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United Kingdom Debt Management Office

Report and Accounts

2004 - 2005

Presented to Parliament in Pursuance of Section 7 of the Government Resources and Accounts Act 2000.

Ordered by the House of Commons to be printed 18 July 2005

The United Kingdom **Debt Management Office** is an Executive Agency of HM Treasury

HC 322

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This publication is available in electronic form on the DMO website www.dmo.gov.uk

All the DMO's publications are available on its website including:

- annual review covering the main developments for the financial year in which the DMO has been in operation;
- quarterly review highlighting more recent developments in the DMO's gilts and cash market activities;
- guides for potential investors in gilts – both wholesale and retail;
- the DMO's annual Report and Accounts for its administrative expenditure and also for the operation of the Debt Management Account;
- Operational Notices covering the DMO's market activities in the gilts and cash markets;
- the DMO's annual business plan;
- the DMO's framework document (which sets out the DMO's relationship with HM Treasury).

Alternatively, hard copies of these publications are available from the DMO by telephoning 020 7862 6501.

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Chief Executive's Foreword

Development and opportunity

2004-05 was the seventh year of the UK Debt Management Office's operations.

During the year, the DMO successfully met both its debt and cash management remits issued by HM Treasury. Gilt sales have risen steadily over the past few years from £26.3 billion in 2002-03 to £50.1billion in 2004-05, the highest financing requirement in a decade. Partly as a consequence of this, turnover in the gilts market has risen rapidly as outright issuance has increased. Average daily turnover has risen from £8.7 billion in 2002-03 to a record £12.8 billion in 2004-05 and reflects increased liquidity in the market. The outstanding stock of Treasury bills has also increased to £20.5 billion, while the total value of market transactions through the Debt Management Account exceeded £1 trillion for the first time.

During the year, the DMO consulted market stakeholders on the potential issuance of ultra-long gilts for the first time in a generation. As a result the Chancellor of the Exchequer announced in his Budget speech in March that such instruments would be issued from May 2005. Ultra long gilts offer potential cost savings to the Government and represent an important and potentially attractive investment opportunity for the pensions and life insurance industry. The DMO has also announced that any new index-linked gilt issued from 2005-06 will use a three-month indexation lag as opposed to the current eight-month lag - this brings the UK into line with international best practice on index-linked instrument design.

Following the transfer of the gilt registration contract from the Bank of England to Computershare Investment Services PLC in December 2004, the DMO assumed responsibility on behalf of HM Treasury for management of the contract.

The DMO continues to benefit from the professionalism and expertise of its staff who ensure that operational effectiveness is of the highest standard. It is our aim to ensure a positive and supportive working environment for all as we strive to meet the increasing challenges of our developing remit. The successes of the past year are the result of the collective efforts of all my colleagues, to whom I remain very grateful for their contribution.

Robert Stheeman
Chief Executive and Agency Accounting Officer
24 June 2005

Background on the DMO

The DMO was established on 1 April 1998, with the aim '… to carry out the Government's debt management policy of minimising financing costs over the longer term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost effective way'.

In institutional terms, the DMO is legally and constitutionally part of HM Treasury, but, as an executive agency, it operates at arm's length from Ministers. The Chancellor of the Exchequer determines the policy and operational framework within which the DMO operates, but delegates to the Chief Executive operational decisions on debt and cash management, and day-to-day management of the office.

The separate responsibilities of the Chancellor and other Treasury Ministers, the Permanent Secretary to the Treasury and the DMO's Chief Executive are set out in a published Framework Document, (available on the DMO website at www.dmo.gov.uk), which also sets out the DMO's objectives and its Chief Executive's lines of accountability. The Chief Executive is accountable to Parliament for the DMO's performance and operations, both in respect of its administrative expenditure and the Debt Management Account.

On 1 July 2002, the operations of the Public Works Loan Board (PWLB), and the Commissioners for the Reduction of the National Debt (CRND)[1] (two constituent parts of the National Investment and Loans Office (NILO)) were integrated with the DMO, and the relevant PWLB and CRND staff relocated to the DMO's premises. The PWLB lends principally to local authorities for capital purposes and collects the repayments. Its responsibilities include ensuring these loans are made correctly and that there is no loss to the Exchequer. The CRND's principal function is managing the investment portfolios of certain public funds. PWLB and CRND continue to carry out their longstanding statutory functions within the DMO.

On 20 December 2004, the DMO introduced a Gilt Purchase & Sale Service for retail investors that replaced the Bank of England's Brokerage Service. This service is only available to those registered on the Approved Group of Investors database, which members of the public are able to apply to join and is operated by Computershare Investors Services PLC, as an agent of the DMO. This service enables members of the public to undertake secondary market transactions in gilts on an execution only basis, cheaply and quickly within the framework provided by the Approved Group process, which was introduced as an anti-money laundering measure. This additional service provided by the DMO coincided with the administration of the gilt register being transferred from the Bank of England to Computershare. The contract with Computershare is managed by DMO on behalf of HM Treasury.

1 The National Debt Office (NDO) previously administered the activities of the CRND.

Achievements Against Objectives and Highlights of the Year

HM Treasury Ministers set the DMO's strategic objectives, which are published in the DMO's Business Plan and its Framework Document. The objectives for 2004-05 and the DMO's performance against them are summarised below.

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.

- The gilt sales target has been met through the conduct of twenty-six outright auctions (sixteen conventional and ten index-linked). Outright sales of £48.0 billion were planned in the Remit for 2004-05, published on 17 March 2004 - the highest level for over 10-years - and the sales target was increased to £50.3 billion in the Pre-Budget Report (PBR) on 2 December 2004. The gilt sales outturn for 2004-05 was £50.1 billion (£0.2 billion below the published target but within agreed operational tolerances). The composition of issuance was £42.1 billion conventional gilts and £8.0 billion index-linked gilts. There were no uncovered gilt auctions.

	2004-05	**2003-04**
	£m	£m
Nominal value of gilts issued on behalf of the National Loans Fund	46,748	47,648
Proceeds paid to the National Loans Fund	50,101	49,854

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.

- This was successfully achieved. Over the course of the financial year the stock of Treasury bills rose by £1.2 billion to meet the remit target of £20.5 billion. The stock of Treasury bills had peaked at £27.75 billion in mid-December 2004, to help manage seasonal cash outflows.

3 To continue to lend to local authorities and collect the repayments; to manage and develop the Debt Management Account Deposit Facility (DMADF) and to participate actively in the development of local government finance arrangements.

- Changes were successfully made to the lending arrangements of the Public Works Loan Board to take account of the new system of local government capital finance, which came into effect on 1 April 2004. During the year the Board met its operational performance targets. Debt to the Board represents a Government asset of over £42.0 billion.

- The DMADF, through which a range of Local Authorities can deposit cash with the DMO, was operated throughout the period.

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.

- The DMO contributed specific advice in a number of areas of the 2004-05 remit:
  - the split between index-linked and conventional gilts, and within conventionals the maturity split between shorts, medium and longs;
  - the size and timing of auctions;

   - the split between an increase in the Treasury bill stock and a run-down in the DMO's net cash position as elements of short-term debt financing;

   - the range of contingencies to be implemented in the event of changes to the Government's financing requirement.

- The DMO also contributed substantially to the preparation of the '*Debt & Reserves Management Report 2004-05*'.

- The DMO published information about the factors taken into account in formulating government debt management strategy in its Annual Review published in Summer 2005.

- The DMO reported performance against its remit to HM Treasury on a monthly basis, and on developments in the gilts portfolio and compliance against its published targets on a quarterly basis.

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.

