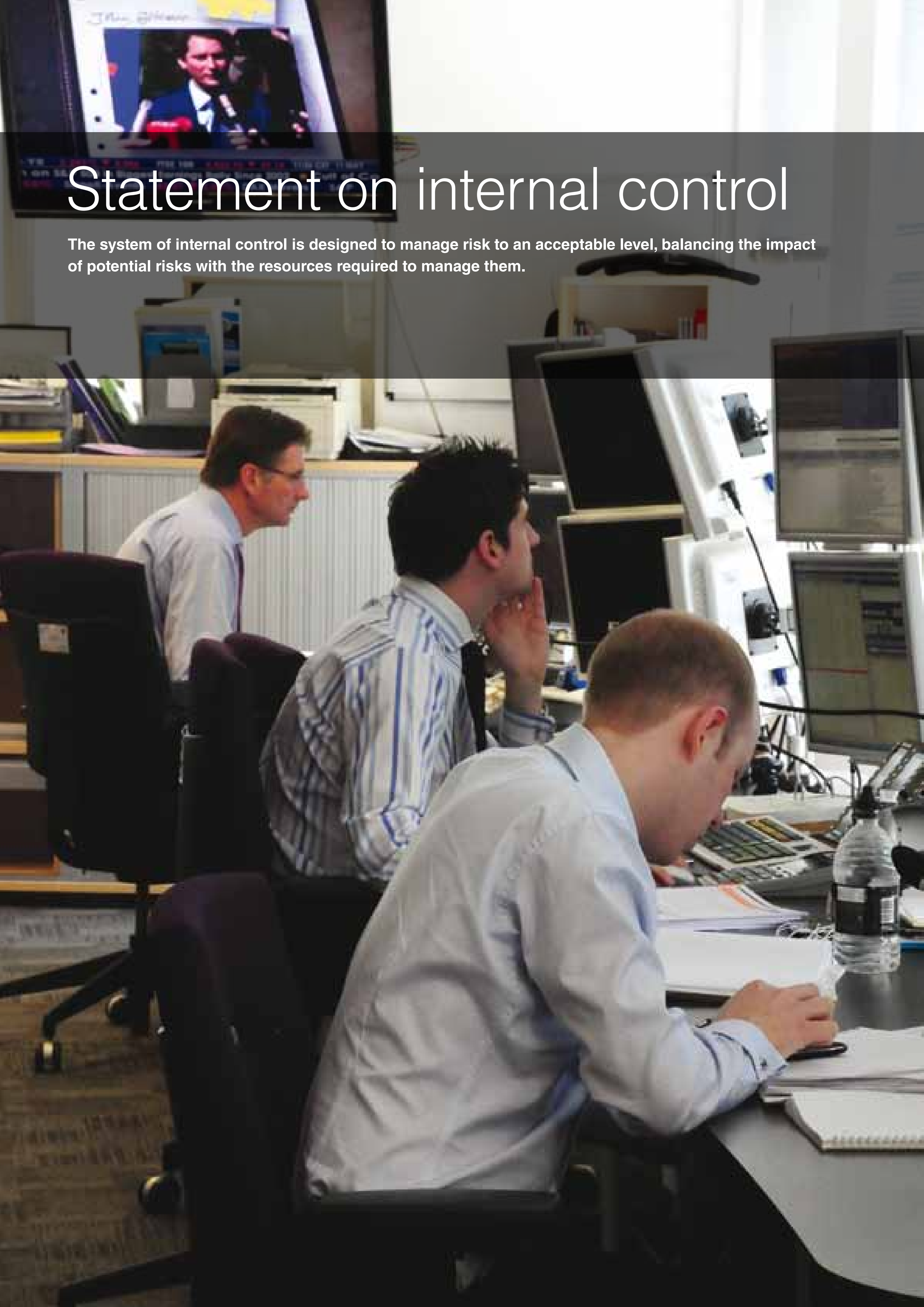
In addition, in preparing the agency accounts of the DMO, the Accounting Officer is required to comply with the accounting and other requirements of the Government Financial Reporting Manual (FReM).

HM Treasury has appointed the Chief Executive as Accounting Officer for the Debt Management Office and the Debt Management Account.

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

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.



Statement on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the United Kingdom Debt Management Office's (DMO'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 Debt Management Account (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.

The Public Works Loan Board (PWLB) and Commissioners for the Reduction of the National Debt (CRND) are separate business entities within the DMO. Responsibility for the reports and accounts of PWLB and CRND lies with the Secretary and the Secretary and Comptroller General respectively. The Secretary of the PWLB and the Secretary and Comptroller General of CRND are each responsible for maintaining a sound system of internal control that supports the delivery of the entity's agreed policies, objectives and targets. However, I am responsible for the wider DMO control framework within which both the CRND and PWLB are managed. The Secretary of the PWLB and the Secretary and Comptroller General of 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 HM Government's debt and cash management. It is my responsibility to ensure that all activities of the DMA are conducted with due regard to value for money. I have put arrangements in place to ensure there is a proper evaluation of the balance of cost and risk in our operations, taking into account, where appropriate, 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.

As Agency Accounting Officer, I take responsibility for activities in relation to a number of schemes and initiatives, including the 2008 Credit Guarantee Scheme. These are either brought to account on the DMA or have been conducted as agent for HM Treasury or other government bodies.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide a reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of DMO 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 2010 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Capacity to handle risk

During the year, the DMO has produced a formal risk management framework document agreed by the Managing Board that summarises at a high level the principles which govern the DMO's approach to risk management, the different types of risk that the DMO manages, and the various mechanisms that the DMO employs to ensure that risks are identified, assessed and managed at all levels within the organisation. The DMO also has more detailed risk management policies and has documented the risk management processes. Elements of these policies have been reviewed and adjusted during the year and have proved effective during a period of continued 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 (Sub MB) generally meets weekly. The terms of reference of Managing Board and those of the Cash Management, Debt Management, Fund Management, Credit and Market Risk, Operational Risk and Business Delivery Committees clearly set out their roles and responsibilities for providing the organisational capacity to consider issues and make relevant decisions at the appropriate level.

The Business Delivery Committee, established in September 2009, includes the executive members of the Managing Board and key business managers. The committee exists to progress and review the status of the delivery of DMO's business and work plan as a collective cross-functional body, resolving emerging issues together to ensure the business and work plan is delivered in a timely and cost effective manner.

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

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

The risk and control framework

The DMO's formal risk management framework document sets out the various mechanisms for managing its risks that are incorporated into its approach to both regular operations and new business initiatives. There are processes in place to ensure regular measurement and monitoring of key business risks including market, credit, operational and liquidity risk. A statement of the risk appetite of the DMO for these risks is included within the risk management framework document.

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

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

The RMU communicates key risk issues to management on a regular basis within a number of forums, to enable management to take informed decisions on risk issues. Key forums are as follows:

The Credit and Market Risk Committee meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. The Credit and Market Risk Committee monitors and reviews primarily the management of market, credit, and liquidity risk.

The Operational Risk Committee meets regularly to monitor operational risks and to review significant risk issues, risk incidents and exceptions and progress against treatment actions. This review is supported by regular operational risk reporting produced by the RMU. The Operational Risk Committee replaced the Sub MB & Senior Risk Owners Committee from

December 2009. The scope of this meeting has been widened to cover issues relating to information risk, IT security, business continuity, anti fraud issues and key supplier risks more fully.

More frequent reporting of progress against treatment actions and reporting of risk incidents has been implemented during the year, and is provided to Senior Risk Owners, Senior Management and Internal Audit.

A Controls Group meets periodically to review issues affecting the DMO's system of internal control and to analyse material changes to the control environment. The group recommends actions to management to implement changes where appropriate. The Controls Group consisted of representatives of the DMO teams responsible for finance, risk, control, compliance and internal audit.

A high level strategic risk report is published to promote awareness of all high level issues and risks that the DMO faces at an organisational level. The report is based on a High Level Risk Register maintained by RMU, and is presented to the Managing Board on a regular basis.

The DMO has policies on anti-fraud measures, money laundering and whistle blowing. The DMO has its own anti-money laundering handbook for staff.

Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. There is a Senior Information Risk Owner (SIRO) for the DMO, responsible for the information risk policy and risk assessment relating to information, who provides assurance over information risks to the Managing Board.

The DMO has designated IT Security Officers (ITSOs) who are responsible for the DMO's electronic network, including access to information and GSI accreditation. During 2009-2010, the DMO has continued a defined programme of work to deliver IT security improvements.

The DMO continues to work to meet the mandates of the Security Policy Framework, including work on meeting objectives in order to retain the CESG information assurance accreditation it has been granted, and work towards implementing the Business Classification Scheme project. During 2009-2010, the DMO has also continued to implement the requirements of the Cabinet Office-led cross-Government Data Handling review, in particular by ensuring all DMO staff completed the computer based training – 'Protecting Government Information'. The actions stemming from the review are predominantly complete with the remainder planned for 2010.

A key component of the DMO's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

Within the DMO, individual teams maintain the controls focus and review of a number of these controls has been undertaken throughout 2009-2010 by internal audit. In addition, checks are carried out on each auction, and on daily trading activity. Compliance testing also occurs on a regular basis, covering activities relating to trading and settlements.

The DMO's Business Continuity Plan (BCP) including Disaster Recovery (DR) site and other arrangements is subject to continual review and update with the DMO taking an active role during the year in progressing BCP improvements. The DMO ensured a programme of DR testing was carried out, and that BCP arrangements to support auctions were observed during the year, with teams working from the DR site during auction sessions. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

The DMO has maintained 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.

