HM Treasury

THE FUTURE OF UK GOVERNMENT DEBT AND CASH MANAGEMENT

A proposal for consultation
by HM Treasury

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CONTENTS

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SUMMARY

In his letter to the Governor of the Bank of England of May 6th 1997, the Chancellor stated that:

> *"The Bank's role as the Government's agent for debt management, the sale of gilts, oversight of the gilts market and cash management will be transferred to the Treasury."*

This paper sets out the way in which the UK authorities aim to implement this decision.

Rationale for the Change

Following the transfer of responsibility for setting short-term interest rates to the Bank of England, there are various reasons for changing the existing system of UK government debt management:

- ***Inside Information.*** The gilts market may charge a risk premium if debt management is believed to be open to influence from inside information on interest rate decisions to the detriment of investors;
- ***Possible Conflicts of Interest.*** Debt management may be a distraction for the Bank's central counter-inflationary task. Conversely, its debt management policy advice might be influenced by monetary policy considerations.
- ***Transparency of Operations.*** A clearer distinction can be made between the Bank's operations to implement monetary policy and cash management operations for the Exchequer.

Proposed Changes to the Current System of Government Debt Management

There are no plans to change the thrust of debt management policy that has led to the reform of gilts issuance and market structure over the past few years. Hence, the aim will still be to reduce the long term costs of financing to the UK government by making the process of issuing gilts simple and predictable whilst enhancing the attractiveness of gilts as financial instruments to both domestic and overseas investors.

It is envisaged that the new debt manager will:

- Provide policy advice to the Treasury on the annual gilts programme, changes to the programme within-year, possible reforms to the structure of the market and possible changes to the gilts portfolio (eg. conversion offers);

- Make decisions concerning the initiation of sales of gilts (ie. timing and size of gilt auctions and taps);

- Liaise with the Gilt-Edged Market Makers (GEMMs) and Inter-dealer Brokers (IDBs). This will entail dealing in gilts from official portfolios, maintaining the contractual relationships with the GEMMs and IDBs and consulting on the borrowing programme;

- Publish official material on gilts for marketing and liaison purposes.

The Bank will continue to:

- Operate a gilts dealing capability as part of its monetary policy operations, market analysis and for its own customers;

- Operate the electronic gilt settlement system (the Central Gilts Office). Consultations will be conducted by the Bank about the feasibility and timetable for merging the CGO with CREST;

- Operate the official gilts registration and payments system through the Registrar's Department in Gloucester.

The physical conduct of gilts auctions and taps and Treasury bill tenders will remain with the Bank until the debt manager considers their transfer administratively feasible and desirable.

Proposed Changes to the Current System of Government Cash Management

Currently, the Exchequer's main bank accounts are held at the Bank and the day-to-day cash position is managed as a part of the Bank's monetary policy operations. The weekly Treasury bill tender is used to affect the level of the stock of assistance that the banking sector requires from the Bank to square its position each day. In order to bring greater transparency to the financing of the Exchequer's cash position, it is proposed that:

- The Exchequer's banking accounts will remain at the Bank of England;
- The debt manager will actively manage the Exchequer's net daily cash position so as to avoid any significant net daily change in the accounts at the Bank. This will entail negotiating appropriate facilities with private sector settlement banks for use at the end of the settlement day;
- The debt manager will actively manage the month-to-month cash needs of the Exchequer by operating in the bill, gilt and gilt repo markets. This may result in the sale of cash management bills at maturities other than the current usual three months and the issuing by the Bank of its own bills for money market operations.

Transitional Arrangements and Timing

The Bank will continue to discharge its current functions in the gilts market until the end of this financial year. The new debt manager will then undertake the main policy functions and liaison with the market. The timing of the transfer of operational functions will depend on how quickly the new office can be established. In order to smooth the transition, the Bank have agreed to offer secondments to the new unit to some of its staff.

