

United Kingdom
**Debt
Management
Office**

BUSINESS PLAN 2008-2009



UNITED KINGDOM DEBT MANAGEMENT OFFICE

BUSINESS PLAN 2008-2009

Table of Contents

INTRODUCTION	2
REVIEW OF 2007-08	4
VALUES	7
VISION, OBJECTIVES AND RESPONSIBILITIES	8
KEY PLANNING THEMES – FOR THE PERIOD TO 2010-11	10
PLANNING UNCERTAINTIES.....	12
OPERATIONAL TARGETS 2008-09.....	13

Introduction

1 This is the UK Debt Management Office's ("DMO") eleventh annual business plan since it was established as an executive agency of HM Treasury ten years ago 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 HM Treasury's objectives.

Key themes for the 2008-09 business plan

2 The key business planning themes for 2008-09, which are set out in more detail on pages 10-12, remain consistent with previous years with a wide range of activities that reflect the DMO's responsibilities and functions. The DMO's plan for 2008-09 is focussed on the continued delivery of its debt management, cash management, fund management and local authority lending functions to the highest standards of quality and cost-effectiveness. We fully recognise that the effective delivery of these functions and services is our overriding objective and gear our resources, skills, systems and development activities accordingly.

3 The DMO's business plan therefore includes the following key themes for 2008-09:

- The delivery of the debt and cash management remits – which, because of the special factors relating to the repayment of both the Bank of England's loans to Northern Rock and the Ways and Means advance, will require £80bn of gilts to be sold through 41 auctions.
- Working, with HM Treasury ("HMT"), on the development of pragmatic solutions on the structuring of and also engaging with key stakeholders relating to potential Sharia-compliant HM Government financial instruments.
- Preparing – with HMT and the Department for Environment, Food and Rural Affairs ("DEFRA") – the capability to auction Emission Trading Scheme allowances.
- Developing a short term sterling interest rate swap capability for use as part of the DMO's cash management operations.
- Developing further the DMO's systems to support its strategic debt management and yield curve analytical capability.

- Continuing to implement upgraded trade and position management technology to facilitate the streamlining of processes and to enhance business resilience and efficiency.
- Preparing for the transfer of certain payment processing activities from the Bank of England to private sector banks as part of the Government Banking Service initiative.
- Delivering the required savings to allow the DMO to meet its Comprehensive Spending Review (“CSR”) settlement.
- Preparing for the external assessment of the DMO’s performance against the “Investors in People” criteria with the aim of obtaining re-accreditation.
- The DMO is also refreshing its aim/vision statement to reflect its role as HMT’s and HMG’s financing agent and interlocutor with the wholesale financial markets.

Review of 2007-08

4 The DMO has delivered most of its 2007-08 key objectives and details of these will be published with its Reports and Accounts for 2007-08 later in the year:

- Debt management - the gilt remit for 2007-08 was successfully delivered, with an outturn from gilt sales of £58.5 billion (cash) raised through 34 auctions. The DMO also provided advice to HMT on the formulation of the 2008-09 debt and cash management remits which were published by HMT in the Debt and Reserves Management Report 2008-09 in March 2008. In addition, during 2007, the DMO introduced automated bid capture for gilt auctions which had the effect of reducing the average publication times for these operations from 19 minutes to 8 minutes.
- The cash management remit for 2007-08 was successfully delivered against the background of exceptionally challenging market conditions. The DMO continues to measure and monitor the performance of its Exchequer cash management operation against a series of quantitative and qualitative indicators. Publication of its performance against a series of key performance indicators is intended to take place in 2008, the first full year of the Sterling money markets operating under the Bank of England's new arrangements. In terms of cash management operations, the DMO introduced the capability to transact foreign currency denominated asset purchases and corresponding currency swaps and also introduced bilateral Treasury bill tender sales.
- Lending to local authorities via the Public Works Loans Board ("PWLB") amounted to approximately £10 billion gross and £3 billion net in 2007-08 with the total loan book as at 31.3.2008 standing at around £51 billion. During 2007-08, the DMO revised the structure of the PWLB's lending rates to provide more precision in the maturity ranges and to reduce interest rate risk for, and cost to, the Exchequer.
- The DMO continues to manage the assets of certain public funds via the Commissioners for the Reduction of the National Debt ("CRND") function. Assets under management as at 31.3.2008 stood at approximately £59 billion.
- 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.