During the year, audit committee arrangements for the HM Treasury group were revised, with the intention of creating greater focus on activities within the DMO.

Responsibility for supporting me as Accounting Officer on matters relating to governance, internal control and risk management processes lay with the Exchequer Funds Audit Committee and the Group Resource Audit Committee until 31 December 2009 and with the DMO Audit Committee from 1 January 2010.

The membership of the Exchequer Funds Audit Committee during the period to 31 December 2009 was:

- **Colin Price**
  Committee Chair, non-executive director of the DMO and formerly Global Pension Fund Adviser/ Finance Director at Shell Pensions Management Services Limited;
- **Brian Larkman**
  Non-executive director of the DMO and formerly Global Head of Money Markets at the Royal Bank of Scotland plc; and
- **Mark Clarke**
  Formerly Director General (Finance and Strategy) at the Department for Business, Enterprise and Regulatory Reform.

The Exchequer Funds Audit Committee met three times between 1 April and 31 December 2009.

Members of the Group Resource Audit Committee during the period to 31 December 2009 were:

- **Michael O'Higgins**
  Committee Chair and independent member of HM Treasury Board;
- **Colin Thwaite**
  Former Finance Director and Chief Executive of Littlewoods Organisation plc, Leisure Division.
- **Michael Ashley**
  Head of Quality and Risk Management for KPMG Europe LLP and member of their Board;
- **Zenna Atkins**
  Chairman of Ofsted, Executive Director of Social Solutions Limited, independent member of the Royal Navy Board and Chair of their Audit Committee, Chairman of Places for People Group Limited and independent member of the South East of England Development Agency;
- **Janet Baker**
  Non-executive director, Healthcare Purchasing Consortium and formerly a Senior Partner at PA Consulting;
- **Brad Fried**
  Managing Partner, Grovepoint Capital LLP, non-executive director of the Group Board of Investec Bank plc and formerly Chief Executive Officer of Investec plc; and
- **Avinash Persaud**
  Emeritus Professor of Gresham College, Chairman, Intelligence Capital Limited, Chairman of the Warwick Commission on Financial Reform and Member of the UN Commission on International Financial Reform.

The Group Resource Audit Committee met three times between 1 April and 31 December 2009.

The DMO Audit Committee was established with effect from 1 January 2010. The Chair of the Committee reports to me on matters relating to the DMO including 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 two additional three-year periods. There were two Members of the Committee. The Members were:

- **Brian Larkman**
  Committee Chair; and
- **Brian Duffin**
  Non-executive director of the DMO and formerly Chief Executive of Scottish Life and Executive Director of Royal London Mutual.

The DMO Audit Committee met once between 1 January and 31 March 2010.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the DMO, who have been delegated responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of effectiveness of the system of internal control by the Managing Board and the Audit Committee, and plans to address weaknesses and ensure continuous improvement of the system are in place.
There are a number of activities that form the basis of my review of the effectiveness of the system of internal control in place for the DMO. Annually, I formally review the key outcomes and findings of each activity in order to make my assessment.

The DMO Audit Committee considered the 2009-2010 DMA accounts in draft and provided me with its views before I formally signed the accounts.

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 regular meetings of SROs and details of any agreed actions to improve the DMO's risk profile. The Managing Board has also received high level Strategic Risk reports for review on a regular basis. The executive sub-committee of the Managing Board usually met weekly and considered risk and control issues on a regular basis.

The Business Delivery Committee met on a weekly basis from September 2009, and reviewed the status of key projects and business improvement initiatives, reprioritising work as required. The committee challenged budget and resource utilisation to make sure priority projects were appropriately resourced, and provided the necessary management information to Managing Board on business plan delivery issues and progress.

The Credit and Market Risk Committee has advised me during the year on significant current and emerging risk issues and actions to mitigate such risks. The Credit and Market Risk Committee met ten times during the year.

The Operational Risk Committee and Senior Risk Owners have advised me during the year on significant operational risk concerns, significant risk issues and trends, as well as actions to mitigate such risks. The Operational Risk Committee (or previously the Sub MB and Senior Risk Owners Committee) met five times during the year.

The Controls Group has advised me on any significant risk concerns relating to the introduction of new business activities into the DMO as well as risks relating to other change management activities, and has made me aware of actions taken to mitigate identified risks.

The DMO's Risk Management Unit conducts regular controls and compliance testing, providing the executive sub-committee of the Managing Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Services Authority rules in the dealing and settlement 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 audits identified no serious breaches of risk or control systems. 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.

On the basis of Internal Audit work during the year, the Head of Internal Audit has provided assurance to me on the adequacy and effectiveness of the risk management, control and governance arrangements relevant to the accounts, and has confirmed that there were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Statement on Internal Control.

Significant internal control issues 2009-2010

No significant internal control issues in the DMO were identified in 2009-2010.

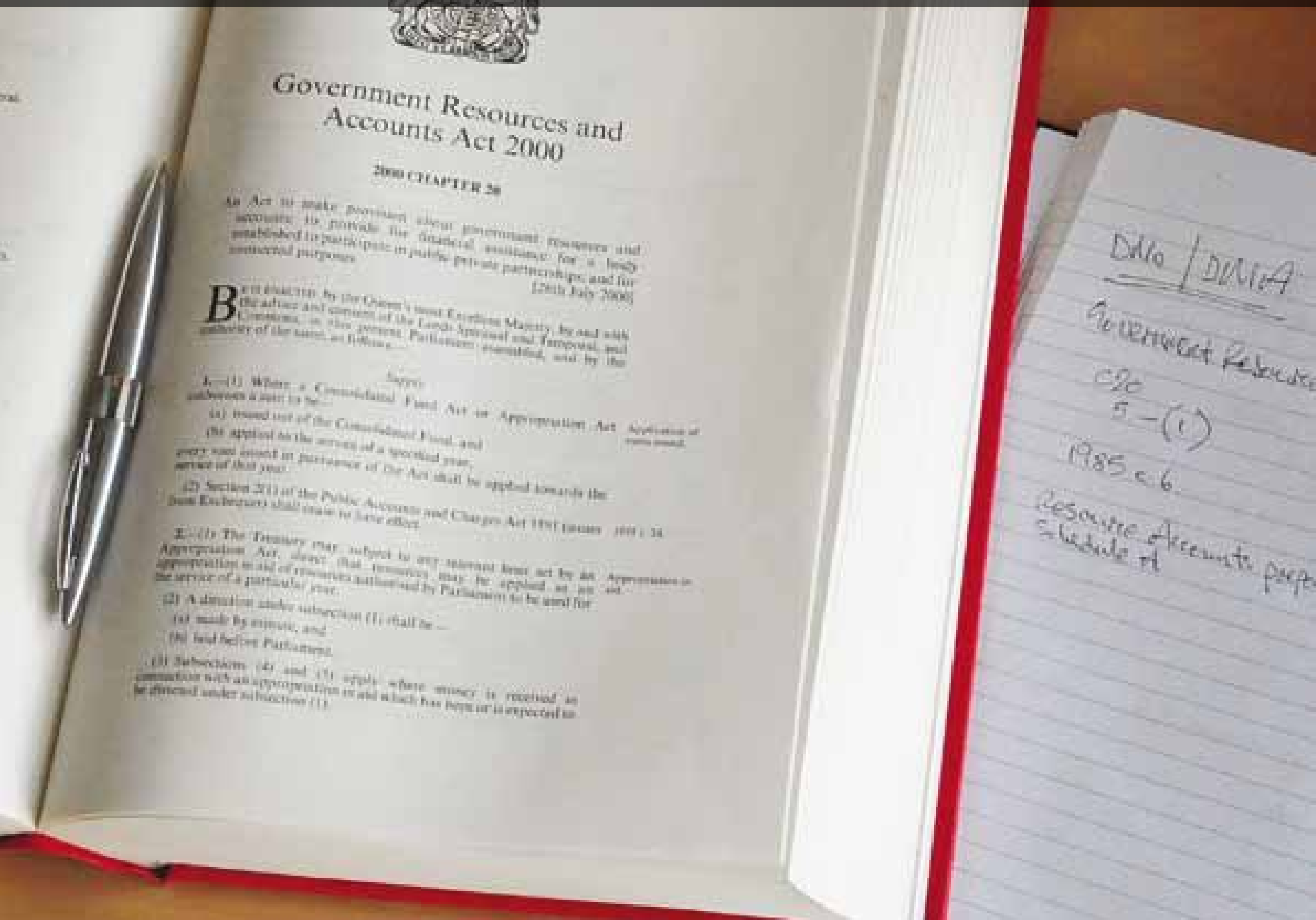
In my opinion, the DMO's system of internal control was effective throughout the financial year 2009-2010 and remains so on the date I sign this statement.

Robert Stheeman
Chief Executive
30 June 2010

Accounts of the United Kingdom Debt Management Office

Year ended 31 March 2010
Presented to the House of Commons 26 July 2010

United Kingdom Debt Management Office: 2009-2010 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 2010 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, the Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements.

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

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.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Agency's affairs as at 31 March 2010, and of the net operating cost, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- The Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

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

7 July 2010

United Kingdom Debt Management Office Operating cost statement

For the year ended 31 March 2010

	Note	2010 £000	Restated 2009 £000
Administration costs			
Staff costs	3	8,687	7,368
Other administration costs	4	6,457	5,637
Gross administration costs		**15,144**	**13,005**
Administration income	6	(3,715)	(4,077)
Net administration costs		**11,429**	**8,928**
Gross programme costs	5	5,720	4,663
Programme income	6	(1,455)	(1,500)
Net programme costs		**4,265**	**3,163**
Net operating cost	2	**15,694**	**12,091**

All income and expenditure are derived from continuing operations.