THE FUTURE OF UK GOVERNMENT DEBT AND CASH MANAGEMENT

A. INTRODUCTION

In his letter to the Governor of the Bank of England of May 6th 1997, the Chancellor stated that:

> *"The Bank's role as the Government's agent for debt management, the sale of gilts, oversight of the gilts market and cash management will be transferred to the Treasury."*

This paper sets out the way in which the UK authorities currently propose to implement this decision. Final decisions have yet to be taken. Views from interested parties about the details of implementation, rather than general views on the whole policy framework, would be welcome.

2. There are various options for how debt and cash management functions could be organised within Government. Currently, Treasury ministers propose to establish an agency of the Treasury to conduct debt and cash management operations. However, as shorthand for this paper, the new institution will simply be referred to as the 'government's debt manager'.

3. The deadline for views to be expressed on the proposal outlined is **Friday 12th September**. Any comments or queries should be addressed to:

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B. THE CONTEXT OF CHANGES TO UK GOVERNMENT DEBT MANAGEMENT

The Current Division of Government Financing Responsibilities

4. At present, ultimate policy responsibility for UK government debt management lies with the Treasury, outlined primarily in the National Loans Act 1968. This involves authorising all issues of gilts and Treasury bills, setting annual remits to both the Bank of England and National Savings each financial year and overseeing the debt management framework. The Treasury liaises with the Inland Revenue and the Bank over tax policy with regard to gilts. The Bank, the SIB, the London Stock Exchange and the SFA take the lead on gilt market regulation and settlement with the Treasury responsible for the legislative framework.

5. The Bank of England provides policy advice on the overall government debt portfolio as well as on the annual, quarterly and monthly gilts programmes. The Bank also liaises with the 18 gilt-edged market makers (GEMMs) and gilt investors through formal quarterly consultation meetings and also informally with a wide range of market participants; develops changes to gilts market structures (eg. repo, strips); markets gilts through its publications and the advertising of auctions; conducts all official dealing operations; oversees all primary issues and sales of government stock via auctions and taps; operates the gilts settlement system (CGO); holds the official gilts register and undertakes payments of coupons and redemptions (via the Bank's Registrar's Department in Gloucester).

6. In addition, the Exchequer's main banking accounts are held at the Bank, the Bank holds the weekly tenders of Treasury bills and manages the Government's day-to-day cash position as an adjunct to its daily monetary policy operations in the money markets.

The Rationale for Change

7. The Chancellor's decision to transfer debt and cash management policy functions from the Bank to the Treasury did not arise from dissatisfaction with how the current system operates. However, following the granting of operational responsibility for setting short-term interest rates to the Bank, there are three main reasons for the transfer of function in the debt and cash management areas:

- ***Inside Information.*** If one authority is responsible for both setting short-term interest rates and providing advice on debt management, the market may read monetary policy signals into debt management decisions. The market may also charge a premium if the debt management is believed to be influenced by inside information on interest rate decisions and could be used to the detriment of investors;

- ***Possible Conflicts of Interest.*** Debt management may be a distraction for the monetary policy authority's central counter-inflationary task. Conversely, its debt management policy advice might be influenced by monetary policy considerations. This could conflict with the debt management objective of minimising the cost of government financing subject to risk.

- ***Transparency of Operations.*** The risk of holding sterling assets should diminish if it is clear that monetary policy operations to establish short-term interest rates are for monetary policy reasons, rather than to meet the Exchequer's financing needs. Consequently, money market operations need to be distinguished from those involving government cash management to avoid confusion over monetary policy signals. Also, transparency would be brought to the sources and costs of the Exchequer's short-term financing since these are currently bound up with the Bank's monetary policy operations.

A key factor in shaping the new monetary policy arrangements has been the general desirability of clear accountability for policy functions. Not only should the transparency of policy-making be enhanced thereby but a clearer allocation of responsibilities should become possible. This suggests that a division of responsibility is needed between the institution charged with setting short-term interest rates and the government's debt manager.

