

**UNITED KINGDOM DEBT MANAGEMENT
OFFICE**

BUSINESS PLAN 2005-2006

April 2005

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Introduction

1 This is the eighth business plan to be published annually by the UK Debt Management Office (“DMO”) since it was established as an executive agency of HM Treasury (“HMT”) on 1 April 1998. The DMO’s main aim continues to be “to carry out the Government’s debt management policy of minimising its financing cost over the long-term taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost effective way...”. The DMO’s objectives are consistent with and support HMT’s objectives.

2 The key themes of this year’s plan, which covers the period 2005-06 to 2007-08, are similar to and consistent with previous years although underpinning these are a wide range of activities that are intended to ensure the DMO continues to add significant value to the services it delivers to its wide range of stakeholders.

3 The agency also has to continue to be managed and operated in a cost and risk-effective way and in this respect the business plan is consistent with the Whitehall-wide Efficiency Review initiative. The DMO has agreed a programme of savings initiatives with HMT and the Cabinet Office that it is on track to deliver over the period to 2007-08.

Corporate governance

4 The DMO, as an executive agency of HMT, is legally indistinguishable from the latter. The nature of its status together with other details relating to its responsibilities and remit as an executive agency is contained in its Framework Document.

5 The DMO's Chief Executive and Accounting Officer, Robert Steeman, reports to the Chancellor of the Exchequer and is accountable to Parliament in discharging his responsibilities.

6 The DMO has a senior management team that comprises Robert Steeman; Jo Whelan, Deputy Chief Executive and Head of Policy & Markets; and Jim Juffs, Chief Operating Officer. Together with a HMT representative, Sue Owen, and two non-executives, Colin Price and Brian Larkman, they make up the DMO's Managing Board - the agency's senior management team. The DMO's Audit Committee is chaired by Colin Price.

7 In 2004-05, the DMO had a complement of around 80 staff which is broadly unchanged on the previous year.

Values

8 The DMO seeks to conduct itself and deliver its objectives using the highest possible standards. Its values are as follows:

- To promote and achieve professional excellence
- To be communicative, consultative and collaborative
- To be innovative, flexible and responsive
- To add value
- To be delivery focussed
- To be scrupulously fair
- To be an excellent place to work.

Aim, objectives and responsibilities

9 The DMO's aim, agency objectives and responsibilities are set out below.

Aim

The DMO is the executive agency of HMT specialising in the delivery of treasury management services and related policy advice to central government. The DMO performs these functions with a view to contributing to HM Government's ("HMG") objectives of achieving sound and sustainable public finances and improving the cost effectiveness of public services.

Agency objectives

1. To develop, provide advice on and implement HMG's debt management strategy.
2. To develop, provide advice on and implement HMG's cash management requirements.

(These are in support of HMT Objective I: "Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability.")

3. To advise on the development and implementation of HMT's strategy for managing HMG's balance sheet to secure sound public finances.
4. To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.
5. To provide a cost-effective lending service to local authorities through the Public Works Loan Board.
6. To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.
7. To manage, operate and develop an appropriate risk and control framework.

(These are in support of HMT Objective VI: "Improve the quality and the cost-effectiveness of public services.")

8. In addition to these objectives, the DMO seeks to support HMT Objectives III "Promote efficient, stable and fair financial markets, for their users and the

economy”, and VII: “Achieve world-class standards of financial management in government” respectively. The DMO intends to do this by supporting efficiency, stability, fairness and innovation in the financial markets and in working towards best domestic and international practice in the way that it delivers its objectives.

Review of 2004-05

10 The DMO is has delivered most of its 2004-05 key objectives and details of these will be published in due course with the DMO's Reports and Accounts for 2004-05:

- The gilt remit for 2004-05 was successfully delivered, with an outturn from gilt sales of £50.1 billion (cash); this total was £0.2 billion below the published target, but within agreed operational tolerances. The shortfall will be accounted for in a re-statement of the financing arithmetic to be published with the outturn CGNCR for 2004-05 in April 2005.
- Between 2 December 2004 and 21 January 2005, DMO held a formal consultation with stakeholders on the potential issuance of ultra-long (around 50-year original maturity) gilts from 2005-06. The DMO's response to the consultation, was published alongside the Debt & Reserves Management Report 2005-06 on 16 March 2005.
- The DMO has assumed responsibility for managing the gilt registration contract on behalf of HMT following the transfer of the registration function from the Bank of England to Computershare Investor Services PLC ("Computershare") in December 2004.
- The DMO has assumed responsibility for the gilt purchase and sale service for retail investors that was formerly operated by the Bank of England as the gilt brokerage service. The new service is carried out in association with Computershare as the DMO's agent.
- As part of the above and in line with anti-money laundering guidelines, the DMO extended the scope of the Approved Group to incorporate those investors using the gilt purchase and sale service.
- Implementing a new system that is intended to improve the efficiency of the way the DMO monitors operational risk.
- Supporting additional issues of National Savings and Investments' (NS&I) Guaranteed Equity Bond (GEB) product by hedging HMG's consequential exposure to the equity market.
- Continuing to make available the Debt Management Account Deposit Facility which allows local authorities to deposit surplus funds with the DMO.
- Managing the arrangements to support the new prudential borrowing regime for local government, which came into effect on 1 April 2004.