The notes on page 63 to 78 form part of these accounts.

United Kingdom Debt Management Office Statement of financial position

As at 31 March 2010

	Note	2010 £000	Restated 2009 £000	Restated 1 April 2008 £000
Non-current assets				
Property, plant and equipment	8 (i)	281	463	547
Intangible assets	8 (ii)	1,016	702	905
Trade and other receivables	9	7	9	10
Total non-current assets		**1,304**	**1,174**	**1,462**
Current assets				
Trade and other receivables	9	1,538	2,374	1,821
Cash and cash equivalents	10	15	185	333
Total current assets		**1,553**	**2,559**	**2,154**
Current liabilities				
Trade and other payables	11	(3,615)	(5,366)	(2,881)
Net current liabilities		**(2,062)**	**(2,807)**	**(727)**
Non-current liabilities				
Trade and other payables	11	-	-	(167)
Provisions	12	(185)	(247)	(305)
Total non-current liabilities		**(185)**	**(247)**	**(472)**
Total net (liabilities) / assets		**(943)**	**(1,880)**	**263**
Taxpayers' (deficit) / equity				
General fund		(986)	(1,967)	176
Revaluation reserve		43	87	87
Total net taxpayers' (deficit) / equity		**(943)**	**(1,880)**	**263**

The notes on page 63 to 78 form part of these accounts.

Robert Stheeman
Chief Executive
30 June 2010

United Kingdom Debt Management Office Statement of cash flows

For the year ended 31 March 2010

	2010 £000	2009 £000
Net cash outflow from operating activities		
Net operating cost	**(15,694)**	**(12,091)**
Adjustment for non-cash transactions:		
Depreciation and amortisation of fixed assets	1,009	949
Payables for early retirements	17	16
Auditor's fee	45	40
Notional interest on capital	(35)	(7)
	1,036	**998**
Adjustment for movements in working capital other than cash:		
Decrease/(increase) in receivables	838	(553)
(Decrease)/increase in current payables	(1,117)	1,484
Less: items not passing through the operating cost statement	74	233
Use of early retirements	(79)	(74)
	(284)	**1,090**
Net cash outflow from operating activites	**(14,942)**	**(10,003)**
Cash flows from investing activities		
Purchase of property, plant and equipment	(185)	(475)
Purchase of intangible assets	(1,031)	(419)
Net cash outflow from investing activities	**(1,216)**	**(894)**
Cash flows from financing activities		
Payment of amounts due to the Consolidated Fund	(834)	(250)
From Consolidated Fund (supply) - current year	16,822	10,999
Net financing	**15,988**	**10,749**
Net (decrease) in cash and cash equivalents in the year	**(170)**	**(148)**
Cash and cash equivalents at the beginning of the year	**185**	**333**
Cash and cash equivalents at the end of the year	**15**	**185**

The notes on page 63 to 78 form part of these accounts.

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

For the year ended 31 March 2010

	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2008	**341**	**87**	**428**
Effect of changes in accounting policy – see note 2	(165)	-	(165)
Restated balance at 1 April 2008	**176**	**87**	**263**
Changes in taxpayers' equity for 2008-2009:			
Funding from HM Treasury	10,999	-	10,999
Net operating cost for the year	(12,091)	-	(12,091)
Non-cash charges/(credits) in operating cost statement added back:			
Cost of capital	(7)	-	(7)
Auditors' remuneration	40	-	40
CFERs payable to the Consolidated Fund	(1,084)	-	(1,084)
Balance at 31 March 2009	**(1,967)**	**87**	**(1,880)**
Changes in taxpayers' equity for 2009-2010:			
Funding from HM Treasury	16,822	-	16,822
Net operating cost for the year	(15,694)	-	(15,694)
Non-cash charges/(credits) in operating cost statement added back:			
Cost of capital	(35)	-	(35)
Auditors' remuneration	45	-	45
Transfer between reserves	44	(44)	-
CFERs payable to the Consolidated Fund	(201)	-	(201)
Balance at 31 March 2010	**(986)**	**43**	**(943)**

The notes on page 63 to 78 form part of these accounts.

Notes to the accounts

For the year ended 31 March 2010

1 Statement of accounting policies

(i) Basis of preparation

These financial statements have been prepared in accordance with the 2009–2010 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The DMO's financial statements have been prepared in accordance with the Accounts Direction given by HM Treasury as set out on page 79, under the legislative authority of the Government Resources and Accounts Act 2000.

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

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

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

- IAS 7 Statement of Cash Flows, which has been amended. The amendment to IAS 7 clarifies that only expenditure that results in the recognition of an asset (rather than simply to generate future income and cash flows) can be classified as a cash flow from investing activities. Application of the amended IAS 7 is required for reporting periods beginning on or after 1 January 2010. Earlier application is permitted. It is planned that IAS 7 will be applied initially in 2010-2011. Initial application of the revised IAS 7 is expected to have no impact.

- IAS 24 Related Party Disclosures, which has been revised. The revisions to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled, or significantly influenced by a government. Application of the revised IAS 24 is required for reporting periods beginning on or after 1 January 2011. Earlier application is permitted. It is planned that IAS 24 will be applied initially in 2011-2012. Initial application of the revised IAS 24 will result in partial exemption from the disclosure requirements of IAS 24, and the relevant disclosures may be reduced from those presented in 2009-2010.

The particular policies adopted by the DMO are described below.

(ii) Accounting convention

These accounts have been prepared under the historical cost convention.

(iii) Administration and programme expenditure

The operating cost statement is analysed between administration and programme expenditure. The classification of expenditure as administration or as programme follows the definition of administration costs set out in the FReM.

Administration expenditure reflects the cost of running the DMO and includes staff related costs, IT and telecommunication costs, accommodation and non-cash charges.

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

(iv) Operating income

All operating income relates directly to the operating activities of the DMO and is recognised in the operating cost statement on an accruals basis.

Operating income is determined by the following criteria:

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

The operating income is principally:

- Recoveries of costs associated with the DMO acting as an agent for the National Loans Fund 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.
- Fees for loans advanced to local authorities from the Public Works Loan Board.
- Fees for secondary market purchase and sale transactions in gilts conducted by members of the public, under a contract between HM Treasury and Computershare, which the DMO manages.
- Recoveries of costs associated with the DMO acting as an agent for DECC the for auction of allowances under the Emissions Trading System.

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

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

Where operating income is not set by statute and the income received by the DMO is due from the provision of services, the income is calculated on a full-cost recovery basis over the reporting period. Income is charged on the basis of staff-time and all direct external costs incurred for a given service, plus an estimation of shared overheads such as accommodation and IT infrastructure.

(v) Non-current assets

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

Any property, plant or equipment or intangible fixed assets, for which the value is low and / or the useful economic life is short, are not revalued.

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

(vi) Depreciation and amortisation

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

• Information technology	3 years
• Plant and machinery	5 years
• Furniture and fittings	lesser of 10 years or outstanding lease term (where appropriate)

- Software licences 3 years or license duration up to 10 years
- Internally generated software up to 5 years

(vii) 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.

(viii) Notional charges

Certain costs are charged on a notional basis and included in the accounts. These charges relate to the auditors' remuneration and the cost of capital charge. Notional costs are charged to the operating cost statement and credited as a movement on the general fund.

(ix) Value added tax

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

(x) Capital charge

A charge reflecting the cost of capital utilised by the DMO is included within the operating cost statement. The charge is calculated at the real rate set by HM Treasury, currently 3.5 per cent (2009: 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.

(xi) Foreign exchange

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

(xii) Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS), which are described in Note 3. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The DMO recognises as administration cost the monthly charges made by the PCSPS to contribute to the schemes. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the DMO recognises the contributions payable for the year.

(xiii) Early departure costs

The DMO is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The DMO provides for the cost when the early retirement is agreed, effectively charging the full cost at the time an obligation becomes binding on the DMO and holding this as a provision. The liability shown in the statement of financial position has been discounted using a rate of 1.8 per cent (2009: 2.2 per cent) in real terms in line with HM Treasury guidance.

2 First-time adoption of IFRS

Balances held at the adoption date of IFRS accounting policies as adapted or interpreted for the public sector can be reconciled to the amounts previously reported under UK GAAP as follows:

	2009 £000	2008 £000
General fund at 31 March under UK GAAP	(1,723)	341
Adjustment for:		
IAS 16 - Property, plant and equipment	(75)	-
IAS 19 - Employee benefits	(244)	(165)
IAS 38 - Intangible assets	75	-
General fund at 1 April under IFRS	**(1,967)**	**176**

Net operating cost for 2008-2009 under UK GAAP	12,012
Adjustment for:	
IAS 16 - Property, plant and equipment	(75)
IAS 19 - Employee benefits	79
IAS 38 - Intangible assets	75
Net operating cost for 2008-2009 under IFRS	**12,091**

3 Staff numbers and related costs

			2010
	Permanent staff £000	Others £000	Total £000
Salaries	4,762	3,409	8,171
Social security costs	451	36	487
Other pension costs	936	45	981
	6,149	**3,490**	**9,639**
Amounts charged to capital	-	(952)	(952)
Total operating staff costs	**6,149**	**2,538**	**8,687**
Less recoveries in respect of outward secondments	(70)	-	(70)
Total net costs	**6,079**	**2,538**	**8,617**
Average number of whole-time equivalent persons employed by the DMO	80	32	**112**
of which, staff employed on capital projects	-	7	**7**

	Permanent staff £000	Others £000	2009 Total £000
Salaries	4,250	2,034	6,284
Social security costs	399	11	410
Other pension costs	893	5	898
	5,542	**2,050**	**7,592**
Amounts charged to capital	-	(224)	(224)
Total operating staff costs	**5,542**	**1,826**	**7,368**
Less recoveries in respect of outward secondments	-	-	-
Total net costs	**5,542**	**1,826**	**7,368**
Average number of whole-time equivalent persons employed by the DMO	72	18	**90**
of which, staff employed on capital projects	-	2	**2**

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

The recoveries of £69,734 (2009: £nil) are shown as operating income in the operating cost statement.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, but the DMO is unable to identify its share of the underlying assets and liabilities. The scheme 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 2009–2010, employer contributions of £959,003 were payable to the PCSPS (2008–2009: £872,256) at rates in the range 16.7 per cent to 24.3 per cent (2009: 17.1 per cent to 25.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary usually reviews employer contributions every four years following a full scheme valuation. From 2010-2011, the rates will be in the range 16.7 per cent to 24.3 per cent.