8. The 1993 Treasury and Civil Service Select Committee report into Bank of England independence did not make any recommendations concerning the Bank's debt and cash management roles. However, the Roll Committee Report[1] argued that the Bank should not be left with a major role in government financing following a transfer of monetary policy responsibilities. Otherwise the accountability of the Bank would be diminished, its implementation of monetary policy would be confused with the government's cash management and an opportunity would be lost to make the Treasury's sources of finance more open.

9. Hence, separation of policy responsibilities for monetary policy and government financing should deliver both better monetary policy decisions and debt management. This principle is followed in most OECD economies where the central bank has executive responsibility for setting short-term interest rates.

Implications for the Organisation of Debt Management Functions

10. The primary implication for the future organisation of UK government debt and cash management is that policy decisions and implementation should be, and should be seen to be, uninfluenced by short-term considerations over monetary policy. This means that the Bank should have no role in debt management policy decisions. If the Bank continues to undertake any functions for the debt manager in this area, it should be absolutely clear to the market that it is acting purely as the agent of the debt manager with no discretion. Also, the debt manager should be distanced as far as possible from contact with the Monetary Policy Committee, so as to be in exactly the same position as the market with regard to information over the future path of short-term interest rates.

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[1] Roll Committee, 1993, *Independent and Accountable: A New Mandate for the Bank of England*, CEPR, London, p.40.

11. A second implication is that any government debt and cash management functions that could be construed as conveying information to the market, particularly over short-tem interest rates, should be seen to originate with the debt manager rather than the Bank.

12. Beyond these two implications, how debt management functions are organised turns on administrative convenience and wider efficiency questions since no policy discretion or signalling is involved. These considerations apply to the Bank's current roles in gilts origination, administration of auctions, settlement, registration and administration of coupon and redemption payments. Central banks in other OECD countries with operational independence over interest rates perform many of these functions purely as fiscal agents of the government's debt manager.

C. PROPOSED CHANGES TO THE DEBT MANAGEMENT STRUCTURE

The Debt Management Ethos

13. Following the Debt Management Review of 1994-95, the UK authorities have striven to modernise the UK debt management practice and gilts market structure. The aim has been to reduce the long term costs of financing to the UK government by making the process of issuing gilts simple and predictable whilst enhancing the attractiveness of gilts as financial instruments to both domestic and overseas investors.

14. This approach will not be changed by the transfer of functions to the Treasury. The debt manager will continue to have as its objective the minimisation of the Government's financing costs, subject to consideration of risk. In pursuit of this objective, the debt manager will seek to supply gilts in a transparent and open manner. This is in the belief that a simple and predictable pattern of gilts supply will enable market makers and investors to best plan their bidding and investment strategies. The goal is to avoid a supply uncertainty premium being priced into gilt yields by not surprising the market through an opportunistic issuance strategy. Hence, the current system of publishing an annual borrowing programme, auction calendar and formal consultations with market participants will continue. Similarly, there is no intention to change the current policy of concentrating most conventional gilt sales into large benchmark strippable issues.

The Debt Management Objective

15. The current published objective for UK debt management is "to minimise over the long term the cost of meeting the Government's financing needs, taking account of risk, whilst ensuring that debt management policy is consistent with monetary policy". The published objective will be unaffected by the transfer of debt management functions. The debt manager will aim to meet the government's financing

requirements at the lowest long-term cost subject to risk considerations. As regards interactions with monetary policy, the debt manager will not be required actively to reinforce the monetary stance that the Bank has chosen to adopt in its pursuit of the inflation target.

The Transfer of Debt Management Functions

i. ***Debt Management Policy Advice.***

16. Currently, Treasury ministers have ultimate policy responsibility for UK government debt management and receive advice from Treasury officials. Independently, the Bank offers advice on short-term supply decisions (eg. auction sizes and taps), the quarterly auction calendar and the annual remit it is to be set as well as policy concerning market structure (eg. stripping arrangements), prospectus terms and other gilts-related decisions (eg. conversion offers). The presumption is that the Bank's advice will be accepted within-year as long as it is consistent with fulfilling the annual gilts remit. Since the Bank is in day-to-day contact with the gilts market, it is clearly the most authoritative source of advice on market-related issues.