- On 2 December 2004, the DMO launched a consultation paper on issuance of ultra-long gilt instruments following calls from the pension fund and insurance industries regarding the lack of supply of longer-dated (and index-linked) assets. The DMO sought formal feedback to assess the size and nature of the demand to inform decisions ahead of Remit 2005-06. The deadline for responses was 21 January 2005 and the outcome of the consultation was announced alongside Budget 2005.

- In December 2004, the DMO and HM Treasury ensured the successful migration of the gilts registration function from the Bank of England's Registrar's Department to Computershare Investor Services PLC.

- Throughout the year, the DMO has continued to work with National Savings & Investments in their programme of Guaranteed Equity Bond issuance, by executing equity index swaps to hedge the Government's exposure to movements in the FTSE-100 index.

- The gilt portfolio *cost-at-risk* modelling, which aims at developing a simulation model that can be used to quantify the long-term cost-risk trade-off involved in financing the government debt management, has been developed further.

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.

- From March 2004, a new board level committee was introduced – with the creation of the Managing Board.

- As an accredited member of "Investors in People", the DMO has continued to support the training and development of staff to achieve organisational objectives, including support for professional qualifications and the development of a corporate training programme.

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.

- The DMO continues to meet this wide-ranging objective with the aim of supporting the Accounting Officer and the Managing Board in the effective stewardship of the Agency. Among the routine and non-routine initiatives delivered this year were:

  – Implementation of a project to enhance its quantitative risk analysis capability. A prototype system has been implemented and is used for analysis of risk in specific operations.

  – Introduction of an extension to the 'Approved Group' for users of the DMO Gilt Purchase and Sale Service ready for its launch in December 2004.

  – Publication of the Annual Report of the Public Works Loan Board in June 2004; the audited DMA accounts and administrative accounts for 2003-04 on 21 July 2004.

- The DMO has commissioned an automated reporting system and data warehouse for its website www.dmo.gov.uk. It is expected that it will be launched in the second half of 2005.

Highlights of the Year

The gilt remit for 2004-05 was successfully delivered, with an outturn from gilt sales of £50.1 billion (cash); this total was £0.2 billion below the published target, but within agreed operational tolerances. The shortfall was accounted for in a re-statement of the financing arithmetic published with the outturn CGNCR for 2004-05 in April 2005.

Between 2 December 2004 and 21 January 2005, DMO held a formal consultation with stakeholders on the potential issuance of ultra-long (around 50-year original maturity) gilts from 2005-06. The DMO's response to the consultation was published alongside the Debt & Reserves Management Report 2005-06 on 16 March 2005.

The DMO has assumed responsibility for managing the gilt registration contract on behalf of HM Treasury following the transfer of the registration function from the Bank of England to Computershare Investor Services PLC ("Computershare") in December 2004.

The DMO has assumed responsibility for the gilt purchase and sale service for retail investors that was formerly operated by the Bank of England as the gilt brokerage service. The new service is carried out in association with Computershare as the DMO's agent. As part of this initiative and in line with anti-money laundering guidelines, the DMO extended the scope of the Approved Group to incorporate those investors using the gilt purchase and sale service.

The DMO has continued to support additional issues of National Savings and Investments' (NS&I) Guaranteed Equity Bond (GEB) product by hedging HM Government's consequential exposure to the equity market.

Performance Against Targets

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 Office and consistently with the objectives of monetary policy.

The DMO complied fully with the gilts remit 2004-05. The gilts sales target was reduced from £48.0 billion (cash) at Budget 2004 in March 2004 to £47.1 billion (cash) following the publication of the CGNCR outturn in April 2004. At the Pre-Budget Report (PBR) in December 2004 the target was further revised to £50.3 billion (cash). The gilts sales target was met through the conduct of sixteen conventional gilt auctions and 10 index-linked gilt auctions, as follows:

Twenty-six outright auctions were held as follows:

- 22 April: £2,500 million (nominal) of $4\frac{3}{4}$% 2038
- 28 April: £575 million (nominal) of 2% IL 2035
- 20 May: £475 million (nominal) of $2\frac{1}{2}$% IL 2020
- 25 May: £3,000 million (nominal) of $4\frac{1}{2}$% 2007
- 27 May: £2,500 million (nominal) of $4\frac{3}{4}$% 2038
- 17 June: £2,750 million (nominal) of $4\frac{3}{4}$% 2015
- 24 June: £600 million (nominal) of 2% IL 2035
- 15 July: £2,750 million (nominal) of $4\frac{1}{2}$% 2007
- 22 July: £2,250 million (nominal) of $4\frac{3}{4}$% 2038
- 28 July: £425 million (nominal) of $2\frac{1}{2}$% IL 2013
- 12 August: £2,500 million (nominal) of $5\frac{3}{4}$% 2009
- 16 September: £2,500 million (nominal) of $4\frac{1}{2}$% 2015
- 28 September: £350 million (nominal) of $4\frac{1}{8}$% IL 2030
- 14 October: £2,250 million (nominal) of $4\frac{3}{4}$% 2038
- 26 October: £350 million (nominal) of $2\frac{1}{2}$% IL 2016
- 28 October: £2,500 million (nominal) of $4\frac{3}{4}$% 2015
- 18 November: £3,500 million (nominal) of $4\frac{3}{4}$% 2010
- 24 November: £600 million (nominal) of 2% IL 2035
- 7 December: £2,500 million (nominal) of $4\frac{3}{4}$% 2038
- 12 January: £625 million (nominal) of 2% IL 2035
- 20 January: £3,000 million (nominal) of $4\frac{3}{4}$% 2010
- 27 January: £2,250 million (nominal) of $4\frac{3}{4}$% 2038
- 02 February: £375 million (nominal) of $2\frac{1}{2}$% IL 2013
- 24 February: £2,750 million (nominal) of $4\frac{3}{4}$% 2010
- 02 March: £400 million (nominal) of $4\frac{1}{8}$% IL 2030
- 24 March: £2,500 million (nominal) of $4\frac{3}{4}$% 2020

Gilt sales at the end of the financial year were £50.1 billion (cash), within permitted operational tolerances.

The DMO complied fully with the cash management remit in 2004-05. Over the financial year, the stock of Treasury bills increased from the 2003-04 end-financial year remit target of £19.3 billion to £20.5 billion as part of the management of Exchequer cash flows.

2. To ensure that the maximum time taken to issue the results of gilt auctions does not exceed 40 minutes, that for structured 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.

Achieved. The gilt auction result release times during the year were all within the 40 minutes target:

- 22 April: $4\frac{3}{4}$% 2038 — 33 minutes
- 28 April: 2% IL 2035 — 19 minutes
- 20 May: $2\frac{1}{2}$% IL 2020 — 16 minutes
- 25 May: $4\frac{1}{2}$% 2007 — 19 minutes
- 27 May: $4\frac{3}{4}$% 2038 — 21 minutes
- 17 June: $4\frac{3}{4}$% 2015 — 18 minutes
- 24 June: 2% IL 2035 — 18 minutes
- 15 July: $4\frac{1}{2}$% 2007 — 18 minutes
- 22 July: $4\frac{3}{4}$% 2038 — 22 minutes
- 28 July: $2\frac{1}{2}$% IL 2013 — 13 minutes
- 12 August: $5\frac{3}{4}$% 2009 — 16 minutes
- 16 September: $4\frac{3}{4}$% 2015 — 18 minutes
- 28 September: $4\frac{1}{8}$% IL 2030 — 18 minutes
- 14 October: $4\frac{3}{4}$% 2038 — 21 minutes
- 26 October: $2\frac{1}{2}$% IL 2016 — 15 minutes
- 28 October: $4\frac{3}{4}$% 2015 — 20 minutes
- 18 November: $4\frac{3}{4}$% 2010 — 20 minutes
- 24 November: 2% IL 2035 — 20 minutes
- 7 December: $4\frac{3}{4}$% 2038 — 22 minutes
- 12 January: 2% IL 2035 — 17 minutes
- 20 January: $4\frac{3}{4}$% 2010 — 20 minutes
- 27 January: $4\frac{3}{4}$% 2038 — 24 minutes
- 2 February: $2\frac{1}{2}$% IL 2013 — 20 minutes
- 24 February: $4\frac{3}{4}$% 2010 — 17 minutes
- 2 March: $4\frac{1}{8}$% IL 2030 — 18 minutes
- 24 March: $4\frac{3}{4}$% 2020 — 16 minutes

The average release time was 19 minutes.

