

UNITED KINGDOM DEBT MANAGEMENT OFFICE BUSINESS PLAN 2004-2005

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1 Introduction

1 The UK Debt Management Office (DMO) was established on 1 April 1998. Its main aim is “to carry out the Government’s debt management policy of minimising the 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...”

2 This is the DMO’s seventh annual business plan. Last year the DMO consulted its key stakeholders at length and with their help developed a longer term “vision” for the DMO. Last year’s plan focused on starting off in pursuit of that vision. This year the intention is to build on the significant progress made last year moving further towards achieving the longer-term goals. The business plan is intended to complement and be consistent with external factors such as wider government initiatives and relevant drivers associated with the macro economy.

3 During 2003-04, the Treasury has been undertaking an internal “Landscape review” of the DMO, the purpose of which among other things is to consider whether the agency has met its original purposes¹. One of the outputs of this work is likely to result in the streamlining of the DMO’s objectives and targets. Although this will not lead to a material change to the underlying intention or direction of the DMO’s business operations, for completeness this part of the business plan will be re-issued once the new streamlined objectives have been agreed.

¹ Landscape Reviews have replaced agency Quinquennial Reviews and are intended to represent a strategic high-level review of executive agencies

2 Aim, Missions and Values

AIM

As the Government's treasury manager, the DMO aims, with HM Treasury, to lead, develop and deliver the Government's debt, cash and fund management objectives.

MISSIONS

The DMO's missions are to:

1. Deliver the Government's debt, cash and fund management requirements and local authority lending services efficiently and effectively.
2. Develop and lead with HM Treasury the strategy on debt, cash and fund management.
3. Develop and drive with HM Treasury the strategy on the management of the central government financial balance sheet.
4. Advise on and deliver innovative and practical solutions to broader government financial issues.

VALUES

- Professional excellence.
- Communication, consultation and collaboration.
- Innovative, flexible and responsive.
- Adding value.
- Fairness to all.
- Be an excellent place to work.

3 Strategic Objectives

This section outlines the DMO's strategic objectives that support the mission.

1. To meet the annual remit set by HM Treasury Ministers for the sale and purchase of gilts, with high regard to long-term cost minimisation, taking account of risk {Mission 1}.
2. To offset, through its market operations, in a cost-effective manner, the expected daily cash flow into or out of the National Loans Fund (NLF); and to manage, in accordance with objectives set by HM Treasury Ministers, any assets and liabilities held on the DMA, and on behalf of clients {Mission 1}.
3. To continue to lend to local authorities and collect the repayments; to manage and develop the strategy for the Debt Management Account Deposit Facility (DMADF) and to participate actively in the development of local government finance arrangements. {Mission 1,2 & 4}.
4. To guide and assist in the formulation of strategy on debt, cash and fund management, including the remit, and to report to Ministers on the DMO's performance against its remit, objectives and targets. {Mission 1 & 2}.
5. To participate pro-actively in the development of strategy for managing the Government's balance sheet and accordingly to contribute to and help develop solutions for financial cost-effectiveness and risk reduction, including by developing partnerships with other parts of the public sector and by providing advice and expertise to other Government departments (and other governments), as required. {Mission 3 & 4}.
6. To resource, staff and manage the DMO to deliver its objectives efficiently, cost-effectively and professionally, ensuring value for money is achieved in the office's administrative expenditure. {Mission 1,2,3 & 4}.

7. To develop and maintain appropriate management, information and risk control systems (including procedures to combat potential money laundering); to ensure full and accurate presentation of and where appropriate facilitate access to financial, accounting and other information; to ensure accuracy of all DMO publications including its websites and to manage stakeholder relationships fairly and appropriately {Missions 1, 2, 3 & 4}.