17. The main change to these arrangements that is envisaged is that policy advice to Treasury ministers on the within-year gilts sales programme and market-related issues will originate from the debt manager. In order to fulfill this role, the debt manager will need to take over the gilts market liaison and monitoring function from the Bank. Hence, the current formal annual and quarterly consultations with market participants would be hosted by the debt manager as well as the maintenance of a dialogue with the GEMMs and end-investors over policy questions.

18. If the debt manager is established as an agency, the Treasury would retain a role in setting the annual debt management framework, monitoring implementation and co-ordinating the borrowing programme with National Savings. The agency

would be responsible for within-year decision-making and fulfilment of the annual remit. The Bank would be free to offer advice on debt management with regard to its monetary implications, particularly during the preparation of the annual borrowing programme.

ii. Publications and Marketing.

19. As part of its responsibility to establish debt management policy and undertake market liaison, the debt manager will act as the source for publications on the gilts market and issuance policy. This will encompass an annual review of gilts market developments as well as possible quarterly or monthly updates on issuance and market conditions. The debt manager will also undertake gilts marketing functions.

iii. Maintaining the relationships with the Gilt-Edged Market Makers (GEMMs) and Inter-Dealer Brokers (IDBs).

20. In order to discharge its policy advice role, the debt manager will need to consult closely with GEMMs and end-investors in order to maximize market interest in gilts issues. Also, the debt manager will consider applications from firms that wish to offer a gilt-edged market-making service and will maintain a contractual relationship with these firms with a view to ensuring a deep and liquid market in gilts.

21. The responsibility for maintaining regulatory oversight over the gilts market and the conduct of market participants will fall to the London Stock Exchange, which operates the gilts market, and to SIB which is responsible for ensuring that the Exchange continues to meet the recognition criteria set out in the Financial Services Act.

22. Prudential supervision of GEMMs' operations is in the process of moving to the lead regulator of the GEMM parent (either the Bank of England's banking supervisors or the SFA) following the ending of the requirement for separate GEMM

capitalization. Any GEMM choosing to remain separately capitalized will transfer to SFA supervision. Hence, the debt manager will not be involved in the statutory regulation or supervision of GEMM operations.

23. Currently, the Bank ensures that the Inter-Dealer Brokers (IDBs) fulfill their broking obligations as well as conducting IDB prudential supervision in liaison with the SFA. As with the GEMMs, the debt manager will maintain contractual relationships with the IDBs; the SFA will take over full responsibility for prudential supervision.

24. Clearly, with both the GEMMs and IDBs, there will need to be regular contact between the debt manager and the prudential supervisor to monitor the financial health and propriety of their operations in the gilts market.

iv. Official gilts dealing operations.

25. The debt manager will need to undertake the gilts dealing function for trades passing through the Gilt-edged Official Operations Account (ie. trades that currently pass through the Bank's screen-based 'Shop Window', official transactions in index-linked stock, purchases of 'rump' stocks that have been the subject of conversion offers and stocks approaching maturity). This trading, particularly in stocks approaching maturity, will be integrated into the active management of the day-to-day cash position of the Exchequer (see below) by the debt manager. Also, the official dealing operation will act as a conduit of information on market conditions. The trades of marketable stock that the Bank currently conducts on behalf of the Commissioners for the Reduction of the National Debt (CRND) for their own funds pass through the 'Shop Window' facility. Consideration will be given as to whether the transparency of these transactions should be increased and whether these trades need to be conducted via the debt manager or whether they could be outsourced.

26. The Bank will need to retain an active role in the gilts market in order to fulfill its responsibilities for money market operations (partly through gilt repo operations) and in its assessment of monetary conditions and sentiment and financial stability. In addition, the Bank may need to deal in gilts to manage its own holdings of gilts and for its customers. The Bank's remaining dealing operations in the secondary market will be entirely separate from official dealing by the debt manager and should not be interpreted as conveying signals about debt management policy.

