

UNITED KINGDOM DEBT MANAGEMENT OFFICE

Executive Agency Framework Document

Foreword to the First Framework Document

One of the key pillars of the new monetary framework I announced on 6 May 1997 was the transfer of Government debt management responsibilities from the Bank of England to the Treasury. Since that announcement operational responsibility for setting interest rates has rested with the Bank of England. The creation of the UK Debt Management Office completes the work on the new framework with the establishment of a body to concentrate on the task of minimising the long term costs to Government of its borrowing and cash management activities.

From 1st April 1998 the new Debt Management Office will take over responsibilities for issuing gilts, monitoring the secondary market and intervening if necessary to help it function properly, and advising on new instruments and reforms to make the market more efficient for the benefit of both issuer and purchaser of gilts. The Debt Management Office though legally and constitutionally part of the Treasury will operate at arms length from Ministers. The broad principles of operations are set out in this Framework Document and annual targets are being set for the Office. The most important target will be to meet the annual remit for the finance that the Treasury expects the Debt Management Office (together with the National Savings on the retail side) to raise in the coming year. It is therefore most fitting that the Debt Management Office has been set up as an Executive Agency of the Treasury. This establishes the relationship such that the DMO can concentrate on its tasks within broad guidelines set by Ministers but without day to day interference.

The Debt Management Office will also take over responsibility for funding the cash needs of government on a day to day basis.

I wish the Chief Executive of the Office, Mike Williams, and his staff all the best in this new enterprise in which I and my colleagues will take a close interest. They take over a task which the Bank of England has performed to a high standard for some 300 years.

**The Rt Hon Gordon Brown MP
Chancellor of the Exchequer**

March 1998

Status, Aim and Objectives

1. The United Kingdom Debt Management Office was established as an Executive Agency of the Treasury on 1 April 1998. Its administrative expenses are funded through the Treasury's Parliamentary Vote with disbursements associated with specific issues of debt being recharged to the National Loans Fund. It has around 50 staff, who are Crown employees working within the Agency subject to the Civil Service Management Code, and is located in the City of London.

2. The Minister responsible for the Debt Management Office is the Chancellor of the Exchequer. The aim of the Office is to carry out the Government's debt management policy of minimising its financing cost over the long term taking account of risk, and to manage the daily aggregate cash needs of the Exchequer in the most cost-effective way, while being consistent with the objectives of monetary policy. In doing so, the Office will take account of wider policy considerations which may constrain strict cost minimisation (for example, providing for retail holdings of gilts).

3. The Office has the following strategic objectives:

- to meet the annual remit set by Treasury Ministers for the sale and purchase of gilts, with high regard to long term cost minimisation taking account of risk;
- to offset, through its market operations, the expected outturn cash flow into or out of the NLF, on every business day; and in a cost-effective manner with due regard for credit risk management;
- to manage effectively, in accordance with objectives set by Treasury Ministers, any assets held on the Debt Management Account;

- to advise Ministers on setting the remit to meet the Government's objectives under 1-3 above; and to report to Ministers on the DMO's performance against its remit, objectives and targets;
- to develop policy on and promote advances in new instruments, issuance techniques and structural changes to the debt and Treasury bill markets that may help to enhance the efficiency and lower the cost of debt and cash management, liaising as appropriate with the relevant bodies; to keep abreast of developments in debt and cash management policy and practice; and to provide policy advice to Treasury Ministers and officials accordingly;
- to conduct its market operations, liaising as necessary with the relevant bodies, with a view to maintaining or promoting an orderly, efficient and liquid market for gilts;
- to provide, including in liaison with the Bank of England and CRESTCo, a high quality and efficient service to investors in Government debt, and to deal fairly and professionally with market participants in the gilt and money markets, consistent with achieving low cost issuance and an efficient market;
- to contribute to the Treasury's work on the development of the strategy for managing the Government's financial assets and liabilities;
- to make information publicly available on the debt and Treasury bill markets and DMO policies where that contributes through openness and predictability to efficient markets and lower costs of issuance;
- to provide advice and expertise to other Government departments (and other governments) as required, and consistently with meeting the objectives 1-3 above;

- to resource, staff and manage the Office to deliver its objectives effectively and efficiently and to ensure value for money in its administrative expenditure; and
- to develop appropriate management, information and control systems with high regard to risk minimisation; and to ensure full and accurate presentation of accounting and other information.