The target release time for the Treasury bill tenders was also met. The release times for the results of the 51 weekly tender bills held during the financial year ranged from 5 to 24 minutes and averaged 10 minutes. There were no ad hoc or other tenders.

3. To achieve complete accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the Debt Management Account (DMA), and in delivering money (and reconciling payments) to the National Loans Fund (NLF) and to meet the statutory deadlines for the publication or submission for audit of the annual reports of the DMO agency and DMA.

Achieved. The National Audit Office have certified that the financial statements of the Debt Management Account for the financial year 2003-04 give a true and fair view of the state of affairs of the DMA as at 31 March 2004 and of the deficit, total recognized gains and losses and cash flows for the year and have been properly prepared in accordance with schedule 5A of the National Loans Act 1968 and directions made there under by HM Treasury; and in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. The DMO agency and DMA accounts for the financial year 2003-04 were both published on 21 July 2004, ahead of their prescribed deadlines.

4. To acknowledge all letters and e-mail enquiries from the public within 5 working days and for at least 95 per cent to be sent a substantive reply within 2 weeks.

Achieved. Over the financial year as a whole there were 343 enquiries (of which 195 were e-mails). The average response time was 2 working days.

5. To achieve less than 5 breaches of operational market notices (excluding any breaches which HM Treasury accept were beyond the control of the DMO).

Achieved. There were no breaches of the operational market notices throughout 2004-05.

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.

Achieved. All necessary use of end of day borrowing or lending facilities was notified by the due time. In addition, in the event of a late shutdown in the markets payment and settlement system, the actual due time is moved, but the target remains the same.

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.

Achieved. Total turnover in the financial year was £1,007 billion. Over the financial year there were 31 failed trades with a total value of £1.4 billion (0.14% of the turnover).

8. To release all market sensitive data and announcements in a timely manner and 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).

Achieved on timeliness. All releases were announced in a timely manner.

Not achieved on accuracy. There were 7 factual errors discovered (and quickly corrected) on the DMO website in the financial year.

9. To process all loans or early settlement applications from local authorities within 2 working days (between day of agreement and completion of transaction).

Achieved. All loan applications throughout the financial year were advanced within 2 working days of the dates of agreement.

Resources

1. Staff and recruitment

In 2004-05 recruitment campaigns were held to fill the following 13 vacancies:

- Facilities Coordinator
- Applications Manager
- Compliance Officer
- System Testing Manager
- IT Operations Analyst
- Finance Officer
- Management Accountant
- Risk Analyst
- Dealers Assistant – secondment
- Project Manager
- IT Operations Analyst
- Assistant Information Manager
- Operational Internal Auditor

In addition to the above vacancies, an open competition was held to appoint a new non-Executive Director.

The DMO has a flat organisational structure without grades or pay bands and individuals are appointed to specific posts with individual pay points – it is therefore not possible to report the numbers appointed by level within the organisation. However, a more detailed breakdown of these statistics is available on our audit file for scrutiny.

Vacancies are also advertised on the recruitment page of the DMO website www.dmo.gov.uk

All recruitment to new posts was carried out on the basis of fair and open competition and selection on merit in accordance with the guidance as laid down by the Civil Service Commissioners and was subject to internal compliance check. All candidates were selected in accordance with the DMO equal opportunities policy – see below.

The appointment of the Dealers Assistant as an inward secondment was the only permitted exception to the principles of fair and open competition.

2. Equal opportunities

The DMO is an equal opportunities employer. Policies are in place to ensure that no job applicant or member of staff receives less favourable treatment on grounds of gender, gender re-assignment, marital or family status, colour, racial origin, sexual orientation, age, background, religion, disability, Trade Union membership or by any other condition or requirement which cannot be shown to be justifiable. The DMO attaches great importance to its equal opportunities policy, which it believes to be of benefit to itself and its employees.

3. Employee relations

The DMO continues to maintain effective employee relations and to involve staff in decision-making.

A Staff Council has met regularly throughout the year and enabled an open exchange of thoughts, ideas, views and feelings between management and staff representatives and has been effective as a conduit for wider communication and consultation with all staff.

Union arrangements also continue for staff transferred to the DMO in 2002 under TUPE principles. Staff may also choose to join a trade union of their choice on an individual basis.

4. Corporate Governance

A number of committees and other groups support the Chief Executive in carrying out his responsibilities. A Managing Board is the DMO's senior committee and supports the Chief Executive in delivering the DMO's objectives. This in turn is supported by the following operational committees:

- Debt Management Committee
- Cash Management Committee
- Fund Management Committee
- Risk Committee
- Audit Committee

During 2004-05, the DMO employed the services of two external non-Executive Directors, James Barclay and Colin Price as members of the high level Managing Board. To facilitate the smooth transition upon the retirement of James Barclay on 31 March 2005, a third non-Executive Director, Brian Larkman was appointed from 1 January. In addition to these appointments, Sue Owen who is an employee of HM Treasury also sits on the Board.

James Barclay was Chairman and Chief Executive of Cater Allen Holdings Ltd between 1985 and 1998. Colin Price was Finance Director of Shell Pensions Management Services Ltd between 1991 and 2001, and a member of the Board of IMRO from 1996 to 2000. Both appointments were made by the Chief Executive and are subject to regular review. Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and previously Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He is currently a member of the Regulatory Decisions Committee of the FSA. His appointment was made on the basis of open competition.

The DMO established an Audit Committee in 1999 as part of its development of internal risk management and control arrangements in line with best private sector practice. During the year, the external non-Executive members of the Managing Board were also members of the DMO's Audit Committee, which meets quarterly and is chaired by Colin Price.

5. Improving good practice and investment in people

The DMO continues to work towards maintaining its status as an accredited Investor in People with the next formal review due by December 2005. The DMO's training and development policy is central to ensuring that the right people with the right skills are in the right job at the right time. The DMO's comprehensive corporate training programme, complemented by additional specialist and individual training as well as support for ongoing professional studies, continues to enhance the skills base of its employees.

6. Service quality

The DMO does not provide services direct to the public, and so is not covered by existing arrangements for reporting service quality. However, the DMO has strong partnerships with parts of the public sector and provides advice and expertise to other Government departments (and other governments), in developing solutions for financial cost-effectiveness and risk reduction when managing the Government's balance sheet. The DMO has launched a consultation paper outlining its plans to introduce electronic bidding for gilt auctions and Treasury bill tenders, is frequently required to present to or host groups and individual officials from overseas countries and promotes the gilts market when speaking at bond conferences both domestically and internationally. The DMO has also continued to upgrade and expand the content of its website (www.dmo.gov.uk) on which all its publications appear and which acts as a means of communication for all those with an interest in the DMO's activities.

7. Financial performance

The DMO's net operating costs were within the planned budget for 2004-05 at £6.9 million. This represents a decrease of £1.2 million from the previous year.

During the reporting period, the DMO's gross administrative expenditure remained at the same level as in the previous year, however an increased level of operating income was received to offset expenditure and directly accounts for the reduction in the net position. The main income stream responsible for this increased income was the lending operation by the Public Works Loan Board to local authorities, which produced the highest level of fee income in the last five years.