The contribution rates are set to meet the cost of the benefits accruing during 2009-2010 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 £22,095 (2009: £24,847) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 6.5 per cent to 12.5 per cent (2008-2009: 8 per cent 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 £2,227, 0.8 per cent of pensionable pay (2009: £1,449, 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 statement of financial position date were £4,477 (2009: £1,723). Contributions prepaid at that date were £nil.

4 Other administration costs

	2010 £000	2009 £000
Rentals under operating leases		
Other operating leases	**1,319**	**1,288**
Non-cash items		
Depreciation and amortisation of non-current assets	1,009	949
Provision for early departure costs:		
Provided in year	12	11
Unwinding of discount on provisions	5	5
External auditors' fee	45	40
Cost of capital credit	(35)	(7)
	1,036	**998**
Other expenditure		
IT and telecommunications	1,721	1,343
Accommodation related costs	726	732
Business and information services	681	592
Consultancy	188	75
Legal services	136	43
Training	124	143
Recruitment	124	72
Travel, subsistence and hospitality	100	89
Printing and stationery	98	64
Other costs	204	198
	4,102	**3,351**
	6,457	**5,637**

£40,000 (2009: £35,000) of the external auditors' fee relates to the audit of the annual accounts. £5,000 (2009: £5,000) related to audit work associated with the implementation of International Financial Reporting Standards.

5 Programme costs

Programme costs relate to DMA transactions, NLF gilt issuance and the retail gilt purchase and sale service.	2010 £000	2009 £000
DMA, CRND and PWLB transaction costs		
Settlement and custodial charges	3,349	2,608
Brokerage	1,546	1,198
	4,895	**3,806**
NLF gilt issuance costs (reimbursed – see note 6)		
Stock Exchange listing fees	579	581
Auction advertising	115	132
	694	**713**
Gilt purchase and sale service costs	131	144
	5,720	**4,663**

6 Operating income

(i) Analysis of operating income by activity	2010 £000	2009 £000
Administration income		
Fees and charges to PWLB customers	1,816	2,200
Fees and charges to CRND customers	632	656
Emissions Trading System cost recovery from DECC	453	659
Rentals and other accomodation related income - internal to government	313	-
Special Liquidity Scheme - Bank of England	201	250
Rentals and other accomodation related income - external to government	123	208
Recharges to Gilt Edged Market Makers - information system	94	92
Other income	83	12
	3,715	**4,077**
Programme income		
Gilt purchase and sale service commission - Computershare	761	787
Recharges to the National Loans Fund - gilt issuance	694	713
	1,455	**1,500**
	5,170	**5,577**

(ii) Analysis of operating income by type

	2010 £000	2009 £000
Appropriations-in-aid	**4,656**	**4,493**
Surrendered to the Consolidated Fund		
Excess appropriations-in-aid – administration	-	834
Special Liquidity Scheme	201	250
	201	**1,084**
Income received from within HM Treasury	**313**	**-**
	5,170	**5,577**

7 Analysis of fees and charges income for the year ended 31 March 2010

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

Analysis of net operating cost

	CRND £000	PWLB £000	Gilt purchase and sale service £000	Emissions Trading System £000
Full cost	662	1,865	510	453
Income	(632)	(1,817)	(762)	(453)
(Surplus) / deficit	**30**	**48**	**(252)**	**-**

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.
- **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.
- **Emissions Trading System:** To conduct the process of auction of emission allowances to industry on behalf of the Department of Energy and Climate Change (DECC) and to recover the full cost of the service from DECC. This objective has been achieved in full.

8 Non-current assets

(i) Property, plant and equipment:

	Information technology £000	Furniture and fittings £000	Plant and machinery £000	Total £000
Cost or valuation				
At 1 April 2009	2,413	906	29	3,348
Additions	110	-	9	119
Disposals	(777)	-	-	(777)
At 31 March 2010	**1,746**	**906**	**38**	**2,690**
Depreciation				
At 1 April 2009	2,170	690	25	2,885
Charged in year	203	94	4	301
Disposals	(777)	-	-	(777)
At 31 March 2010	**1,596**	**784**	**29**	**2,409**
Net book value				
At 31 March 2010	**150**	**122**	**9**	**281**
At 31 March 2009	**243**	**216**	**4**	**463**

	Information technology £000	Furniture and fittings £000	Plant and machinery £000	Total £000
Cost or valuation				
At 1 April 2008	2,183	906	29	3,118
Additions	230	-	-	230
At 31 March 2009	**2,413**	**906**	**29**	**3,348**
Depreciation				
At 1 April 2008	1,950	597	24	2,571
Charged in year	220	93	1	314
At 31 March 2009	**2,170**	**690**	**25**	**2,885**
Net book value				
At 31 March 2009	**243**	**216**	**4**	**463**
At 31 March 2008	**233**	**309**	**5**	**547**

(ii) Intangible assets

	Software licences £000	Internally generated software £000	Assets under construction £000	Total £000
Cost or valuation				
At 1 April 2009	1,954	3,289	-	5,243
Additions	19	655	349	1,023
Disposals	(34)	(248)	-	(282)
At 31 March 2010	**1,939**	**3,696**	**349**	**5,984**
Amortisation				
At 1 April 2009	1,548	2,993	-	4,541
Charged in year	304	405	-	709
Disposals	(34)	(248)	-	(282)
At 31 March 2010	**1,818**	**3,150**	**-**	**4,968**
Net book value				
At 31 March 2010	**121**	**546**	**349**	**1,016**
At 31 March 2009	**406**	**296**	**-**	**702**

	Software licences £000	Internally generated software £000	Assets under construction £000	Total £000
Cost or valuation				
At 1 April 2008	1,869	2,996	-	4,865
Additions	140	293	-	433
Disposals	(55)	-	-	(55)
At 31 March 2009	**1,954**	**3,289**	**-**	**5,243**
Amortisation				
At 1 April 2008	1,246	2,714	-	3,960
Charged in year	357	279	-	636
Disposals	(55)	-	-	(55)
At 31 March 2009	**1,548**	**2,993**	**-**	**4,541**
Net book value				
At 31 March 2009	**406**	**296**	**-**	**702**
At 31 March 2008	**623**	**282**	**-**	**905**

9 Trade receivables and other current assets

(i) Analysis by type

	2010 £000	2009 £000	1 April 2008 £000
Amounts falling due within one year			
Prepayments and accrued income	1,010	1,453	1,279
Other receivables	528	921	542
	1,538	**2,374**	**1,821**
Amounts falling due after more than one year			
Prepayments and accrued income	7	9	10
	1,545	**2,383**	**1,831**

(ii) Analysis by relationship with HM Government

	Amounts falling due within one year			Amounts falling due after more than one year		
	2010 £000	2009 £000	2008 £000	2010 £000	2009 £000	2008 £000
Intra-government balances: balances with other central government bodies	440	1,066	447	-	-	-
Balances with bodies external to government	1,099	1,308	1,374	7	9	10
	1,539	**2,374**	**1,821**	**7**	**9**	**10**

10 Cash and cash equivalents

	2010 £000	2009 £000	1 April 2008 £000
Balance at 1 April	185	333	172
Net change – (outflow) / inflow	(170)	(148)	161
Balance at 31 March	**15**	**185**	**333**
The following balances were held at 31 March:			
Bank of England	14	184	332
Cash in hand	1	1	1
Balance at 31 March	**15**	**185**	**333**

11 Trade payables and other current liabilities

(i) Analysis by type

	2010 £000	2009 £000	1 April 2008 £000
Amounts falling due within one year			
Trade payables	110	499	111
Taxation and social security	251	238	204
Accruals and deferred income	3,053	3,612	2,555
Deposit advance held as a creditor bond	-	167	-
Creditor bond interest	-	16	11
Payable to the Consolidated Fund:			
Excess appropriations-in-aid	-	834	-
Other payments due to be paid to the Consolidated Fund	201	-	-
	3,615	**5,366**	**2,881**
Amounts falling due after more than one year			
Deposit advance held as a creditor bond	-	-	167
	3,615	**5,366**	**3,048**

Reflected within the amounts falling due within one year is a decrease of £74,378 (2009: decrease of £231,622) of capital expenditure payables and accruals, which is an adjustment to the movements in working capital recorded in the statement of cash flows.

(ii) Analysis by relationship with HM Government

	Amounts falling due within one year			Amounts falling due after more than one year		
	2010 £000	2009 £000	2008 £000	2010 £000	2009 £000	2008 £000
Intra-government balances: balances with other central government bodies	215	851	19	-	-	-
Balances with bodies external to government	3,400	4,515	2,862	-	-	167
	3,615	**5,366**	**2,881**	**-**	**-**	**167**

12 Provisions for liabilities and charges

(i) Analysis by type	2010 £000	2009 £000	1 April 2008 £000
Balance at 1 April	247	305	213
Provided in the year	12	11	149
Provisions utilised in the year	(79)	(74)	(61)
Unwinding of discount	5	5	4
Balance at 31 March	**185**	**247**	**305**

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

A statement on early departure and pension commitments is given in the statement of accounting policies on page 65.

