

UNITED KINGDOM DEBT MANAGEMENT OFFICE

BUSINESS PLAN 2007-2008

Table of Contents

INTRODUCTION	2
VALUES.....	5
AIM, OBJECTIVES AND RESPONSIBILITIES	6
REVIEW OF 2006-07	7
KEY PLANNING THEMES – FOR THE PERIOD TO 2010-11	8
PLANNING UNCERTAINTIES.....	10
OPERATIONAL TARGETS 2007-08.....	11

Introduction

1 This is the UK Debt Management Office's ("DMO") tenth annual business plan 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 minimise the cost of offsetting the Government's net cash flows over time, while operating within a risk appetite approved by Ministers". The DMO's objectives are consistent with and support HMT's objectives.

Key themes for the 2007-08 business plan

2 The key business planning themes for 2007-08, which are set out in more detail on pages 8-10, remain consistent with previous years with a wide range of activities that are intended to ensure the DMO delivers significant value across its core functions in a cost-effective way. The plan for 2007-08 contains important additional themes that are focussed on upgrading technology, streamlining processes and enhancing infrastructure to enhance resilience and efficiency and also on developing the DMO's business capability. The plan will help the DMO deliver its core objectives in a landscape of a challenging administrative budget "envelope" which forms part of HMT's Comprehensive Spending Review ("CSR") settlement.

The delivery of the DMO's operational objectives

3 The 2007-08 plan continues to recognise the critical importance to the DMO, HMT and our stakeholders of the effective development and delivery of the debt and cash management remits, together with our Public Works Loan Board and fund management functions, to the highest standards. These remain at the heart of the DMO's core objectives and we continue to recognise these activities as being of the highest importance. Although our business plan is built around this central theme, it is complemented and facilitated by the maintenance of a robust infrastructure in terms of systems, skills and processes.

Debt management

4 There has been good progress this year on developing our strategic debt analysis capability in support of our debt management and wider balance sheet objectives; this will continue with other analytical and research work in 2007-08. We have also made solid progress this year in developing – with the valued help of the Gilt-Edged Market Makers and our system providers – an automated bid capture system for gilt auctions which we intend to implement in 2007-08. We also intend to enhance our operational

capability, where appropriate, to manage exposures arising from HMG's balance sheet to reduce risk to the Exchequer.

Cash management

5 We would like to continue to develop further the efficiency and effectiveness of our cash management operations by widening the range of instruments in which we transact, streamlining the processing of transactions and enhancing the means by which our performance is monitored and measured.

Business continuity management

6 We continue to attach the highest importance to ensure that we remain operationally resilient and in this respect intend to undertake a wide range of initiatives aimed at enhancing the DMO's business continuity management further in 2007-08.

Cost-effectiveness and efficiency

7 Based on current estimates, the delivery of the 2007-08 plan is affordable within the parameters of the budgetary arrangements agreed with HMT. The DMO's budget falls within the scope of HMT's CSR settlement and this will mean that its cost "envelope" will be reduced significantly over the financial years 2008-09, 2009-10 and 2010-11. We are, however, undertaking a programme of investment – predominantly in skills, systems and processes - to ensure as far as possible that the delivery of the DMO's service to stakeholders remains of the highest quality.

Corporate governance

8 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 are contained in its Framework Document, which was last updated and issued in April 2005.

Chief Executive

9 The DMO's Chief Executive and Accounting Officer for the Debt Management Account ("DMA") and the agency, Robert Stheeman, reports to the Chancellor of the Exchequer and is accountable to Parliament in discharging his responsibilities.

Managing Board

10 The DMO has a senior management team that comprises Robert Stheeman; Jo Whelan, Deputy Chief Executive and Head of Policy & Markets; and Jim Juffs, Chief Operating Officer and Head of Operations and Resources. Together with a HMT representative, Tamara Finkelstein, and non-executives Colin Price and Brian Larkman, they make up the DMO's Managing Board ("MB") - the agency's senior management team. A sub committee of the MB together with the DMO's senior managers usually meets weekly.

Exchequer Funds Audit Committee

11 The DMO's Audit Committee was succeeded by a new Exchequer Funds Audit Committee ("EFAC") with effect from January 2007. The EFAC was established as one of two new HMT Group-wide audit committees¹ to cover issues of risk, internal control, governance and associated assurance in respect of the "Exchequer Funds"² for which the Group's Accounting Officers are responsible. Colin Price, who was the chair of the DMO's audit committee, has been appointed as chair of the EFAC. Brian Larkman has been appointed as an independent member of the EFAC. A third independent member of the EFAC is due to be appointed shortly.

12 Those who attend EFAC meetings, as necessary, include Robert Stheeman, Jo Whelan, Jim Juffs, representatives from the DMO's teams, other HMT Accounting Officers or their representatives, HMT's internal audit team and the National Audit Office. Although the remit of the EFAC is wider than that of the DMO's former audit committee, the level of support and assurance it provides to the relevant Accounting

¹ The other Audit Committee being the Group Resource Audit Committee with a remit to cover issues relating to the Group's finances and resource accounts.

² Debt Management Account, Public Works Loan Board, Commissioners for the Reduction of the National Debt, Exchange Equalisation Account, National Loans Fund, Consolidated Fund and the Contingencies Fund.

Officers is intended to be of the same high quality. Accordingly, as far as the DMA's Accounting Officer is concerned, the new audit committee arrangements have left the level of assurance unchanged.