Corporate governance

5 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

6 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

7 The DMO has a senior management team that comprises Robert Stheeman; Jo Whelan, Deputy Chief Executive and Joint Head of Policy & Markets; Joanne Perez Joint Head of Policy & Markets and Jim Juffs, Chief Operating Officer and Head of Operations and Resources. Together with a HMT representative, Sam Beckett¹, and non-executives Colin Price and Brian Larkman, they make up the DMO's Managing Board - the agency's senior management team. A sub-committee of the Managing Board, together with the DMO's senior managers, usually meets weekly.

Exchequer Funds Audit Committee

8 The Exchequer Funds Audit Committee ("EFAC"), which was introduced in January 2007, was established as one of two HMT Group-wide audit committees² to cover issues of risk, internal control, governance and associated assurance in respect of the "Exchequer Funds"³ for which the Group's Accounting Officers are responsible. Colin Price chairs the EFAC and is supported by Brian Larkman and Mark Clarke as the independent members of that Committee. Mike Davidge – the Head of the Exchequer Funds audit function – is secretary to the Committee. Those who attend EFAC meetings, as necessary, include Robert Stheeman, Jo Whelan, Joanne Perez and 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.

¹ Who succeeded Tamara Finkelstein as HMT representative with effect from February 2008.

² 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.

³ 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.

Staffing complement

9 In 2007-08, the DMO had a complement of around 80 full time equivalent members of staff - which is similar to previous years.

Values

10 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.

Vision, objectives and responsibilities

11 The DMO's vision, agency objectives and responsibilities are set out below. The main changes for the 2008-09 business plan have been that:

- We have introduced a vision statement, replacing the agency's "aim" in previous year's plans, in order to reflect more fully the DMO's role, its aspiration to be regarded as a centre of excellence in its core field and also to link this directly with HM Treasury's own objectives.
- We have introduced an additional objective that reflects the DMO's role in providing advice and operational services to other government departments – such as its role in supporting colleagues in DEFRA - as well as HMT – in preparing for and executing ETS auctions.

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 also acts as government's gateway to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objective of maintaining sound public finances.

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 provide advice and operational services to other HMG departments on wholesale markets-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.

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

Key Planning Themes – for the period to 2010-11

13 The key planning themes for 2008-09 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:

- Managing the debt and cash management operations successfully to deliver the financing programmes incorporated within the 2008-09 remit.
- Developing in due course the debt and cash management remits for 2009-10.
- Delivering the Public Works Loan Board's ("PWLB") lending objectives for local authorities; developing and refining 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 and in 2008-09 preparing for the extension or re-tendering of the contract.
- 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 and contribute to initiatives that support the objectives of HMT and HMG.

This will include the following:

- Developing the capability to manage and execute Emissions Trading Scheme auctions.

- Working, with HMT, on the development of pragmatic solutions on the structuring of and also engaging with key stakeholders relating to potential Sharia-compliant HM Government financial instruments.
- Developing the operational capability to transact short term interest rate swaps for cash management purposes.
- Developing further analytical tools and techniques that help inform and contribute to debt and cash management risk and cost reductions strategies.
- Developing further our understanding of the composition of, drivers for and issues relating to the investor base for gilts and Treasury bills.
- 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 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.
- Reviewing and implementing any necessary changes to banking and operational arrangements arising from the transfer of certain payment processing responsibilities from the Bank of England to private sector banks as part of the Government Banking Service.
- 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:

- Preparing for the DMO's Investors in People re-accreditation application which is scheduled for 2008.
- Preparing for the DMO's Landscape Review which is scheduled for 2009.
- 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.
- Identifying and implementing where appropriate more effective ways of working.

Planning Uncertainties

14 In view of the scale and diversity of the items within the business plan and the challenging market conditions, the DMO will need to retain the flexibility and capability to re-order priorities in the plan if required to do so.

Operational targets 2008-09

1. To ensure full compliance with HMG's remit for the DMO (which is primarily set out in the Debt and Reserves Management Report 2008-09 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 and Treasury bill tenders (weekly and ad hoc) does not exceed 20 minutes – although the DMO will aim to publish the results of gilt auctions and Treasury bills within 10 minutes and 15 minutes respectively 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 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.