(ii) Maturity analysis	2010 £000	2009 £000	1 April 2008 £000
Within one year	72	75	72
Between two and five years	113	172	221
Between six and 10 years	-	-	12
	185	**247**	**305**

13 Commitments under operating leases

(i) At 31 March 2010, the total future minimum lease payments under non-cancellable operating leases are as follows:

	Buildings £000	Other £000	2010 Total £000	2009 Total £000
Lease maturing				
Less than one year	1,242	27	1,269	1,295
Between two and five years	4,518	105	4,623	4,635
Over five years	6,759	-	6,759	7,888
	12,519	**132**	**12,651**	**13,818**

(ii) At 31 March 2010, the total future minimum lease receivables under non-cancellable operating leases was £nil (2009: £63,270).

During 2009-10, the DMO agreed a Memorandum of Terms of Occupation (MOTO) with the Asset Protection Agency (APA). The relationship between DMO and APA is described in note 16: related party transactions. The nature of the arrangements in a MOTO is broadly similar to those found in tenancy agreements and leases. Either party may give six months notice to cancel the agreement. The amount payable annually by APA to the DMO under the MOTO for rent, service charge and insurance is £330,958.

14 Capital commitments

The DMO had no capital commitments at 31 March 2010 (31 March 2009: nil).

15 Contingent assets and liabilities

The DMO had no contingent assets or liabilities at 31 March 2010 (31 March 2009: nil).

16 Related party transactions

During the year, the DMO had significant transactions with the following entities which are considered to be related parties:

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.

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. The DMO has received payment from each of the National Savings Bank Fund, Court Fund Investment Account and Northern Ireland Court Service for fund management services in 2009-2010 amounting to £5,000, £109,000 and £78,000 respectively.

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 customers are set by statute and the Public Works Loan Commissioners retain their statutory role.

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. Its transactions with the Consolidated Fund were to surrender excess appropriations-in-aid and similar income in accordance with government accounting rules totalling £201,000 (2009: £1,087,880). Its transactions with the National Loans Fund were to recover external charges incurred by the DMO directly relating to gilt issuance totalling £693,601 (2009: £713,000).

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.

National Savings & Investments

The DMO has recovered from National Savings & Investments valuation costs incurred by the DMO in hedging the guaranteed equity bonds issued by NS&I.

Asset Protection Agency

The DMO has undertaken various transactions relating to the recharge of accommodation expenditure initially incurred by the DMO and the cost of providing various services during 2009-2010. The APA was created as a separate executive Agency of HMT and became a legal entity from 7 December 2009. The APA is located in the same building as the DMO and occupies floor space that the DMO leases from the building landlord. Under the terms of a MOTO agreement, all accommodation expenditure relating to APA office space and which is paid initially by the DMO is recovered. The DMO also provides on-going services to the APA by providing facilities management and IT services. The costs and charging for these services are governed by a service level agreement.

Royal Bank of Scotland Group plc

During the year the DMO charged the Royal Bank of Scotland Group plc £5,889 (2009: £5,883) for the shared usage of an information network for Gilt-Edged Market Makers.

Department of Energy and Climate Change

The DMO has had transactions during the year with the Department of Energy and Climate Change (DECC) relating to recovery of costs incurred by the DMO in conducting auctions of emission allowances totalling £452,902 (2009: £659,000).

Ministers and Managing Board

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

17 Financial instruments

At the statement of financial position date, the DMO had no material exposure to liquidity risk, interest rate risk or currency risk. All material assets and liabilities were denominated in sterling.

18 Preparation of accounts

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

The accounts were authorised for issue on 7 July 2010.

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

1. The United Kingdom Debt Management Office shall prepare accounts for the year ended 31 March 2010 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 2009-2010.

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 2010 and of the income and expenditure (or, as appropriate, net resource outturn), changes in taxpayers' equity (or, as appropriate, recognised income and expense), and cash flows of the DMO for the financial year then ended; and

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

Chris Wobschall
Head, Assurance and Financial Reporting Policy
HM Treasury

21 December 2009

Accounts of the Debt Management Account

Year ended 31 March 2010
Presented to Parliament 26 July 2010

Debt Management Account: 2009-2010 Accounts

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

I certify that I have audited the financial statements of the Debt Management Account for the year ended 31 March 2010 under the National Loans Act 1968. These comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Net Funding by the National Loans Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

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

Scope of audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Debt Management Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Debt Management Account; and the overall presentation of the financial statements.

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

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.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Debt Management Account as at 31 March 2010 and of its surplus, comprehensive income and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and HM Treasury directions issued thereunder.

Opinion on other matters

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

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

7 July 2010

Debt Management Account Income statement

For the year ended 31 March 2010

	Note	2010 £m	2009 £m
Interest income	2	7,506	11,210
Interest expense	3	(2,205)	(8,532)
Net interest income		**5,301**	**2,678**
Other gains and losses	4	20	(123)
Fee income	5	63	32
Surplus for the year	6	**5,384**	**2,587**

All income and expenditure arose from continuing operations.

The notes on page 87 to 116 are an integral part of these accounts.

Debt Management Account Statement of comprehensive income

For the year ended 31 March 2010

	2010 £m	2009 £m
Surplus for the year from the income statement	**5,384**	**2,587**
(Losses)/gains taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	(3,691)	6,766
Net (expense)/income recognised directly in total funding by National Loans Fund	**(3,691)**	**6,766**
Transfers		
Transferred to income statement on disposal of investment securities classified as available-for-sale	(16)	(7)
Net transfers within total funding by National Loans Fund	**(16)**	**(7)**
Total comprehensive income	**1,677**	**9,346**

The notes on page 87 to 116 are an integral part of these accounts.

Debt Management Account
Statement of financial position

At 31 March 2010	Note	2010 £m	Restated 2009 £m	Restated 2008 £m
Assets				
Cash and balances at the Bank of England		420	714	500
Loans and advances to banks	7	44,187	34,863	14,206
Securities held for trading	8	924	4,841	17
Derivative financial instruments	9	58	1	82
Investment securities classified as available-for-sale				
UK Government gilt-edged securities for use as collateral subject to sale and repurchase agreements		20,814	25,867	12,038
UK Government gilt-edged securities for use as collateral not pledged		65,685	67,300	17,002
		86,499	**93,167**	**29,040**
Other UK Government gilt-edged securities		52,275	54,280	123
Treasury bills		176,108	205,148	-
	10	**314,882**	**352,595**	**29,163**
Other assets	11	18	72	6
Total assets before deposit at National Loans Fund		**360,489**	**393,086**	**43,974**
Deposit at National Loans Fund		28,511	48,967	49,140
Total assets		**389,000**	**442,053**	**93,114**
Liabilities				
Deposits by banks	12	15,355	29,343	12,162
Due to government customers	13	56,478	66,148	62,287
Derivative financial instruments	9	27	257	331
Treasury bills in issue	14	62,973	43,895	17,441
Other liabilities	15	128	9	4
Total liabilities before funding by National Loans Fund		**134,961**	**139,652**	**92,225**
Advance from National Loans Fund		242,127	292,166	-
Revaluation reserve		4,137	7,844	1,085
Income and expenditure account		7,775	2,391	(196)
Total funding by National Loans Fund		**254,039**	**302,401**	**889**
Total liabilities		**389,000**	**442,053**	**93,114**

The notes on page 87 to 116 are an integral part of these accounts.

Robert Stheeman
Chief Executive
30 June 2010

Debt Management Account
Statement of cash flows

For the year ended 31 March 2010

	Note	2010 £m	2009 £m
Net cash (outflow)/inflow from operating activities	16	**(10,431)**	**18,747**
Investing activities			
Interest received on investment securities classified as available-for-sale		9,942	6,315
Sales of investment securities classified as available-for-sale arising from auctions and secondary market activities		602,245	732,734
Purchases of investment securities classified as available-for-sale arising from auctions and secondary market activities		(571,239)	(1,046,367)
Net cash from/(used in) investing activities		**40,948**	**(307,318)**
Financing activities			
Interest received on deposit at National Loans Fund		322	1,121
Interest paid on advance from National Loans Fund		(1,570)	(4,381)
Increase in net funding by National Loans Fund		356,107	639,807
Decrease in net funding by National Loans Fund		(385,670)	(347,762)
Net cash (used in)/from financing activities		**(30,811)**	**288,785**
(Decrease)/increase in cash		**(294)**	**214**

The notes on page 87 to 116 are an integral part of these accounts.