4 Review of 2003-04

1. The DMO has achieved much in 2003-04 - in particular gilt sales of £49.9 billion (the highest level for a decade) were successfully delivered. The vast majority of its objectives and published targets were met and details of these will be published with the DMO's Reports and Accounts for 2003-04.
2. During the period the DMO gave evidence to the Treasury Sub-Committee and, as indicated earlier, also contributed to the Treasury led Landscape Review.
3. Significant progress has also been made in improving efficiency and reducing the DMO's exposure to risk including:
 - further integrating the CRND fund management function with the core DMO support functions using a common set of systems and procedures
 - reinforcing its anti-money laundering controls with the introduction of an Approved Group for retail investors at gilt auctions; and de-materialising Treasury bills within CREST
 - implementing a new system that is intended to improve the efficiency of the way the DMO monitors and controls operational risk.
4. Its range of services has been further consolidated and extended by:
 - supporting additional issues of the National Savings and Investments' (NS&I) Guaranteed Equity Bond (GEB) by hedging the Government's consequential exposure to the equity market;
 - continuing to make available the Deposit Facility which allows local authorities to deposit surplus funds with the Debt Management Account (DMA);
 - putting in place arrangements to support the new prudential borrowing regime for local government, which came into effect on 1 April 2004 and is designed to give local authorities more autonomy over and greater accountability for borrowing.

5 Planning Themes – 3 year Horizon

The longer-term vision of the DMO includes a shift of emphasis to reflect the DMO's aim to play a more active role and take a more proactive approach in supporting the Treasury in developing its policies towards the central government financial balance sheet more generally. With a major interest in key government liabilities such as gilts and Treasury bills, and PWLB loans and those funds managed for clients, the DMO is keen to ensure that financial cost-effectiveness is achieved (strategic objective 5). The vision reflects what the DMO has begun to do in practice by increasingly contributing to relevant policy issues within both the Treasury and wider government, while continuing to deliver its core objectives.

In the short term, and this year in particular, the DMO plans to retain the focus on improving efficiency and reducing operational risk. Although initiated independently of the government wide Efficiency Review led by Sir Peter Gershon this work is very much in accordance with the spirit of the Review. Tied into this is establishing improved performance measures which will allow the DMO to demonstrate aggregate savings from improvements in efficiency in a more transparent way.

From 2005-06 there will be particular emphasis on the DMO seeking to contribute to a range of issues more actively.

- In 2004-05, economic conditions are expected to lead to gilt sales and gilt operations of a similar level to last year. Each operation requires detailed preparation, can be resource-intensive and is accorded the highest priority which means that there is limited scope to absorb any significant intra-year changes that could distract from this core objective. Key priorities for next year are therefore split into the following two distinct areas:
 1. Performance measurement – this will involve broadening and improving DMO performance measures including quantifying what constitutes good performance for the DMO core business function and improving the ability

to measure it. The nature of the business function makes this a particularly complex exercise.

2. Improving efficiency & reducing operational risk – in support of the stated aims of the Efficiency Review there will be a significant emphasis on continuing to improve efficiency and to reduce operational risk. This will include changes to the way we develop and deliver the business plan including the associated portfolio of projects. The aim in this respect is for the DMO to adopt the ethos and methods instilled within the Office of Government Commerce's guidance on Centres of Excellence where appropriate and practical.
- In 2005-06, continuous improvement of delivery of core objectives; providing advice and making a fuller contribution to central government balance sheet issues; co-ordinating and driving initiatives in partnership with key stakeholders; and playing a more active role in the future direction of the DMO.
 - In 2006-07, continuous improvement of delivery of core objectives; ensuring the vision for each core business is in place; taking more ownership of initiatives with key stakeholders.

6 Plan Detail 2004-05

The key outputs in 2004-05 included in the plan are as follows:

a) Continuing to run the core business functions successfully

This is what the DMO does on a day-to-day basis and is largely in support of mission statement 1. There are some aspects (e.g. analytical tools) which will help support mission statement 2. Included here are:

- meeting the 2004-05 remits including the continued large gilt issuance programme;
- meeting the cash management objectives;
- meeting the PWLB lending objectives for local authorities under the new arrangements for local government finance which start in April 2004;
- managing the CRND funds;
- supporting debt and cash management research & analysis by further developing and implementing appropriate analytical tools;
- ensuring that the necessary publications and information are readily available to our stakeholders;
- working with NS&I to meet the Guaranteed Equity Bond programme;
- ensuring that appropriate support functions are available to sustain these core functions (including risk management and business continuity capability).

b) Improving efficiency and value for money

There are a number of areas where the DMO can improve efficiency, provide better value for money and reduce operational risk. This is about improving what the DMO currently does and hence directly supports mission statement 1. The areas identified here are:

- reviewing the policy framework for cash management, including redefining objectives, re-assessing instruments and techniques used for dealing;
- consulting on the DMO's proposal to introduce electronic bidding at gilt auctions and at Treasury bill tenders (currently in progress). The

expectation is that this will result in a proposal and implementation plan during 2004-05 with the intention of delivery during 2005;