Staffing complement

13 In 2006-07, the DMO had a complement of around 85 staff - which is similar to previous years.

Values

14 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

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

Aim

16 The DMO is the executive agency of HMT specialising in the delivery of treasury management services and related policy advice to central government.

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.
3. To advise HMT on the development and implementation of strategies 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.

17 In the delivery of these objectives, the DMO seeks to support primarily HMT's objective to "maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code of Fiscal Stability".

Review of 2006-07

18 The DMO has delivered most of its 2006-07 key objectives and details of these will be published in due course with the DMO's Reports and Accounts for 2006-07:

- Debt management - the gilt remit for 2006-07 was successfully delivered, with an estimated outturn from gilt sales of £62.5 billion (cash) raised through 36 auctions. The DMO also, at the request of HMT, sold on an execution only basis £1.8bn cash of index-linked gilts held by British Nuclear Fuels Limited. In addition, the DMO provided advice to HMT on the formulation of the 2007-08 debt and cash management remits. The latter were published by HMT in the Debt and Reserves Management Report 2007-08 on 21 March 2007.
- The cash management remit for 2006-07 was successfully delivered under the new banking arrangements and the changes to market conditions that resulted from the Bank of England's reforms to the Sterling money markets. The DMO continues to measure and monitor the performance of Exchequer cash management against a series of quantitative and qualitative indicators. Publication of performance against a series of key performance indicators is intended to take place in 2007-08, the first full year of the Sterling money markets operating under the Bank of England's new arrangements. A further development the DMO has undertaken in 2006-07 is the broadening of its cash management trading relationships, including further use of electronic and voice brokers and dealings with a central counterparty via membership of the London Clearing House.
- The DMO continued to support additional issues of National Savings and Investments' (NS&I) Guaranteed Equity Bond (GEB) by hedging HMG's consequential exposure to the equity market.
- The DMO continued to manage the gilt registration contract with Computershare Investor Services PLC on behalf of HMT following the transfer of the registration function from the Bank of England in December 2004. It also continued to offer the gilt purchase and sale service for retail investors which is carried out in association with Computershare as the DMO's agent.
- The DMO was committed to developing and enhancing the components and features of its "Investor in people" action plan to help ensure it maintains its accreditation when next reviewed which is scheduled to be in the second half of 2008.

Key Planning Themes – for the period to 2010-11

19 As indicated above, 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.

20 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:

- Managing the debt and cash management operations successfully to deliver the financing programmes incorporated within the 2007-08 remit.
- Developing in due course the debt and cash management remits for 2008-09.
- Delivering the Public Works Loan Board's ("PWLB") lending objectives for local authorities; developing where appropriate efficiencies and enhancements to the service; and, where feasible, and desirable, reducing cost and risk to the Exchequer.
- Managing the funds of the Commissioners for the Reduction of the National Debt ("CRND") 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 HMT, in an effective and efficient way.
- Continuing to manage hedging transactions to meet NS&I's requirements in respect of its financing programme.
- Producing the report and accounts for the DMO as an agency, the Debt Management Account, the PWLB and CRND 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 in particular where this identifies initiatives that may provide cost and risk minimisation benefits for HMG.

This will include the following:

- Developing where appropriate the operational capability to manage market-related risks arising from the DMO's core operations.

- Developing further analytical tools and techniques 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 understand the key issues and risks associated with HMG's treasury management activities.
- 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:

- Implementing the automated bid capture facility for gilt auctions.
- Delivering a programme of savings to meet the DMO's budget "envelope" resulting from HMT's Comprehensive Spending Review settlement.
- Reviewing further the DMO's banking and settlement arrangements with the intention of identifying efficiencies and where possible advances in operational effectiveness.
- Developing and enhancing the DMO's business delivery capability to improve the operational efficiency of the agency.
- Enhancing the DMO's risk management analytical and reporting framework and capability.
- Continuing to enhance business continuity arrangements to develop further the DMO's operational resilience.
- Implementing a programme of strategic IT work to enhance the DMO's core infrastructure and applications.
- 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.

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

This will include the following:

- Continuing to integrate and embed the DMO's core values into all aspects of the DMO's operations ensuring these activities are consistent with and build upon its "Investor in People" status.

- Developing further the use of the DMO's Staff Council as a means of enhancing communication with DMO staff.
- Identifying and implementing where appropriate more effective ways of working.

Planning Uncertainties

21 In view of the scale and diversity of the items within the business plan, there are a wide range of risks and constraints to its delivery. The DMO must therefore retain the flexibility and capability to re-order priorities in the plan if required to do so. Mitigation measures have been developed as far as is possible to help alleviate the impact of changes to the plan but inevitably these will not be able to eliminate the risk or impact entirely.

Operational targets 2007-08

1. To ensure full compliance with HMG's remit for the DMO (which is primarily set out in the Debt and Reserves Management Report 2007-08 but, in some areas, is subject to confidential parameters notified separately to the DMO).
2. To ensure that the maximum time taken to issue the results of gilt auctions does not exceed 40 minutes (and to reduce the average time for publishing gilt auction results following the introduction of automated bid capture), 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, DMA, the Public Works Loan Board and the Commissioners for the Reduction of the National Debt.
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, for cash management purposes, target weekly balances and expected daily variations are notified according to the agreed schedule.
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 successfully settles at least 99% (by value) 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 website 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.