Debt Management Account Statement of changes in net 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 Funding £m
At 1 April 2008	**49,140**	**-**	**1,085**	**(196)**	**889**	**(48,251)**
Surplus for the year	-	-	-	2,587	2,587	2,587
Transferred to income statement on disposal of investment securities classified as available-for-sale	-	-	(7)	-	(7)	(7)
Gains taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	-	-	6,766	-	6,766	6,766
Change in advance from National Loans Fund	-	292,166	-	-	292,166	292,166
Change in deposit at National Loans Fund	(173)	-	-	-	-	173
At 31 March 2009	**48,967**	**292,166**	**7,844**	**2,391**	**302,401**	**253,434**
Surplus for the year	-	-	-	5,384	5,384	5,384
Transferred to income statement on disposal of investment securities classified as available-for-sale	-	-	(16)	-	(16)	(16)
Losses taken from revaluation reserve on revaluation of investment securities classified as available-for-sale	-	-	(3,691)	-	(3,691)	(3,691)
Change in advance from National Loans Fund	-	(50,039)	-	-	(50,039)	(50,039)
Change in deposit at National Loans Fund	(20,456)	-	-	-	-	20,456
At 31 March 2010	**28,511**	**242,127**	**4,137**	**7,775**	**254,039**	**225,528**

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

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

Notes to the accounts

For the year ended 31 March 2010

1 Accounting policies

(i) Basis of preparation

The accounts have been prepared in accordance with the Accounts Direction given by HM Treasury, in accordance with International Financial Reporting Standards (IFRS) in so far as they are appropriate to the DMA, and under the historical cost convention. In particular, the following standards have been applied:

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

For the year ended 31 March 2009, the accounts were prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP). In particular, the following standards were applied:

- FRS 25 (IAS 32) Financial Instruments: Presentation
- FRS 26 (IAS 39) Financial Instruments: Recognition and Measurement
- FRS 29 (IFRS 7) Financial Instruments: Disclosures

Adoption of IFRS has not resulted in any prior period adjustments, other than those that arose from the voluntary accounting policy change detailed in (xii) on page 91. No comparative balances have been restated, other than those that arose from this change.

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

- IFRS 9 Financial Instruments, which will replace IAS 39. IFRS 9 is expected to improve and simplify the reporting of financial instruments. Application of this standard is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. It is planned that IFRS 9 will be applied initially in 2013-2014. The impact of initial application of IFRS 9 is expected to be significant. The DMA's assets that are classified as available-for-sale will be reclassified and may be measured at amortised cost. This may reduce the impact on reserves of changes in the value of such assets.

- IAS 7 Statement of Cash Flows, which has been amended. The amendment to IAS 7 clarifies that only expenditure that results in the recognition of an asset (rather than simply to generate future income and cash flows) can be classified as a cash flow from investing activities. Application of the amended IAS 7 is required for reporting periods beginning on or after 1 January 2010. Earlier application is permitted. It is planned that IAS 7 will be applied initially in 2010-2011. Initial application of the revised IAS 7 is expected to have no impact.

- IAS 24 Related Party Disclosures, which has been revised. The revisions to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled, or significantly influenced by a government. Application of the revised IAS 24 is required for reporting periods beginning on or after 1 January 2011. Earlier application is permitted. It is planned that IAS 24 will be applied initially in 2011-2012. Initial application of the revised IAS 24 will result in partial exemption from the disclosure requirements of IAS 24, and the relevant disclosures may be reduced from those presented in 2009-2010.

(ii) Financial assets

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

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

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

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

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

b) Loans and receivables

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

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

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

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

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

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

(iii) Financial liabilities

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

All financial liabilities are recognised initially at fair value.

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

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

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

Deposits by banks and amounts due to government customers are recognised as derivatives at trade date, are recognised as loans and receivables from settlement date, and are derecognised when obligations are repaid.

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

(iv) Derivatives

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

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

Equity index / interest rate swaps are entered into to hedge an equity index exposure of the Government that is external to the DMA. The nature of this relationship is explained on page13.

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

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

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

The DMA does not apply hedge accounting.

(v) Determination of fair value

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

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

When active market prices 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. Such instruments are classified as level 2 in the fair value hierarchy defined by IFRS 7.

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

(vi) Offsetting financial assets and financial liabilities

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

(vii) Interest income and expense

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

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

(viii) Other gains and losses

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

(ix) Fee Income

Fee income comprises net fees receivable. When the DMA is not entitled to all fees receivable (because a proportion will be payable after receipt) fee income is the net of the receivable and the related payable.

(x) Transaction costs

Transaction costs are paid and accounted for by the DMO.

(xi) Foreign currencies

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

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

Exchange differences arising on settlement, and those arising on retranslation, are recognised in other gains and losses.

(xii) Accounting policy change

IAS 39 Financial Instruments: Recognition and Measurement has been applied to these accounts for the first time. As a result, from 1 April 2009 the accounting policy for unsettled repos and reverse repos was changed. Such deals are now recognised as derivatives at trade date and are recognised as loans and receivables from settlement date. Previously, unsettled repos and reverse repos were recognised as loans and receivables at trade date. The effect on the financial statements is shown below. In addition, note 21, 22, and 23 were affected.

	2010 £m	Without change 2010 £m	2009 £m	Without change 2009 £m	2008 £m	Without change 2008 £m
Income statement						
Other gains and losses	20	21	(123)	(123)		
Assets						
Loans and advances to banks	44,187	57,411	34,863	36,355	14,206	14,206
Derivative financial instruments	58	57	1	-	82	81
Other assets	18	1,601	72	1,539	6	2,245
Total assets	**389,000**	**403,809**	**442,053**	**445,011**	**93,114**	**95,352**
Liabilities						
Deposits by banks	15,355	16,938	29,343	30,809	12,162	14,400
Derivative financial instruments	27	27	257	257	331	331
Other liabilities	128	13,354	9	1,501	4	4
Total liabilities	**389,000**	**403,809**	**442,053**	**445,011**	**93,114**	**95,352**

2 Interest income

	2010 £m	2009 £m
Investment securities classified as available-for-sale		
UK Government gilt-edged securities	5,066	3,230
Treasury bills	1,859	6,120
	6,925	**9,350**
Loans and advances to banks		
Reverse sale and repurchase agreements	224	793
Deposits	5	22
	229	**815**
Securities held for trading		
UK Government gilt-edged securities	13	12
Other securities	35	40
	48	**52**
Deposit at National Loans Fund	304	993
	7,506	**11,210**

3 Interest expense

	2010 £m	2009 £m
Deposits by banks		
Sale and repurchase agreements	(86)	(576)
Deposits	(2)	-
	(88)	**(576)**
Due to government customers		
Deposits	(300)	(2,332)
Treasury bills in issue	(285)	(1,077)
Advance from National Loans Fund	(1,532)	(4,547)
	(2,205)	**(8,532)**

4 Other gains and losses

	2010 £m	2009 £m
Gains/(losses) on disposal:		
Derivative financial instruments held for trading		
Equity index / interest rate derivatives	(67)	36
Investment securities classified as available-for-sale		
UK Government gilt-edged securities	16	7
Securities held for trading		
UK Government gilt edged securities	-	-
Other securities	(11)	(1)
	(11)	**(1)**
Change in the fair value of derivative financial instruments held for trading and held at year end:		
Equity index / interest rate derivatives	93	(175)
	93	**(175)**
Change in the fair value of securities held for trading and held at year end:		
UK Government gilt-edged securities	(9)	8
Other securities	(2)	2
	(11)	**10**
	20	**(123)**

5 Fee income

	2010 £m	2009 £m
Net fee income	**63**	**32**

The DMO earned fee income from lending Treasury Bills to the Bank of England. The total fee payable by the Bank of England was shared between the DMA and the NLF.

6 Surplus for the year

Surplus for the year has been arrived at after charging net foreign exchange losses of £2 million (2009: £35 million).

7 Loans and advances to banks

	2010 £m	2009 £m	2008 £m
Reverse sale and repurchase agreements			
Due in not more than 3 months	41,955	32,074	14,198
Due in more than 3 months but not more than 1 year	2,107	1,803	-
	44,062	**33,877**	**14,198**
Fixed term deposits			
Due in not more than 3 months	-	-	8
Call notice deposits			
Due in not more than 3 months	125	986	-
	44,187	**34,863**	**14,206**

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

Reverse sale and repurchase agreements included euro denominated transactions. The associated foreign currency risk was fully hedged through forward foreign exchange contracts (see note 9).

8 Securities held for trading

	2010 £m	2009 £m	2008 £m
Carrying value			
UK Government gilt-edged securities	409	2,391	17
Other securities	515	2,450	-
	924	**4,841**	**17**

	2010 Nominal £m	2010 Fair value £m	2009 Nominal £m	2009 Fair value £m	2008 Nominal £m	2008 Fair value £m
Maturity analysis						
Due within 1 year						
In not more than 3 months	888	897	3,373	3,436	-	-
In more than 3 months but not more than 1 year	4	4	1,381	1,385	-	-
	892	**901**	**4,754**	**4,821**	**-**	**-**
Due after 1 year						
In more than 1 year but not more than 5 years	14	16	9	10	7	8
In more than 5 years	7	7	9	10	9	9
	21	**23**	**18**	**20**	**16**	**17**
	913	**924**	**4,772**	**4,841**	**16**	**17**

9 Derivative financial instruments

	2010 Assets £m	2010 Liabilities £m	2009 Assets £m	2009 Liabilities £m	2008 Assets £m	2008 Liabilities £m
Equity index / interest rate derivatives	10	20	-	103	82	9
Forward foreign exchange contracts	48	7	-	154	-	322
Unsettled sale and repurchase agreements	-	-	1	-	-	-
	58	**27**	**1**	**257**	**82**	**331**

	2010 Nominal £m	2010 Fair value £m	2009 Nominal £m	2009 Fair value £m	2008 Nominal £m	2008 Fair value £m
Maturity analysis						
Due within 1 year						
In not more than 3 months	17,340	47	6,536	(201)	11,674	(279)
In more than 3 months but not more than 1 year	2,136	(15)	1,326	(19)	121	8
	19,476	**32**	**7,862**	**(220)**	**11,795**	**(271)**
Due after 1 year						
In more than 1 year but not more than 5 years	292	(1)	301	(36)	522	22
In more than 5 years	-	-	15	-	-	-
	292	**(1)**	**316**	**(36)**	**522**	**22**
	19,768	**31**	**8,178**	**(256)**	**12,317**	**(249)**