8. HM Treasury services

In view of the DMO's executive agency status and the diseconomies of scale inherent in setting up a wide range of internal support systems given its small size, several key support services have in the past year been provided by HM Treasury, for example, purchase order processing, invoice processing and payment, payroll, and library.

9. Health and Safety

DMO recognises and accepts its responsibility as an employer in accordance with the requirements of the Health and Safety at Work Act 1974 (and subsequent enactments). To this end DMO takes all reasonable steps to meet this responsibility by ensuring that, as far as is practicable, every employee has a place of work which is both safe and without risk to health.

10. Sustainable development

As an executive agency of HM Treasury, the DMO is a party to the Joint Sustainable Development Statement, signed by the 'Green Minister' for the Chancellor of the Exchequer's Departments and Agencies, John Healey MP and published on the DMO website.

The DMO is committed to contributing to the Government's objectives on Sustainable Development as contained in the Framework for Sustainable Development in the Government Estate.

11. Auditors' detail

As specified by the Government Resources and Accounts Act 2000, the Comptroller and Auditor General is responsible for auditing the DMO's annual accounts.

Forward Look

The DMO's strategic objectives for 2005-06

(Objectives 1 and 2 are in support of HM Treasury Objective 1: 'Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability').

1. To develop, provide advice on and implement HM Government's debt management strategy.

2. To develop, provide advice on and implement HM Government's cash management requirements.

(Objectives 3 to 7 are in support of HM Treasury Objective VI: "Improve the quality and the cost-effectiveness of public services").

3. To advise on the development and implementation of HM Treasury's strategy for managing HM Government'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.

8. In addition to these objectives, the DMO seeks to support HM Treasury Objectives III "Promote efficient, stable and fair financial markets, for their users and the economy", and VII: "Achieve world-class standards of financial management in government" respectively. The DMO intends to do this by supporting efficiency, stability, fairness and innovation in the financial markets and in working towards best domestic and international practices in the way that it delivers its objectives.

The DMO's targets for 2005-06

1. To ensure full compliance with the Government's remit for the DMO as set out in the Debt and Reserves Management Report 2005-06, and to ensure consistency with the objectives of monetary policy.

2. To ensure that the maximum time taken to issue the results of gilt auctions does not exceed 40 minutes, that for weekly Treasury bill tenders does not exceed 30 minutes, and that for ad hoc Treasury bill or other tenders does not exceed 15 minutes, whilst achieving complete accuracy.

3. To achieve complete accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and in delivering money (and reconciling payments) to the NLF and to meet the required deadlines for the publication or submission for audit of the annual reports of the DMO and DMA.

4. To acknowledge all letters and e-mail enquiries from the public within 4 working days and for at least 95 per cent to be sent a substantive reply within 2 weeks. Furthermore, the DMO will respond to enquiries under the Freedom of Information Act within the statutory timeframe.

5. To achieve less than 5 breaches of operational market notices (excluding any breaches which HM Treasury accept were beyond the control of the DMO).

6. To ensure that, where there is a late change in the cash management forecast, any necessary use of end of day borrowing or lending facilities is notified by the due time.

7. To ensure that instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through settlement is effective, so that the DMO achieves at least 99% (by value) successful settlement of agreed trades on the due date.

8. To release all market sensitive data and announcements in a timely manner and to aim to achieve no factual errors in material published by the DMO on its wire service pages, its 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 2 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.

The DMO's 3-year plan

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

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

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

   This will include:

   - Developing and delivering the debt and cash management remits for 2005-06 and beyond.
   - Managing the debt and cash management operations successfully to deliver the financing programmes incorporated within each remit.
   - Delivering the PWLB lending objectives for local authorities and developing, where appropriate and feasible, enhancements to the service.
   - Managing the CRND funds in accordance with their respective mandates from clients.
   - Delivering the gilt purchase and sale service for retail investors efficiently and effectively.
   - Managing the registration contract, on behalf of HM Treasury, in an effective and efficient way.
   - Continuing to manage hedging transactions as required to meet NS&I's requirements in respect of its financing programme.
   - Ensuring that the DMO's website, publications and information are managed effectively and are available to stakeholders when required.

2. **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 the Government.**

   This will include the following:

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

3. To improve efficiency and to reduce operational risk where possible.

This will include the following:

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

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

This will include the following:

- Integrating the core values of the DMO into the performance management framework.
- Working towards re-accreditation as Investors in People (IIP) in 2005-06.
- Continuing to measure the Agency's corporate health.
- Identifying whether there are more effective ways of working.

UK Debt Management Office Annual Accounts

Year ended 31 March 2005
Presented to Parliament 18 July 2005

Contents

Foreword

Preparation of accounts

The accounts have been prepared in accordance with a direction given by HM Treasury in pursuance of section 7 (2) of the Government Resources and Accounts Act 2000. The text of the direction is reproduced on page 48.

History and statutory background

The United Kingdom Debt Management Office (DMO) was established on 1 April 1998, as an executive agency of HM Treasury. These accounts therefore cover its seventh year of operation. The Agency is financed through HM Treasury and operated under gross administration cost arrangements. Ministerial responsibility for the DMO is vested in the Chancellor of the Exchequer, who in 2004-05 was supported by the Financial Secretary. The DMO's Chief Executive is the Accounting Officer for the Agency and is responsible to HM Treasury Ministers for the overall operation of the Agency in accordance with its Framework Document.

On 1 July 2002, the operations of the Public Works Loan Board (PWLB), and the Commissioners for the Reduction of the National Debt (CRND)[1] (two constituent parts of the National Investment and Loans Office (NILO)) were integrated with the DMO, and the relevant PWLB and CRND staff relocated to the DMO's premises.

Principal activities

- DMO - the DMO's aim is to carry out the Government's debt management policy of minimising financing costs over the longer term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way.

- PWLB – the PWLB issues loans from central government funds, primarily to local authorities and collects the repayments. Its responsibilities include ensuring the loans are made correctly and that there is no loss to the Exchequer.

- CRND – the CRND invests and manages certain public funds such as the United Kingdom National Insurance Fund and monies generated by the National Lottery for good causes pending drawdown by the Distribution Bodies.

Review of activities

2004-05 was a successful year for the DMO in both its daily operations and by introducing new services that it provides. It successfully met both its debt and cash management remits as directed by HM Treasury, as well as meeting most of its objectives and published targets in full. A full account of these is given on pages 6 to 11.

Details of the net operating cost of the DMO for the financial year 2004-05 is disclosed in the Operating Cost Statement on page 30.

During the year, twenty-six outright gilt auctions were successfully held to meet the gilt sales outturn of £50.1 billion. There were no uncovered gilt auctions.

[1] the activities of the CRND were previously administered by the National Debt Office (NDO).

In addition, the DMO introduced a gilt Purchase & Sale Service for retail investors on an execution only basis that enables members of the public to undertake transactions in gilts outside the DMO's scheduled gilt auctions, cheaply and quickly within the controls provided by the Approved Group process to combat potential fraud and money laundering.

Management of the DMO

During the financial year 2004-05, the Financial Secretary to the Treasury held ministerial responsibility for the DMO. Ruth Kelly held the post for the first part of the financial year and was succeeded by Stephen Timms on 9 September 2004.

Robert Stheeman, the Agency's Chief Executive has been appointed through open competition by HM Treasury and commenced his role as head of the DMO on 6 January 2003. This appointment is for a fixed period of 3 years and includes notice provisions for early termination of his employment contract or compensation provisions if the contract is terminated without notice and not by mutual agreement.