27. In addition, the Bank of England fulfills an important role in the fulfilment of the terms of some gilt prospectuses. In particular, the Bank calculates and publishes the coupon values for the two Floating Rate Gilts from reference interbank rates and can trigger a redemption offer for index-linked gilts if the basis on which the Retail Price Index is calculated is changed in a manner the Bank considers to be 'materially detrimental' to index-linked gilts holders. The Bank will continue to discharge its functions in these areas.

v. The conduct of gilt auctions, taps and bill tenders.

28. Currently, the Bank issues the prospectuses for government debt sales, advertises gilts auctions, conducts the auctions and processes payments for the government. With the official dealing function and GEMM liaison located with the debt manager, the conduct of taps and bill tenders could be moved to the debt manager as well. Similar considerations apply to the conduct of auctions, although there may be economy of scale arguments for keeping them with the Bank. This will be for the debt manager to decide in the light of administrative convenience.

vi. Administration of the Central Gilts Office (CGO).

29. The Bank developed and have operated the electronic gilts settlement system (CGO) since the mid-1980s. An upgrade of the settlement software, based on the

CREST software, is currently being trialed and will accommodate gilt stripping and modernise other settlement facilities.

30. Throughout the development of the CGO upgrade, the Bank have made clear that they would keep open the option of merging CGO and CREST in due course. To this end the Bank established a joint Development Liaison Committee comprising members of both the CGO project team and the CREST development team to ensure both were kept informed of the development of each others' services and software.

31. In accord with the policy of keeping open the option of merger it was announced in March 1996 that users could use the same gateway to access both CREST and the CGO upgrade. In November 1996, a joint Bank-CREST working party concluded that full merger of the two systems was technically feasible, though it did not assess the overall balance of costs and benefits.

32. The authorities see positive merit in the proposal to merge CREST and CGO to form a single integrated UK securities settlement system, owned and managed by the private sector and regulated by the SIB. Such a system offers the potential to enhance the competitiveness and flexibility of the UK financial markets by allowing potential economies of scale to be realised, reducing operational and administrative duplication, facilitating a more integrated approach to cash and collateral management and creating a dedicated UK centre of expertise in settlement system design and operation. A unified securities settlement system should enhance the competitiveness of the City of London.

33. However, the merger of CREST and CGO is only one of a number of IT projects which the UK financial markets may have to contend with over the next few years. These include preparations for the introduction of the euro, the year 2000 problem and the possible development of Delivery-versus-Payment (DVP) in security settlement systems or possible links between UK settlement systems and those in other countries.

34. Therefore, before a detailed timetable for merger is worked out, the Bank will seek the views of market participants on what the relative priorities should be among the various claims on scarce IT resources over the next few years and what the optimal sequencing of projects should be, taking into account the costs and benefits of CREST/CGO merger. The consultation will commence once current systems enhancements have been established and should be completed by Summer 1998. Meanwhile, the Treasury will discuss with the Bank, CRESTCo and the SIB the regulatory and governance implications of merger, including possible legislative requirements.

vii. Administration of the official gilts registration function.

35. The Bank administers the official gilts register and associated coupon and redemption payment system at the Registrar's Department in Gloucester. The Treasury currently pays the Bank a cash-limited agency fee for the provision of this service. Since the registration function entails minimal policy implications for debt management, there is no theoretical reason why registration of gilts could not remain with the Bank indefinitely, or be contracted out to a private sector registrar.

36. The Registrar's Department is currently undergoing a programme of restructuring to achieve cost efficiency savings. The Treasury and Bank have agreed that this programme should continue and that gilts registration will remain with the Registrar's Department for the next five years. The options will then be reviewed.

D. PROPOSED CHANGES TO THE EXCHEQUER'S CASH MANAGEMENT SYSTEM

37. The transfer of responsibility for the UK government's cash management was also included within the Chancellor's letter of the 6th May. Unlike debt management, this reform will entail not just a change in operational responsibilities but also a restructuring of the current approach to the Exchequer's cash management and how it interacts with the Bank's monetary policy operations.