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

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

10 Investment securities classified as available-for-sale

	2010 Nominal £m	2010 Fair value £m	2009 Nominal £m	2009 Fair value £m	2008 Nominal £m	2008 Fair value £m
Maturity analysis						
Due within 1 year						
In not more than 3 months	114,252	114,278	56,336	56,313	-	-
In more than 3 months but not more than 1 year	74,795	74,964	153,475	153,138	905	907
	189,047	**189,242**	**209,811**	**209,451**	**905**	**907**
Due after 1 year						
In more than 1 year but not more than 5 years	26,531	29,319	34,539	37,743	6,200	6,595
In more than 5 years	87,070	96,321	91,983	105,401	18,625	21,661
	113,601	**125,640**	**126,522**	**143,144**	**24,825**	**28,256**
	302,648	**314,882**	**336,333**	**352,595**	**25,730**	**29,163**

11 Other assets

	2010 £m	2009 £m	2008 £m
Accrued fees	18	18	-
Due from counterparties	-	54	6
	18	**72**	**6**

12 Deposits by banks

	2010 £m	2009 £m	2008 £m
Sale and repurchase agreements			
Due in not more than 3 months	14,561	22,548	11,978
Due in more than 3 months but not more than 1 year	636	3,127	-
	15,197	**25,675**	**11,978**
Fixed term deposits			
Due in not more than 3 months	158	3,668	184
	15,355	**29,343**	**12,162**

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

13 Due to government customers

	2010 £m	2009 £m	2008 £m
Counterparty analysis			
Commissioners for the Reduction of the National Debt			
Fixed term deposits	-	-	497
Call notice deposits	53,130	61,732	59,721
	53,130	**61,732**	**60,218**
Other government counterparties			
Fixed term deposits	3,348	4,416	2,069
	56,478	**66,148**	**62,287**
Maturity analysis			
In not more than 3 months			
Fixed term deposits	3,344	4,325	2,133
Call notice deposits	53,129	61,732	59,721
	56,473	**66,057**	**61,854**
In more than 3 months but not more than 1 year			
Fixed term deposits	5	91	433
	56,478	**66,148**	**62,287**

Call notice deposits are repayable on demand.

14 Treasury bills in issue

	2010 £m	2009 £m	2008 £m
Carrying value			
Due in not more than 3 months	44,000	32,059	14,108
Due in more than 3 months but not more than 1 year	18,973	11,836	3,333
	62,973	**43,895**	**17,441**
Fair value	**62,977**	**43,931**	**17,441**

15 Other liabilities

	2010 £m	2009 £m	2008 £m
Accrued stock lending fees	11	8	-
Due to counterparties	109	-	4
Cash collateral	8	1	-
	128	**9**	**4**

16 Analysis of cash flow

	2010 £m	2009 £m
Reconciliation of operating profit to net cash (outflow)/inflow from operating activities		
Operating surplus	**5,384**	**2,587**
Less: investment revenues		
Interest on investment securities classified as available-for-sale	(6,925)	(9,350)
Less: other gains and losses		
Profit on disposal of investment securities classified as available-for-sale	(16)	(7)
Less: financing costs		
Interest income on deposit at National Loans Fund	(304)	(993)
Interest expense on advance from National Loans Fund	1,532	4,547
	1,228	**3,554**
(Increase) in loans and advances to banks	(9,323)	(22,148)
Decrease/(increase) in securities held for trading	3,916	(4,824)
(Increase)/decrease in derivative assets	(57)	81
Decrease in other assets	53	706
(Decrease)/increase in deposits by banks	(13,989)	16,410
(Decrease)/increase in amounts due to government customers	(9,670)	3,860
(Decrease) in derivative liabilities	(230)	(74)
Increase in Treasury bills in issue	19,078	26,455
Increase in other liabilities	120	1,497
Net cash (outflow)/inflow from operating activities	**(10,431)**	**18,747**

17 Fair value hierarchy

	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	Total £m
Fair value at 31 March 2010			
Assets			
Securities held for trading	425	499	924
Derivative financial instruments	-	58	58
Investment securities classified as available-for-sale	314,882	-	314,882
Liabilities			
Derivative financial instruments	-	27	27
Fair value at 31 March 2009			
Assets			
Securities held for trading	2,391	2,450	4,841
Derivative financial instruments	-	1	1
Investment securities classified as available-for-sale	352,595	-	352,595
Liabilities			
Derivative financial instruments	-	257	257

18 Gilt issuance

	2010 £m	2009 £m
Nominal value of gilts issued on behalf of National Loans Fund	224,064	142,650
Proceeds paid to National Loans Fund	227,482	146,689
Nominal value of uncovered stock purchased from National Loans Fund	-	188
Nominal value of gilt collateral created for use in cash management operations	-	55,600
Nominal value of gilt collateral created for use in DWF	-	47,752

During the year, there were no uncovered gilt auctions (2009: one).

During the year, no gilts (2009: nominal value of £55,600 million) were created by the NLF and sold to the DMA for use as collateral in its cash management operations. Specific gilts issued in this way are not available to the repo market until three months after their creation. However, during this period, these gilts may be used in delivery by value (DBV) transactions.

19 Events after the end of the reporting period

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

20 Related party transactions

HM Treasury

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

As detailed below, the DMA gave funding to the Bank of England in relation to the Bank of England's Asset Purchase Facility. The DMO and HM Treasury have agreed that, when the Asset Purchase Facility is closed, HM Treasury will reimburse the DMA for any accumulated net interest loss arising from this funding, or the DMA will transfer to HM Treasury any accumulated net interest surplus. The amount receivable or payable by the DMA cannot be reliably estimated, but it is unlikely to be material to the accounts of the DMA. The DMA has recognised an amount receivable from HM Treasury of £382,616 (2009: £102,088).

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

Commissioners for the Reduction of the National Debt

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

National Loans Fund

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

Bank of England

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

National Savings & Investments

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

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

- **Bradford and Bingley**
- **Kaupthing Singer & Friedlander Limited**
- **Lloyds Banking Group plc**
- **Northern Rock plc**
- **Royal Bank of Scotland Group plc**

The volume and diversity of any transactions with these entities were such that it would be impractical to disclose the amounts in the period for which each entity was a related party. All transactions with these entities were conducted on an arm's length basis.

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

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

At 31 March 2010 amounts due to or from related parties were:

	Central government £m	Local government £m	Financial institutions £m	Total £m
Assets				
Cash and balances at the Bank of England	-	-	420	420
Loans and advances to banks	-	-	5,825	5,825
Securities held for trading	409	-	-	409
Derivative financial instruments	-	-	3	3
Investment securities classified as available-for-sale				
UK Government gilt-edged securities for use as collateral	86,499	-	-	86,499
Other UK Government gilt-edged securities	52,275	-	-	52,275
Treasury bills	176,108	-	-	176,108
Other assets	-	-	18	18
Deposit at National Loans Fund	28,511	-	-	28,511
Liabilities				
Deposits by banks	-	-	61	61
Due to government customers	54,268	2,210	-	56,478
Other liabilities	11	-	-	11
Advance from National Loans Fund	242,127	-	-	242,127

During the year, the DMA sold Treasury bills via tender and bilaterally. Any such sales by the DMA to related parties represented amounts due to related parties upon that sale. However, the relevant Treasury bills may have been sold by the related parties subsequently, so the DMA cannot quantify the amount of Treasury bills in issue that were due to related parties at 31 March 2010.

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

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 DMO's Risk Management Unit.

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

Activities that give rise to credit risk include:

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

Methods used to measure and manage credit risk in the year ended 31 March 2010 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 that are approved by the Credit and Market Risk Committee. These limits are absolute limits and are set for both individual entities and groups of related entities. Separate limits are set for different transaction types.

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

The Credit and Market Risk Committee reviews the concentrations of the DMA's credit exposure to individual banking groups and countries on a 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 external credit rating available at the time the transaction is entered into.

The DMO applies 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 statement of financial position assets and liabilities. However, if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

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

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

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

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

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

The CREST and Euroclear systems are owned by Euroclear Bank S.A., which had a Standard and Poor's credit rating of AA+ at 31 March 2010. The Clearstream system is owned by Clearstream Banking S.A., which had a Standard and Poor's credit rating of AA at 31 March 2010.

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

Daily settlement limits are also used to control settlement risk.

(iii) Impairment and provisioning policies
Counterparties and issues are monitored for deterioration of credit worthiness or late settlements and collateral is valued on a daily basis.

There were no assets considered impaired, nor whose terms had been renegotiated, at 31 March 2010 (31 March 2009: nil).

No credit related losses were incurred by the DMA during the year (2009: £386,000), and no provisions were considered necessary at 31 March 2010 (31 March 2009: nil).