A corporate governance infrastructure has been established to assist the Chief Executive, comprising of a high level Managing Board that at the 31 March 2005, in addition to the Chief Executive, comprised:

Jo Whelan	- Deputy Chief Executive
Jim Juffs	- Chief Operating Officer
Sue Owen	- non-Executive HM Treasury representative
James Barclay	- non-Executive Director
Colin Price	- non-Executive Director
Brian Larkman	- non-Executive Director

With the planned retirement of James Barclay on 31 March 2005, and to facilitate a smooth hand over, Brian Larkman was appointed with effect from 1 January.

The DMO is not responsible for the remuneration of any Ministers. The Chief Executive is a member of the Senior Civil Service and HM Treasury sets his salary. The Chief Executive determines the salaries of the non-Executive members of the Managing Board, while the salaries of the remaining members of the Managing Board are set internally. Information on the remuneration and pension costs of senior managers is given in Note 2.3 of the Accounts.

Supplier payment policy

All the DMO's invoices are processed for payment by HM Treasury, which is committed to the CBI code on prompt payment and aims to pay all valid invoices within 30 days or less after acceptance of the relevant goods and services, or the receipt of a legitimate invoice if that is later. For 2004-05, HM Treasury achieved this payment target for 90% of invoices across the department.

Equal opportunities policy

The DMO is an equal opportunities employer. Policies are in place to ensure that no job applicant or member of staff receives less favourable treatment on grounds of gender, gender re-assignment, marital or family status, colour, racial origin, sexual orientation, age, background, religion, disability, Trade Union membership or by any other condition or requirement, which cannot be shown to be justifiable. The DMO attaches great importance to its equal opportunities policy, which it believes to be of benefit to itself and its employees.

Disability

The DMO is committed to the promotion of opportunity in all fields and the above policy statement affirms its commitment to equality of opportunities in employment and to the development of management and staff who demonstrate clear awareness of equality issues. The DMO has a culture of inclusiveness and is working towards removing barriers to achieve full diversity.

Employee relations

The DMO maintains effective employee relations and ensures that all staff are involved in decision-making processes. Further detail is given on page 12.

Auditor details

As specified by the Government Resources and Accounts Act 2000, the Comptroller and Auditor General is responsible for auditing the DMO's annual accounts.

ROBERT STHEEMAN
Chief Executive and Agency Accounting Officer
24 June 2005

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, the DMO is required to prepare resource accounts for each financial year, in conformity with an HM Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the DMO during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the DMO, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

HM Treasury has appointed the Chief Executive as Accounting Officer for the DMO, with responsibility for preparing the DMO's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Resource Accounting Manual,* have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going-concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the DMO's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting*.

ROBERT STHEEMAN
Chief Executive and Agency Accounting Officer
24 June 2005

Statement on Internal Control

Scope and responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Debt Management Office's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.

I am Accounting Officer for both the Debt Management Account (DMA) and the Debt Management Office (DMO), an executive agency of HM Treasury. My accountability is subject to the overall responsibility of the Permanent Secretary of HM Treasury (in his capacity as Accounting Officer) for the organisation and management of the department. In exercising my responsibilities for the DMA, I pay regard to the consequences for the National Loans Fund (NLF) and consult the Permanent Secretary if I consider that my actions could have implications for him in his role as NLF Accounting Officer.

CRND and PWLB are separate business entities within the DMO. Each has its own accounting officer who is responsible for maintaining a sound system of internal control that supports the delivery of the entity's agreed policies, objectives and targets. However, I am responsible for the wider DMO control framework within which both CRND and PWLB are managed, and both accounting officers take assurance from me for the continued sound maintenance of this in relation to their own control responsibilities.

In exercising my specific responsibilities for debt and cash management I take regard of the objectives set by HM Treasury Ministers for the Government's debt and cash management. It is my responsibility to ensure that all activities brought to account on the DMA are conducted with due regard to value for money. I have put arrangements in place to ensure that there is a proper evaluation of the balance of cost and risk in our operations, taking account where appropriate of any cost, risk or other strategic objectives, parameters or guidelines agreed with HM Treasury.

As Agency Accounting Officer, I am responsible to the Chancellor and accountable to Parliament for the Agency's use of resources in carrying out its functions as set out in the Framework Document.

The purpose of the system of internal control

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them, rather than to eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on a process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the Debt Management Office for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance. Not all components of the current system of internal control have been in place throughout the whole of the financial year 2004-05, because the DMO has made additions to the system of internal control over the course of the year.

Capacity to handle risk

The DMO has a formal risk management strategy and policy set by the Managing Board. This includes an outline of the DMO's capacity to handle risk. The DMO has produced a Risk Management Assurance Strategy comprehensively documenting its risk management processes.

The DMO Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub committee of the Managing Board meets weekly. The terms of reference of these management committees and those of the Cash Management, Debt Management, Fund Management and Risk Committees clearly set out their roles and responsibilities providing the organisational capability to consider issues and make relevant decisions at the appropriate level.

Staff have attended presentations on relevant elements of the DMO's risk management framework. These have covered specific issues such as anti-money laundering, whistleblowing, fraud and personal dealing in order to ensure a good level of awareness of DMO's risk policies and controls. Beginning in 2004-05, presentations on the implications of the Freedom of Information Act were made to staff most likely to be affected by this new legislation. All members of staff have job descriptions, including specific key risks they are expected to manage.

Management in each business function is responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation. Most functional managers are responsible for maintaining compliance arrangements across the DMO in their area of specialism. Risk Management Unit has issued guidance on those sections of the Financial Services Authority handbook that are most pertinent to the DMO's business to all relevant business areas to support managers in meeting this responsibility.

The risk and control framework

The DMO has various formal mechanisms for managing the DMO's risks but it is recognised that the most important aspect is that a strong risk management culture pervades the organisation at all levels. This is embedded in both regular operations and the approach taken to new business initiatives. The DMO includes risk management considerations as part of normal business management. The DMO is making on-going efforts to embed a strong risk management culture in every part of the organisation.

The DMO's risk management strategy seeks to maintain a strong risk management culture by linking organisational objectives to the business planning process. Organisational objectives cascade down to individual objectives and job descriptions. This is intended to promote a clear understanding of the ownership of each risk within the organisation. There has been substantial progress in development of performance measures in the year, in particular through a review of cash management operations.

Heads of business units and functional teams assess regularly whether risks to their operations are being managed effectively. The DMO held risk workshops for operational staff on specific risk issues. New risks, and risks with an increased likelihood of occurrence, are highlighted and actions identified to ensure all risks will be effectively managed. Risk registers were used by teams responsible for delivering key projects. Senior managers have reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. This process is supported by the maintenance of exception logs, which identify control weaknesses and resultant actions to improve controls. Key risks and exceptions are documented in a regular report produced by the Risk Management Unit for the Risk Committee and the Managing Board.

A key component of the DMO's control framework is the segregation of duties to promote independent checking and avoid concentration of key activities or related controls in individuals or small groups of staff. In particular segregation of duties takes place between front and back office activities.

All teams have documented procedures for their main activities. The DMO has policies on anti-fraud measures and whistle blowing. In establishing controls to deter money laundering the DMO has followed best practice guidance in the Financial Services Authority's handbook and from the joint money laundering steering group. During the year, the DMO has introduced its own anti-money laundering handbook. DMO staff provide an annual report of anti-money laundering developments and processes to the Managing Board. The DMO has established a Security Group with a focus on ensuring continued security of DMO information.

The DMO's Business Continuity Plan (BCP), including disaster recovery site and other arrangements, is subject to continual review and update. The DMO tested the main elements of the BCP during the year. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

An independent review of the DMO's business planning and project management processes was undertaken in the year under review. The findings have led to a formal initiative to strengthen processes around budgeting, approval, monitoring and delivery of projects, and to assess more effectively the cost and benefit of each new business or project proposal.