- implementing an improved cash flow forecasting monitoring solution;
- completing the introduction of an electronic records management system;
- devising appropriate performance measures for debt and cash management;
- agreeing and working towards implementation of an updated BCP strategy in consultation with relevant stakeholders;
- working towards re-accreditation as Investors in People in 2005;
- implementing a programme of smaller business changes which includes a greater proportion of IT maintenance work than in previous years;

c) **New Products and Services**

This is about positioning the DMO for the future and hence is largely in support of mission statements 2, 3 and 4. The priorities are:

- working with the Treasury and Bank of England on the transfer of responsibility for the administration of the gilts register;
- develop a strategy for handling the DMO's external relationships. This is expected to include initiation of regular discussions with key stakeholders and with other government departments who are likely to be able to benefit from DMO services (e.g NS&I). The strategy will also aim to create a wider understanding especially within central government of the DMO's operational capability;
- continue to work towards fully understanding the implications of the euro for the DMO should the UK join (see also the section on planning uncertainties). If necessary, consider giving priority to those initiatives which will be of benefit to the core business and which would also be important for the DMO in the event of the UK joining the euro.

Key Strategic Projects

The key strategic value projects for the DMO this year include:

Debt portfolio analytics	To develop appropriate debt portfolio analytical tools to help support debt management strategy
Market risk	To complete the implementation of the new market & credit risk system.
Electronic bidding at auctions	To introduce a system for collecting bids at auctions and tenders electronically
Transfer of the gilts register	To work with the Treasury and Bank of England on the transfer of responsibility for the administration of the gilts register.
Cash flow forecasting	To deliver an improved cash flow forecasting monitoring solution.
EDRMS	To complete implementation of an electronic records & document management system in support of government-wide initiative.

7 Resources

The DMO's budget for 2004-05 (determined in the Spending Review 2002) is sufficient to deliver this year's business plan (taking into account End Year Flexibility agreed with HM Treasury). The DMO's annual budget is approximately £10m for administration (net of income) and £2m for capital.

The DMO has around 80 staff. The main resource focus will continue to be on the delivery of the DMO's daily operations (the current organisation chart is attached in Annex A.) However project work demands a large component of the DMO resources and delivery of the six strategic value projects listed in the section above will represent a significant achievement for the DMO, with outcomes spread across high-level strategic themes of operational effectiveness, longer-term sustainability, risk management and new business development. There are a number of additional important workstreams that also need to be considered alongside these.

Efficiency Review

During 2003-04 real efficiency savings have been realised and the review to identify further opportunities continues. Most significant has been a programme of re-engineering business processes and functional teams over the last year. This has allowed greater efficiency in systems and processes to be achieved.

8 Planning Uncertainties

There are risks to this plan and in any circumstances the DMO must retain the capability to re-order priorities to deliver more pressing requirements, as it has done previously.

Changing external drivers will continue to have some influence on the plan and may affect the DMO's future workload across the range of activities. Wider policies and market developments will also have implications e.g. the pressures on pension and insurance funds that are key investors in gilts. Other key planning risks and uncertainties include:

- the euro – a decision to join is likely to have the greatest impact on the DMO and, aside from the preparation, could require fundamental changes to the way that the DMO carries out some of its functions; there is an ongoing workstream in place with an appropriate structure including specific business owners in place to manage this possibility;
- changes in stakeholder requirements (though the DMO would expect its strategy for stakeholder relationships to minimise the likelihood of this risk materialising in the future);
- market structure, innovations and new products, including changes in market practice, in regulatory or tax regimes and in arrangements for registering gilts. This year the DMO will be looking to progress some initiatives aimed at developing the DMO's operational capability in some of these areas;
- the Landscape Review is yet not finalised and some shorter term recommendations may not be readily available to be fed through into the business planning process. Any such items will be handled in the round as and when they are finalised.

9 DMO Targets 2004-05

1. To ensure full compliance with the Government's remit for the DMO as set out in the Debt and Reserves Management Report 2004-05, within the tolerances and subject to the review triggers notified separately to the DMO and consistently 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 statutory 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 four working days and for at least 95 per cent to be sent a substantive reply within two weeks.
5. To achieve less than five breaches of operational market notices (excluding any breaches which HM Treasury accept were beyond the control of the DMO).
6. To ensure that, where there is a late change in the 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 websites 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 Annex A – UK DMO Organisational Chart