The Present System

38. The Bank of England currently holds the Exchequer's centralised banking accounts from which are paid departmental outlays and servicing payments on borrowings and into which are paid receipts and the proceeds of borrowing transactions.

39. At present, the Bank responds to the Government's daily cash shortfalls or surpluses whilst at the same time exercising responsibility for monetary policy implementation. It fulfils both these tasks as parts of a single operation. In addition, the Bank uses sales of the Government's debt instruments (Treasury bills) to manage the overall stock of assistance that the private sector banking system requires to balance its cash position with the Bank. In its daily operations, the Bank relieves that shortage through discounting bills held by the private sector and gilt repo operations.

40. Adjusting the weekly Treasury bill tender in this arrangement has the effect of roughly smoothing out central government's weekly cash profile. It does not ensure central government's daily cash needs are precisely met. When daily central government expenditures, receipts and net borrowings produce an end-of-day shortfall, the fine-tuning is provided by overnight borrowing from the Bank. Essentially this 'Ways and Means' advance is made by running down other assets held by the Bank that back the note issue. A daily surplus in turn reduces outstanding

Ways and Means borrowings. (If there were no Ways and Means borrowing outstanding, a surplus would be put on deposit with Banking Department). Changes in the level of the Ways and Means advance[2] happens automatically at the end of each day as the Bank calculates central government's final cash position and adjusts the Ways and Means advance accordingly. Both borrowing and lending is done at the Bank's 14-day repo rate.

Reasons to Change the Current System

41. The Government's cash management and the Bank's operation of monetary policy currently overlap. This allows the Government's cash needs to be met automatically without the need for a large-scale cash dealing operation run by central government in addition to the Bank's operation. Liquidity in the official sterling bill market is maximized since only one form of bill is issued by the authorities.

42. The move to grant the Bank responsibility for setting short-term interest rates raises similar operational difficulties with cash management as with debt management (see para. 7 above) whilst offering an opportunity to reform some aspects of the Exchequer's cash management system.

43. *Discretion over cash management instruments or maturities:* At the moment, the Exchequer effectively borrows to meet its short term cash needs at either the 3-month rate (through Treasury bills) or the 14-day rate (Ways and Means advances). If it is depositing surpluses it is always at the 14-day rate into either the Issue Department or the Banking Department. The current system does not provide the Treasury with a great deal of freedom over the instruments or the maturities by which it will manage its within-year cash position.[3]

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[2] This stood at £14.3 billion at end-March 1997.

[3] Whilst the Treasury formally authorises the level of the weekly Treasury bill tender, this decision is taken on advice from the Bank on the basis of operational monetary policy considerations.

44. *Transparency over the cost of Exchequer cash management:* It is currently difficult to assess whether this is a cost effective system of cash management for the Exchequer or not since it is entangled in monetary policy operations. Transfer of active cash management to the debt manager will provide greater transparency over the respective costs of cash management and monetary policy and permit the relevant bodies to be properly accountable for their own particular responsibilities. Moreover, the debt manager will be able to manage actively the cost and risk of cash management with the objective of minimising them as part of the government's total debt portfolio.

45. *Impact on the sterling money markets:* The size of the Treasury bill stock has fluctuated widely in recent years as a result of the interaction of a volatile and difficult-to-forecast central government borrowing requirement and a relatively steady gilts auction programme. Hence, the Treasury bill stock in market hands has fallen from around £21 billion in mid-1995 to around £3 billion at present. Active management of the cash position should enable greater certainty to be provided to the sterling money markets over the approximate size of the stock of bills. In addition, the debt manager should be able to resort to a wider variety of instruments to manage the daily and within-year Exchequer cash position, so providing greater liquidity to some areas of the sterling yield curve at the ultra-short end.

New Arrangements for Cash Management

46. The Government has no plans to change the Exchequer's system of bank accounts at the Bank of England. Hence, it is envisaged that the Bank of England will remain the Government's banker.