An independent review of DMO financial controls and reporting was undertaken in 2004-05. This has led to the approval of an action plan to improve the regularity, reliability and effectiveness of financial reporting to Managing Board and its sub-committee.

The DMO has established effective communication channels with its main stakeholders to help highlight issues that may affect either party's risks. In addition to maintaining bilateral contacts with market counterparties, the DMO also holds quarterly consultation meetings with market makers in gilts (GEMMs) and issues ad hoc public consultation documents on specific issues.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is a continuous process. It is informed by the work of the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, work of the internal auditors and comments made by the external auditors in their management letter and other reports. My review is based on a number of activities. Annually I formally review the key outcomes and findings of each activity in order to make my assessment.

- An Internal Controls team was formally established at the beginning of the 2003-04 financial year to assess actions required to maintain and improve the DMO's system of internal control. The team has met regularly since then to identify weaknesses in the control environment, recommend actions to management and to implement changes where appropriate. The controls team comprises the Head of the DMO's Risk Management Unit, the Controls and Compliance Manager, the Head of Internal Audit and the Finance Manager. A non-Executive Director attends meetings of the team periodically. The controls team has reported regularly to the Managing Board on progress to improve the internal control system during the year.

- The Managing Board met approximately every 6 weeks and considered risk management and operational control issues throughout the year. Additionally it received quarterly reports based on the outputs of DMO teams' risk registers on actions required as a result of changes in DMO's risk profile. The executive sub-committee of the Managing Board met weekly and considered risk and control issues on a regular basis.

- The DMO's Audit Committee, chaired by a non-Executive Director, met quarterly. Audit Committee reviews the adequacy and effectiveness of the DMO's management of risk and internal controls, and makes recommendations for improvement as appropriate. Following a review of the DMO's compliance with best practice in corporate governance, I stood down as a member of the Audit Committee in March 2005. However, I will continue to attend Audit Committee meetings regularly.

- The DMO's Risk Management Unit provides control advice on risks throughout the DMO. In the DMO's management reporting structure the Risk Management Unit is separate and independent of the DMO's trading operations. The risk management function also conducts risk analysis and provides an operational, market and credit risk capability for the DMO.

- The DMO's Internal Audit team evaluates the effectiveness of the DMO's processes for risk management, control and governance in order to provide me with an independent and objective opinion. To inform this opinion an Internal Audit strategy is produced which enables a systematic and prioritised review of the systems and controls established by management. This involves production and delivery of an annual audit plan including operational audit, project audit and provision of controls consultancy. The audit strategy is subject to review and approval by the Managing Board sub-committee and Audit Committee.

- Compliance testing is a component of each operational review undertaken by Internal Audit.

In my opinion, the DMO's system of internal control was effective throughout the financial year 2004-05, and remains so on the date I sign this statement.

ROBERT STHEEMAN
Chief Executive and Agency Accounting Officer
24 June 2005

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 30 to 47 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 33 to 34.

Respective responsibilities of the Agency, Chief Executive and Auditor

As described on page 23, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 24 to 27 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by HM Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the UK Debt Management Office as at 31 March 2005 and of the net operating cost, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury; and

- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

The maintenance and integrity of the UK Debt Management Office's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

John Bourn
Comptroller and Auditor General
24 June 2005

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Operating Cost Statement for the Year Ended 31 March 2005

	Note	2004-05		2003-04
		£000	£000	£000
Administration costs				
Staff costs	2	4,418		4,202
Other administration costs	3	5,435		5,583
Gross administration costs		**9,853**		**9,785**
Administration income	5	(3,334)		(2,530)
Net administration costs			**6,519**	**7,255**
Gross operations related costs	4	1,276		2,015
Operations related income	5	(848)		(1,180)
Net operations related costs			**428**	**835**
CFER income	5		(3)	(2)
Net Operating Cost			**6,944**	**8,088**

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses for the Year Ended 31 March 2005

	2004-05	2003-04
	£000	£000
Net gain on revaluation of tangible fixed assets	7	-
Total recognised gains and losses for the financial year	**7**	**-**

The notes on pages 33 to 47 form part of these accounts

Balance Sheet as at 31 March 2005

	Note	31 March 2005 £000	31 March 2005 £000	31 March 2004 £000
Fixed assets				
Tangible assets	6.1	702		773
Intangible assets	6.2	858		723
			1,560	1,496
Current assets				
Debtors	7	4,334		1,303
Cash at bank and in hand	8	371		359
		4,705		1,662
Creditors (amounts falling due within one year)	9	(4,441)		(939)
Net current assets / (liabilities)			**264**	**723**
Total assets less current liabilities			**1,824**	**2,219**
Creditors (amounts falling due after more than one year)	9		(268)	(268)
Provisions for liabilities and charges	10		(284)	(466)
			1,272	**1,485**
Represented by:				
Taxpayers' equity				
General Fund	11		(1,265)	(1,485)
Revaluation Reserve	12		(7)	-
			(1,272)	**(1,485)**

ROBERT STHEEMAN
Chief Executive and Agency Accounting Officer
24 June 2005

The notes on pages 33 to 47 form part of these accounts.

Cash Flow Statement for the Year Ended 31 March 2005

	Note	2004-05 £000	2003-04 £000
Net cash outflow from operating activities	13	(5,880)	(7,313)
Capital expenditure and financial investment		(950)	(584)
Net cash outflow before financing		**(6,830)**	**(7,897)**
Financing			
Net cash requirement		6,842	7,904
Increase/(decrease) in cash in the period		**12**	**7**

The notes on pages 33 to 47 form part of these accounts.

Notes to the Accounts

1. STATEMENT OF ACCOUNTING POLICIES

1.1 Basis of preparation
The financial statements have been prepared in accordance with the 2004–05 *Resource Accounting Manual (RAM)* issued by HM Treasury. The accounting policies contained in the *RAM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the *RAM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving a true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.2 Accounting convention
These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1.3 Fixed Assets
Assets acquired for on-going use with a purchase cost in excess of £5,000 are capitalised. All assets acquired on an individual basis for on-going use falling above this threshold will be shown as fixed assets.

Fixed assets are revalued each year to the net current replacement cost by reference to appropriate indices issued by HM Treasury and prepared by the Valuation Office. Revaluation surpluses arising from temporary changes in value are credited to the revaluation reserve. Permanent diminutions in value are charged to the operating cost statement, except to the extent that a revaluation surplus exists in respect of the same asset.

Profits or losses arising on the disposal of fixed assets are calculated by reference to the carrying value of the asset.

Internal staff costs for IT development work are capitalised as tangible assets when a distinct asset for on-going use is created or significantly developed.

Software purchases that meet the capitalisation criteria are classified as intangible assets.

1.4 Depreciation
Depreciation is provided on a straight-line basis, calculated on revalued amounts to write off assets over their estimated useful lives. The useful lives of fixed assets have been estimated as follows:

IT equipment and software	3 years
Development costs	3 years
Office and other non IT equipment	5 years
Furniture, fixtures and fittings	10 years
Licence software	license duration up to 10 years
Leasehold improvements	lesser of 10 years or outstanding lease term

1.5 Operating leases
Amounts paid and received under the terms of operating leases are charged to the operating cost statement on a straight-line basis over the term of the lease. Operating leases are accounted for in accordance with SSAP 21. The DMO's commitments and receivables are disclosed in Note 14.

1.6 Notional charges
Central HM Treasury costs and other overheads are charged on a notional basis and included in the accounts. These charges include auditors' remuneration and centrally provided support services for payroll, procurement, finance, security, health and safety and legal services. Notional costs are charged to the operating cost statement and credited as a movement on the general fund.