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

Credit risk exposures on non-HM Government statement of financial position assets at 31 March were:

	Internal to government		External to government		Total	
			Financial institutions			
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Cash and balances at the Bank of England	-	-	420	714	420	714
Loans and advances to banks						
Reverse repos	-	-	44,062	33,877	44,062	33,877
Fixed term deposits	-	-	-	-	-	-
Asset Purchase Facility (deposit at Bank of England)	-	-	125	986	125	986
Securities held for trading	409	2,391	515	2,450	924	4,841
Derivative financial instruments	-	-	58	1	58	1
Investment securities classified as available-for-sale						
UK Government gilt-edged securities for use as collateral	86,499	93,167	-	-	86,499	93,167
Other UK Government gilt-edged securities	52,275	54,280	-	-	52,275	54,280
Treasury bills	176,108	205,148	-	-	176,108	205,148
Other assets	-	-	18	72	18	72
Deposit at National Loans Fund	28,511	48,967	-	-	28,511	48,967
Total gross exposure	**343,802**	**403,953**	**45,198**	**38,100**	**389,000**	**442,053**

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

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

(v) Collateral

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

Repos and reverse repos with collateral backing were as follows:

Settled transactions:

		2010		2009
	Balance sheet carrying value £m	Fair value of securities collateral £m	Balance sheet carrying value £m	Fair value of securities collateral £m
Reverse repos (within loans and advances to banks)	44,062		33,877	
Repos (within deposits by banks)	15,197		25,675	
Net fair value of collateral		28,825		8,319
Collateral shortfall		103		-
Collateral surplus		23		-

Unsettled transactions:

		2010		2009
	Balance sheet carrying value £m	Weighted average days to settlement	Balance sheet carrying value £m	Weighted average days to settlement
Reverse repos (within loans and advances to banks)	12,958	7	1,492	112
Repos (within deposits by banks)	1,583	22	1,466	1

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

(b) Derivative financial instruments

	2010 Balance sheet carrying value £m	2010 Market value of securities collateral £m	2009 Balance sheet carrying value £m	2009 Market value of securities collateral £m
Assets	58		1	
Liabilities	27		257	
Collateral shortfall		41		-
Collateral surplus		5		112

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

(vi) Repos – analysis by credit rating

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

	Reverse repos		Repos	
	2010 £m	2009 £m	2010 £m	2009 £m
AAA	-	-	-	2,000
AA- to AA+	5,425	29,642	198	23,570
A- to A+	38,637	4,235	14,999	105
	44,062	**33,877**	**15,197**	**25,675**

(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 of the counterparty or (for trading assets) issuer at 31 March, were:

	Cash and balances at the Bank of England		Fixed term deposits at banks (unsecured)	
	2010 £m	2009 £m	2010 £m	2009 £m
AAA	420	714	-	-
AA- to AA+	-	-	-	-
	420	**714**	**-**	**-**

(viii) Derivative financial instruments – analysis by credit rating

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

	2010 £m	2009 £m
AA- to AA+	20	-
A- to A+	32	-
	52	**-**

(ix) Other assets – analysis by credit rating

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

	2010 £m	2009 £m
AAA	18	18
AA- to AA+	-	-
A- to A+	-	-
Unrated	-	-
	18	**18**

(x) Concentration of exposures

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

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

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

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Cash and balances at the Bank of England	420	714	-	-	-	-	-	-	420	714
Derivatives	19	-	32	-	1	-	-	-	52	-
Other assets	18	18	-	-	-	-	-	-	18	18
	458	**732**	**32**	**-**	**1**	**-**	**-**	**-**	**490**	**732**

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

(b) Geographical sectors – sale and repurchase agreements

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Reverse repos (within loans and advances to banks)	39,670	29,565	4,189	4,312	203	-	-	-	44,062	33,877
Repos (within deposits by banks)	14,999	22,923	198	2,106	-	-	-	646	15,197	25,675

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.

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

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

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

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

(i) Market risk measurement

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

Interest rate risk derives from the DMA's activity of addressing its cash flow profile throughout the year. Interest rate risk limits are in place, expressed in present value of a basis point (rather than value at risk) terms.

The Credit and Market Risk Committee reviews the DMA's market risk exposure on a monthly basis, with the

Cash Management Committee reviewing certain aspects weekly.

(a) Value at risk

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

b) Present value of a basis point

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

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

(ii) VaR summary

VaR at 31 March:

	2010 £m	2009 £m
Interest rate risk and currency risk - cash management	0.17	1.09
Interest rate risk - retail gilts	0.06	0.20

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

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

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

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

	2010 £m	2009 £m
Highest	4.96	7.91
Average	1.36	1.52
Lowest	0.11	0.16

(b) Interest rate risk – retail gilts

	2010 £m	2009 £m
Highest	0.25	0.25
Average	0.11	0.12
Lowest	0.06	0.06

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

(iii) Interest rate risk

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

The exceptions to this at 31 March 2010 were: index-linked gilts, with a carrying value of £14,948 million (31 March 2009: £17,344 million); the deposit at the National Loans Fund, with a carrying value of £28,511 million (31 March 2009: £48,967 million); and call notice deposits from customers, with a carrying value of £53,129 million (31 March 2009: £61,732 million). The index-linked gilts are linked to the General Index of Retail Prices in the UK (RPI).

(a) Interest rate risk profile

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

	Fixed rate instruments Weighted average interest rate	Fixed rate instruments Weighted average period	Fixed rate instruments	Floating rate instruments
			Balance sheet carrying value	
	2010 %	2010 Years	2010 £m	2010 £m
Sterling				
Assets	2.26	4.93	344,920	43,595
Liabilities (before funding by National Loans Fund)	0.47	0.16	81,677	53,149

	2009 %	2009 Years	2009 £m	2009 £m
Sterling				
Assets	3.19	5.22	373,970	67,297
Liabilities (before funding by National Loans Fund)	0.91	0.15	77,655	61,835

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

The DMA held undated gilts with a carrying value of £27 million as at 31 March 2010 (31 March 2009: £31 million). These are included in the above interest rate disclosures except the weighted average period, as these gilts have no maturity date.

(b) Interest rate sensitivity – PV01 summary

PV01 at 31 March was:

	2010 £m	2009 £m
Interest rate risk - cash management	(0.43)	0.15
Interest rate risk - retail gilts	(0.01)	(0.01)

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

Cash management

	2010 £m	2009 £m
Highest positive	0.14	0.42
Average	(0.39)	0.11
Highest negative	(0.73)	(0.11)

Retail gilts

	2010 £m	2009 £m
Highest positive	-	0.08
Average	(0.01)	(0.01)
Highest negative	(0.02)	(0.02)

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

(iv) Currency risk

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

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

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

23 Liquidity risk

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

The DMO manages the DMA's liquidity primarily by:

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

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

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

(i) Maximum cumulative flow

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

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

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

(ii) Non-derivative cash flows

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

At 31 March 2010	On demand £m	0-6 months £m	7-12 months £m	Total flows (not discounted) £m	Adjustment for discount £m	Balance sheet carrying value £m
Deposits by banks	-	14,720	637	**15,357**	(2)	**15,355**
Due to government customers	53,129	3,349	-	**56,478**	-	**56,478**
Treasury bills in issue	-	63,035	-	**63,035**	(62)	**62,973**
Other liabilities	127	1	-	**128**	-	**128**
Total non-derivative liabilities before funding by National Loans Fund	**53,256**	**81,105**	**637**	**134,998**	**(64)**	**134,934**

At 31 March 2009	On demand £m	0-6 months £m	7-12 months £m	Total flows (not discounted) £m	Adjustment for discount £m	Balance sheet carrying value £m
Deposits by banks	-	29,266	106	**29,372**	(29)	**29,343**
Due to government customers	61,732	4,416	-	**66,148**	-	**66,148**
Treasury bills in issue	-	43,619	345	**43,964**	(69)	**43,895**
Other liabilities	9	0	-	**9**	-	**9**
Total non-derivative liabilities before funding by National Loans Fund	**61,741**	**77,301**	**451**	**139,493**	**(98)**	**139,395**

At 31 March 2010 there were no liabilities that the DMA intended to repay before maturity (31 March 2009: nil).

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

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

(iii) Derivative cash flows

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

(a) Derivatives settled on a gross basis

At 31 March 2010

	0-6 months £m	Total undiscounted flows £m
Sterling		
Forward foreign exchange contracts, unsettled reserve sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	13,225	**13,225**
Inflow	5,780	**5,780**

	€m	€m
Euro		
Forward foreign exchange contracts, unsettled reserve sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	4,661	**4,661**
Inflow	299	**299**

At 31 March 2009

	0-6 months £m	Total undiscounted flows £m
Sterling		
Forward foreign exchange contracts, unsettled reserve sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	1,496	**1,496**
Inflow	4,962	**4,962**

	€m	€m
Euro		
Forward foreign exchange contracts, unsettled reserve sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	4,754	**4,754**
Inflow	4	**4**

Carrying values are shown in note 9.

(b) Derivatives settled on a net basis

At 31 March 2010	0-6 months £m	6-12 months £m	1-5 years £m	Total undis-counted flows £m	Adjustment for discount £m	Balance sheet carrying value £m
Sterling						
Equity index derivatives						
Outflow	8	-	12	**20**	(1)	**19**
Inflow	-	-	11	**11**	(1)	**10**

At 31 March 2009	0-6 months £m	6-12 months £m	1-5 years £m	Total undis-counted flows £m	Adjustment for discount £m	Balance sheet carrying value £m
Sterling						
Equity index derivatives						
Outflow	54	14	38	**106**	(3)	**103**
Inflow	-	-	-	**-**	-	**-**

There were no derivative contracts that the DMA intended to terminate before maturity at 31 March 2010 (or 31 March 2009). Management expects actual undiscounted cash flows in relation to derivatives to be the same as contractual undiscounted cash flows.

24 Preparation of accounts

As far as the Accounting Officer is aware, there is no relevant audit information of which the DMA's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the DMA's auditors are aware of that information.

The accounts were authorised for issue on 7 July 2010.

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

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

2. The United Kingdom Debt Management Office shall prepare accounts for the Debt Management Account (the Account) for the year ending 31 March 2010 and each subsequent financial year, which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.

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

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

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

6. The report shall include:

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

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

8. This accounts direction supersedes that issued on 12 July 2007.

Chris Wobschall
Head, Assurance and Financial Reporting Policy
HM Treasury
17 February 2010

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

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

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

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

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