47. However, the proposed change to cash management arrangements is that the Bank's monetary policy operations will be separated from operations to manage the Exchequer's day-to-day cash position. This will entail the debt manager being

responsible for reacting to the daily forecast net Exchequer position by transacting in the money markets either to borrow to meet a cash shortfall or lending to offset a cash surplus. Any residual shortfall or surplus at close of business would need to be met or dispersed through standing overnight overdraft or borrowing facilities with private sector settlement banks. This would enable the government's debt manager to present the Bank of England with a net zero change in the Exchequer's accounts at the Bank. This would then allow the Bank to conduct monetary policy operations on the basis that the day-to-day private sector shortage will entirely be the result of its own operations.

48. On a day-to-day basis, the debt manager will monitor the development of the net position of the Exchequer accounts at the Bank and, by using a variety of instruments, target a net zero position with the Bank at the close of banking business. When anticipating a daily surplus, the manager will deploy this by either discounting eligible bills, buying in gilts approaching maturity or engaging in reverse repos. When anticipating a deficit, the manager will sell from its stock of eligible bills, sell Treasury bills, borrow in the short-term money market or utilize standing overdraft facilities with private sector settlement banks. The debt manager will be responsible for seeking the best terms for the Exchequer in meeting its cash needs.

49. Although a small net Exchequer deposit will be maintained in the Bank's Banking Department, the debt manager will aim to cover fully the net daily Exchequer position via transactions with the private sector.

50. On a longer time horizon, the debt manager will be charged with choosing the timing and maturity of bill sales and other operations so as to cope with the month-to-month flows into and out of Exchequer accounts forecast by the Treasury, given other net debt sales. This might result in sales of Exchequer cash management bills at maturities other than the current normal term of three months. It may also lead to the Bank issuing its own bills for monetary policy purposes.

E. ORGANISATION OF THE DEBT MANAGER WITHIN GOVERNMENT

51. Treasury ministers currently propose to establish the debt management function as an Executive Agency of the Treasury. Legislation would not be required for its establishment. Its head would act as Agency Accounting Officer. There would be a published framework document setting out the relationships between Treasury ministers and officials and the debt manager. It would have whatever flexibilities in terms of pay and personnel matters as were necessary to carry out the duties described above. As an agency of the Treasury it would have the vires to issue debt on behalf of the Treasury. A head of the agency will be appointed in due course.

52. There is no operational requirement for the new agency to be physically located within the main Treasury building. The possibility of locating the agency closer to the main market participants will be considered.

F. TRANSITIONAL ARRANGEMENTS

Timetable

53. The current aim is for the Bank's debt management policy and market liaison functions to transfer to the debt manager by the start of the next financial year (April 1998). Hence, the published annual borrowing programme for 1998-99 and following will detail the Treasury's instructions to the new debt manager. For the remainder of the current financial year, the Bank will continue to provide policy advice and deal in the gilts market on the Government's behalf along the lines established in the remit published in March 1997 and amended following the Budget in July.

54. Whilst it is hoped that the practical arrangements for transacting in the gilts and money markets will be ready by the beginning of the next financial year, there may need to a transitional period in which the Bank provides various functions for the debt manager on an 'execution-only' basis. Given the novelty of the new structure and the possible counterparty arrangements that will need to be made, it is more likely that the current cash management system will continue into the next financial year.

Personnel Issues

55. The Treasury and the Bank hope that the transfer of operational functions will happen as seamlessly as possible. With that aim in mind, a project team from the Treasury will shortly begin working at the Bank to plan the establishment of the new agency. The Bank has agreed that secondments to the new agency will be offered to some of its staff currently working in the debt management area to provide continuity and smooth the transition.

Index-linked Gilts Auction Consultation

56. The current remit to the Bank states that 'the authorities see positive merit in moving to an index-linked gilt auction programme as soon as is feasible' and that, in the light of the need for further market consultation over the details of the programme, 'it is the Government's intention that the Bank initiates these consultations as soon as there is sufficient experience of the US indexed bond programme'.

57. Given the impending transfer of policy responsibilities on debt management, the authorities intend that this consultation exercise should now be conducted by the Treasury, with assistance from the Bank, probably commencing in September.