1.7 Value added tax
Value added tax (VAT) on purchases, to the extent that it is irrecoverable, is charged to the operating cost statement included under the heading relevant to the type of expenditure. Where VAT is recoverable in respect of DMO expenditure, it is recovered by HM Treasury and is not refunded to the DMO. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

1.8 Operating income
Operating income for the DMO relates to cost recoveries on a full cost basis for services provided to the National Loans Fund and external clients and customers. As the Agency is subject to gross administration cost control provisions, for funding purposes, HM Treasury treats operating income amounts as Appropriations-in-Aid. The operating income is principally:

- Recoveries of costs associated with the DMO acting as an agent for the National Loans Fund regarding stock listing, settlement and auction advertising.
- Charges, where statute permits, for the investment management and administration of public funds by the Commissioners for the Reduction of the National Debt.
- Fees for loans advanced to local authorities from the Public Works Loan Board.

1.9 Capital charge
A charge reflecting the cost of capital utilised by the Agency is included within the operating cost statement. The charge is calculated at the real rate set by HM Treasury, currently 3.5 per cent in real terms on all assets less liabilities.

1.10 Pensions
Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in Note 2. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

1.11 Provisions
The Agency provides for legal or constructive obligations, which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant the estimated risk-adjusted cash flows are discounted using the HM Treasury discount rate of 3.5 per cent in real terms.

2. STAFF NUMBERS AND RELATED COSTS

2.1. The average number of DMO employees during the year was as follows:

	2004-05 Number				2003-04 Number
	TOTAL	Senior Management	Officials	Agency, temporary and contract staff	Total
Maintaining sound public finances in accordance with the Code for Fiscal Stability	75	3	70	2	83
Staff engaged on capital projects	9	-	3	6	3
TOTAL	**84**	3	73	8	**86**

2.2. Aggregate staff payroll costs were:

	2004-05			2003-04
	TOTAL	Permanent Staff	Others	
	£000	£000	£000	£000
Wages and salaries	4,272	3,652	620	3,602
Social security costs	351	351	-	317
Other pension costs	549	549	-	491
Sub Total	**5,172**	**4,552**	**620**	**4,410**
Inward secondees	12	12	-	118
Total	**5,184**	**4,564**	**620**	**4,528**
Less recoveries in respect of outward secondment	-	-	-	(21)
Total Net Costs *	**5,184**	**4,564**	**620**	**4,507**

* Of the total, £766,281 has been charged to capital.

The Principal Civil Service Pension Schemes (PCSPS) to which all of the Agency's employees are members is an unfunded multi-employer defined benefit scheme, but the DMO is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004–05, normal employer contributions of £500,891 were payable to the PCSPS (2003–04 £467,563) at rates in the range 12 to 18.5 per cent (2003-04: 12 to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will remain the same next year, subject to revalorisation of the salary bands, but will increase from 2005-06. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred; and they reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employer's contributions of £20,411 (2003-04: £11,368) were paid to one or more of the panel of four appointed **stakeholder** pension providers. Employer contributions are age-related and range from 8 to 10 per cent (2003-04: 8 to 10 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £1,370, 0.8 per cent (2003-04: £715, 0.8 per cent) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the **partnership** pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

2.3 Salary and pension entitlements

2.3.1 Renumeration

	2004-05	**2003-04**
	Salary	Salary
	£000	£000
Robert Stheeman - Chief Executive	120 - 125	110 - 115
Jo Whelan - Deputy Chief Executive *	90 - 95	65 - 70
Jim Juffs - Chief Operating Officer	110 - 115	95 - 100

* The salary disclosed reflects part time hours and are calculated on a pro rata basis from full time equivalent (FTE) of 0.78 in 2004-05 (0.6 in 2003-04).

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowances to the extent that it is subject to UK taxation.

The other members of the Managing Board are the non-Executive Directors. Salaries and allowances payable to both Colin Price and James Barclay in the reporting period were £15,000 each, while the amount payable to Brian Larkman from 1 January was £3,750. Sue Owen, who is an employee of HM Treasury is not remunerated by the DMO.

2.3.2 Pension benefits

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme.The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total service, not just their current appointment. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increases in the value of the CETV

This takes account of the increase in accrued pension due to inflation and contributions paid by the individual and is calculated using common market valuation factors for the start and end of the period.

	Real increase in pension entitlement at age 60	Total accrued pension at age 60 at 31 March 2005	CETV at 31 March 2004	CETV at 31 March 2005	Real increase in CETV
	£000	£000	£000	£000	£000
Robert Stheeman - Chief Executive	0 - 2.5	0 - 5	24	41	15
Jim Juffs - Chief Operating Officer	5 - 7.5	25 - 27.5	55	82	19

Jo Whelan has withheld consent for disclosure of her pension benefits.

Civil Service pensions

Pension benefits are provided through the Civil Service Pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under the classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002, calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003–04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

3. OTHER ADMINISTRATION COSTS

	2004-05	2003-04
	£000	£000
Rentals under operating leases:		
Other operating leases	1,131	1,128
Non-cash items (Note a):		
Depreciation and amortisation of fixed assets	765	806
Cost of capital charge	48	44
HM Treasury Notional Costs	75	42
Auditor's Fee	21	21
Loss on disposal	7	-
Provision for early-departure costs:		
Provided in year	(18)	520
Unwinding of discount on provisions	9	(1)
Other expenditure (Note b)	3,397	3,023
	5,435	**5,583**

Notes:

a

Other administration costs - non-cash items (as above)	907	1,432

b

Accommodation related costs	482	513
Consultants & professionals	768	525
IT & telecommunications	1,415	1,348
Travel, subsistence & hospitality	85	84
Legal services	64	81
Training	139	133
Printing & stationery	79	75
Other costs	244	154
Deficit / (Gain) on revaluation	121	110
	3,397	**3,023**

Rentals under operating leases include £1,116,458 for rent on building.

The auditor's fee relates entirely to audit work.

4. OPERATIONS RELATED COSTS

	2004-05	2003-04
	£000	£000
Settlement and custodial charges	465	832
Stock Exchange listing fees	593	762
Auction advertising costs	169	421
Other trading costs	49	-
	1,276	**2,015**

Operations related costs are costs that the DMO must incur as a result of trading and other dealing activities and are not directly controllable. They relate primarily to stock listing, settlement, auction advertising and other trading fees. Where the DMO is acting as agent for the NLF regarding these transactions, these costs are reimbursable.

5. OPERATING INCOME

	2004-05		2003-04
	£000	£000	£000
Administration income			
Administration income			
Recharges to GEMMs (regarding trading system costs)	96		112
Rentals receivable in respect of operating leases	226		226
Other accommodation related income	43		49
Fees and charges to CRND clients	1,008		771
Fees and charges to PWLB customers	1,891		1,278
Other income	70		94
		3,334	**2,530**
Operations related income			
Recharges to the National Loans Fund (stock listing and other fees)	762		1,180
Other trading income	86		-
		848	**1,180**
Total income		**4,182**	**3,710**

All rentals receivable in respect of operating leases are from external clients.

Income that is surrenderable to the Consolidated Fund in the period comprises Bank of England interest received in the year amounting to £2,512.95 (2003-04 £1,813.62) and excess Appropriations-in-Aid made up from Administration income amounting to £3,334,367.93 (2003-04 Nil).

6. FIXED ASSETS

6.1 Tangible Fixed Assets

	Leasehold Improvements	IT	Telecoms	Office Equipment	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2004	1,099	2,235	161	23	3,518
Additions	-	298	-	-	298
Disposals	(374)	(88)	-	-	(462)
Revaluation	40	(47)	(7)	-	(14)
At 31 March 2005	**765**	**2,398**	**154**	**23**	**3,340**
Depreciation					
At 1 April 2004	(580)	(2,037)	(123)	(5)	(2,745)
Charged in year	(76)	(289)	(27)	(5)	(397)
Disposals	367	88	-	-	455
Revaluation	(12)	52	9	-	49
At 31 March 2005	**(301)**	**(2,186)**	**(141)**	**(10)**	**(2,638)**
Net book value					
At 31 March 2005	**464**	**212**	**13**	**13**	**702**
At 31 March 2004	**519**	**198**	**38**	**18**	**773**

Capitalised staff development costs of £217,038 (2003-04 £94,101) are included in the tangible assets figure.