Key Planning Themes – 3 year horizon

11 The key planning themes for the 2005-08 period, recognise the need for the DMO to continue to deliver its core operational-type objectives to the highest standard, to develop further initiatives that advance the effectiveness of HMG's financial management and to continue to be efficient in the stewardship of the agency. They also explicitly recognise the key contribution the DMO makes in the support of HMT's own objectives and the value that has and can continue to be added in this respect.

12 For the period 2005-06 to 2007-08 the DMO's key business planning themes are as set out below.

To continue to deliver its core operations and activities to the excellent standard required.

This will include the following:

- Developing and delivering the debt and cash management remits for 2005-06 and beyond.
- Managing the debt and cash management operations successfully to deliver the financing programmes incorporated within each remit.
- Delivering the PWLB lending objectives for local authorities and developing, where appropriate and feasible, enhancements to the service.
- Managing the CRND funds in accordance with their respective mandates from clients.
- Delivering the gilt purchase and sale service for retail investors efficiently and effectively.
- Managing the registration contract, on behalf of HMT, in an effective and efficient way.
- Continuing to manage hedging transactions as required to meet NS&I's requirements in respect of its financing programme.
- 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 in particular where this identifies initiatives that may provide cost and risk minimisation benefits for HMG.

This will include the following:

- Developing further the work on longer-dated gilt issuance and other types of instruments.

- Developing further analytical tools and techniques – in consultation with HMT as necessary - that help inform debt and cash management strategy.
- Developing further our understanding of the composition of, drivers for and issues relating to the investor base for gilts and Treasury bills.
- Assisting HMT with the development of a consolidated profile of public finances and considering any associated asset/liability-related issues.
- Continuing to work with the National Audit Office on the study on debt and cash management.
- Developing enhancements to the delivery and measurement of the effectiveness of cash management operations.
- Continuing to work towards preparing for the possible introduction of the euro - should the UK join (see also the section on planning uncertainties).

To improve efficiency and to reduce operational risk where possible

This will include the following:

- Developing further the proposal to introduce electronic bidding at gilt auctions and Treasury bill tenders.
- Reviewing further the DMO's banking and settlement arrangements with the intention of identifying efficiencies.
- Developing and enhancing the DMO's business delivery capability.
- Enhancing the DMO's risk management analytical and reporting framework and capability.
- Continuing to review and enhance business continuity arrangements.
- Implementing a programme of strategic and operational IT work.
- Developing further the management information produced to support the DMO's business and agency functions.
- Implementing efficiencies in the management of information taking due account of the Freedom of Information Act requirements.
- Continuing to deliver the programme of savings identified as part of the Efficiency Review.

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

This will include the following:

- Integrating the core values of the DMO into the performance management framework.
- Working towards re-accreditation as Investors in People (IIP) in 2005-06.

- Continuing to measure the agency's corporate health.
- Identifying whether there are more effective ways of working.

Planning Uncertainties

13 In view of the scale and diversity of the plan, there are a range of risks and constraints to its delivery. The DMO must also retain the capability to re-order priorities if required to do so. The main categories of planning uncertainty are as follows:

- Stakeholder requirements – where the DMO may be required by HMT to give priority to particular initiatives that may or may not be in the work plan at present.
- Wider HMG policy issues – such as the introduction of the euro or legislation that was relevant to the DMO that might necessitate re-prioritisation of initiatives.
- Market infrastructure issues – for example changes in regulatory or tax regimes which if relevant might be required to take priority over existing initiatives

14 Mitigation measures have been developed as far as is possible to help alleviate the impact of changes to the business plan but inevitably these will not be able to eliminate the risk or impact entirely.

Operational targets 2005-06

1. To ensure full compliance with HMG's remit for the DMO as set out in the Debt and Reserves Management Report 2005-06, and to ensure consistency with the objectives of monetary policy.
2. To ensure that the maximum time taken to issue the results of gilt auctions does not exceed 40 minutes, that for weekly Treasury bill tenders does not exceed 30 minutes, and that for ad hoc Treasury bill or other tenders does not exceed 15 minutes, whilst achieving complete accuracy.
3. To achieve complete accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and in delivering money (and reconciling payments) to the NLF and to meet the required deadlines for the publication or submission for audit of the annual reports of the DMO and DMA.
4. To acknowledge all letters and e-mail enquiries from the public within 4 working days and for at least 95 per cent to be sent a substantive reply within 2 weeks. Furthermore, the DMO will respond to enquiries under the Freedom of Information Act within the statutory timeframe.
5. To achieve less than 5 breaches of operational market notices (excluding any breaches which HMT accept were beyond the control of the DMO).
6. To ensure that, where there is a late change in the cash management forecast, any necessary use of end of day borrowing or lending facilities is notified by the due time.
7. To ensure that instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through settlement is effective, so that the DMO achieves at least 99% (by value) successful settlement of agreed trades on the due date.
8. To release all market sensitive data and announcements in a timely manner and to aim to achieve no factual errors in material published by the DMO on its wire service pages, its web sites or its printed documents (insofar as the material is under the control of the DMO and not third parties).

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

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

DMO Functional Structure