6.2 Intangible Fixed Assets

	Software
	£000
Cost or valuation	
At 1 April 2004	1,763
Additions	652
Disposals	(61)
Revaluation	(100)
At 31 March 2005	**2,254**
Depreciation	
At 1 April 2004	(1,040)
Charged in year	(473)
Disposals	61
Revaluation	56
At 31 March 2005	**(1,396)**
Net book value	
At 31 March 2005	**858**
At 31 March 2004	**723**

7. DEBTORS

	31 March 2005	**31 March 2004**
	£000	£000
Amounts falling due within one year:		
Prepayments and accrued income	596	718
Amounts receivable from NLF	351	304
Other debtors	284	266
Receivable from the Consolidated Fund:		
Supply not yet drawn	3,084	-
	4,315	**1,288**
Amounts falling due after more than one year:		
Prepayments and accrued income	19	15
	4,334	**1,303**

8. CASH AT BANK AND IN HAND

	31 March 2005	31 March 2004
	£000	£000
Balances with the Bank of England and in hand	**371**	**359**

9. CREDITORS

	31 March 2005	31 March 2004
	£000	£000
Amounts falling due within one year:		
Trade creditors	215	114
Taxation and Social Security creditors	172	162
Accruals and deferred income	687	642
Creditor bond interest	30	19
Payable to the Consolidated Fund:		
Excess appropriations-in-aid	3,334	-
Other payments due to be paid to the Consolidated Fund	3	2
	4,441	**939**
Amounts falling due after more than one year:		
Deposit advance held as creditor bond	268	268
	4,709	**1,207**

10. PROVISIONS FOR LIABILITIES AND CHARGES

	2004-05 Early departure costs	2003-04 Early departure costs
	£000	£000
Balance at 1 April 2004	466	42
Provisions not required written back	(18)	520
Provisions utilised in the year	(173)	(95)
Unwinding of discount	9	(1)
Balance at 31 March 2005	**284**	**466**

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Agency provides for this in full when the early retirement programme becomes binding on the Agency by establishing a provision for the estimated payments discounted by the HM Treasury discount rate of 3.5 per cent in real terms.

11. TAXPAYERS' EQUITY

Reconciliation of Net Operating Cost to changes in General Fund

		2004-05	2003-04
		£000	£000
Net operating cost		(6,944)	(8,088)
Consolidated Fund:			
CFER	(3,337)		-
Supply draw-down not yet drawn	3,084		-
		(253)	-
Net cash requirement		6,842	7,904
Add: non-cash charges			
Notional interest on capital		48	44
Auditor's fee		21	21
Provisions for early-departure costs		(9)	519
HM Treasury notional costs		75	42
		135	**626**
Net (decrease) / increase in General Fund		(220)	442
General Fund at 1 April 2004		1,485	1,043
General Fund at 31 March 2005		**1,265**	**1,485**

12. REVALUATION RESERVE

	£000
Balance at 1 April 2004	-
Movement on revaluation during the year	(7)
Balance at 31 March 2005	**(7)**

13. ANALYSIS OF CASH FLOW

Reconciliation of Operating Costs to Operating Cash Flows

	2004-05		**2003-04**
	£000	£000	£000
Net operating cost		(6,944)	(8,088)
Adjust for non-cash transactions:			
Depreciation & revaluation	893		917
Notional interest on capital	48		44
HM Treasury notional costs	75		42
Auditor's fee	21		21
Provision for early-departure costs	(9)		519
		1,028	1,543
Adjust for movements in working capital other than cash:			
Decrease/(Increase) in debtors	53		102
(Decrease)/Increase in current creditors	(17)		(870)
		36	(768)
Net Cash outflow from operating activities		**(5,880)**	**(7,313)**

14. OPERATING LEASES

14.1 At 31 March 2005 the commitments under operating leases to pay rentals during the year following the year of these accounts are shown below, analysed according to the period in which the lease expires.

	2004-05			2003-04
	Land and Buildings	**Other**	**Total**	**Total**
	£000	£000	£000	£000
Operating leases which expire within one year	-	-	-	11
Operating leases which expire beyond one year but not more than five years	-	12	12	1,116
Operating leases which expire beyond five years: premises lease	1,116	-	1,116	-
	1,116	**12**	**1,128**	**1,127**

14.2 At 31 March 2005 receivables under operating leases were as follows:

	2004-05	2003-04
	Land and Buildings	**Total**
	£000	£000
Operating leases which expire beyond one year but not more than five years: premises lease	**226**	**275**

15. CAPITAL COMMITMENTS

The DMO has no capital commitments at 31 March 2005.

16. CONTINGENT LIABILITIES

The DMO has no contingent liabilities at 31 March 2005.

17. RELATED PARTY TRANSACTIONS

The DMO is an executive agency of HM Treasury. During the year HM Treasury has provided various business services to the DMO as listed in the Resources section of the Annual Report.

The Consolidated Fund and the National Loans Fund are central government borrowing and expenditure accounts under the control of HM Treasury. The DMO has had transactions with both accounts and they are regarded as related parties because they are under common control of HM Treasury.

The DMO also has undertaken various transactions with the Bank of England and National Savings and Investments. They are regarded as related parties because HM Treasury has significant influence over all entities.

CRND is managed as part of the DMO but is a separate legal entity. CRND is a related party of DMO because Jo Whelan is the Deputy Chief Executive of the DMO and also the Comptroller of CRND.

PWLB is also operated within the DMO and subjected to the same operational controls as applied to the DMO's operations as a whole, but charges to PWLB clients are set by statue and the Public Works Loan Commissioners retain their statutory role. Therefore, PWLB is not considered a related party to the DMO.

None of the DMO Managing Board members, senior managers or other related parties has undertaken any material transactions with the DMO during the year.

18. FRS13 DISCLOSURES

Excluding the Debt Management Account, the PWLB lending facility and the CRND Investment Accounts (which are reported separately from its administrative expenditure) the DMO agency account has no material exposure to liquidity risk, interest rate risk or currency risk. The DMO agency account does not have any borrowings, deposits or foreign currency positions. All material assets and liabilities are denominated in sterling.

Accounts Direction Given by HM Treasury in Accordance with Section 7(2) of the Government Resources and Accounts Act 2000

1. This direction applies to the United Kingdom Debt Management Office.

2. This executive agency shall prepare accounts for the year ended 31 March 2005 in compliance with the accounting principles and disclosure requirements of the edition of the *Resource Accounting Manual* issued by HM Treasury which is in force for 2004-05.

3. The accounts shall be prepared so as to:

3.1 give a true and fair view of the income and expenditure (or as appropriate, net resource outturn), total recognised gains and losses (or, as appropriate, recognised gains and losses), and cash flows of the agency for the financial year, and of the state of affairs as at 31 March 2005; and

3.2 provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

4. Compliance with the requirements of the *Resource Accounting Manual* will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the *Resource Accounting Manual* is inconsistent with the requirement to give a true and fair view the requirements of the *Resource Accounting Manual* should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the *Resource Accounting Manual*. Any material departure from the *Resource Accounting Manual* should be discussed in the first instance with HM Treasury.

DAVID CRUDEN FCA
Head of the Central Accountancy Team, Her Majesty's Treasury

16 February 2005

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