4. The DMO supports the Treasury's wider objectives and is also tasked in the Treasury's Service Delivery Agreement to deliver its objectives effectively and efficiently and to ensure value for money in its administrative expenditure. Each year the Chancellor and the Chief Executive will agree a set of targets covering the priority elements of the Office's task which will include the delivery of the financing remit, accuracy of transaction recording, and developments in cash management and the gilts market.

Accountability and Relationships with the Treasury

5. The Chancellor determines the policy and financial framework within which the Debt Management Office operates. The Chancellor delegates to the Chief Executive operational decisions on debt and cash management and the day to day management of the Office. The Chancellor will set, having regard to advice from the Chief Executive of the Office and Treasury officials, an annual remit for the amount of Government stock to be sold, its composition, and the style and timing of issuance. The Chief Executive is responsible for delivering the remit (which may include a confidential element which expands on the published remit) in a way that he/she judges will involve the least long run cost to the Exchequer subject to being compatible with other policy considerations. The Chief Executive in conjunction with Treasury officials is responsible for proposing changes to products, issuance policy and market structure. However, final decisions on these matters rest with the Chancellor. The Chancellor will also, having regard to advice from the Chief Executive of the Office and Treasury officials,

set a remit for the Debt Management Office's cash management function. The Chief Executive is responsible for carrying out the function consistently with this remit.

6. The Chancellor will exercise these responsibilities by:

- agreeing the framework document and any revisions to it;
- approving the annual Business Plan;
- setting the terms of the annual gilt remit and any necessary in-year revisions to it following consultation with both Treasury officials and the Chief Executive of the Office;
- approving the objectives of the cash management function, and any periodic remit and modifications to it;
- setting the characteristics of any new instruments, and authorising any changes in operational procedures or market structures;
- setting key performance targets; and
- monitoring the performance of the Office through regular reporting, and presenting to Parliament its annual report and accounts.

7. In discharging these responsibilities the Chancellor may seek advice from Treasury officials.

8. Day to day management of the Office is delegated to the Chief Executive who is appointed by the Chancellor. The present Chief Executive has been appointed for five years from 1 January 1998 at the end of which the post will be filled through open competition. The Chief Executive is accountable to the Chancellor for the Office's

performance. Specifically the Chief Executive is responsible for:

- advising the Chancellor on the terms of the annual remit and any in-year revisions required;
- operating within the terms of the remit in a manner which will minimise long run debt interest costs;
- meeting the objectives set for the cash management function consistently with any periodic remit;
- proposing changes to instruments and market structures within the policy framework set out in the Memorandum of Understanding with the Treasury;
- managing the Office's resources efficiently and effectively;
- achieving the Office's agreed performance targets;
- preparing the Office's Business Plan;
- reporting on and accounting for the Office's performance;
- reporting regularly on developments in the gilts and money markets; and
- acting as Accounting Officer for the Debt Management Account and for the Office's administrative accounts.

9. The Treasury will supply the Office with:

- confidential forecasts of daily public/private sector cash flows; and.
- regular, confidential forecasts of the Central Government Net Cash Requirement and of related Exchequer cash flows .

Accountability to Parliament

10. The Chancellor remains accountable to Parliament for the work of the Office. He is responsible for all matters concerning the policy framework within which the Office operates, for determining its strategic aims and for setting its annual performance.

11. Members of Parliament are encouraged to write direct to the Chief Executive on any individual cases or operational issues. MPs may raise issues of concern with the Chancellor of the Exchequer if they so wish. The Chancellor of the Exchequer will usually ask the Chief Executive to write to MPs in response to written Parliamentary Questions and individual letters about matters assigned to him. The Chief Executive's letters in reply to Parliamentary Questions will be published in the Official Report.

Permanent Secretary

12. The Permanent Secretary to the Treasury is the Department's principal Accounting Officer. As such he is Accounting Officer for the Treasury's administrative vote, for the Consolidated Fund and for the National Loans Fund. He is the principal adviser to the Chancellor and responsible for ensuring a high standard of financial management throughout the Treasury. He also advises the Chancellor on Treasury policy towards the DMO, including the Framework Document, the setting of appropriate financial and non-financial targets, resource levels, accountability, propriety and regularity. He must be satisfied that the DMO has adequate financial systems and procedures in place to

promote the efficient and economical conduct of its business, and to safeguard financial propriety and regularity.

Chief Executive

13. The Chief Executive is responsible for the day to day management of DMO and is responsible to the Chancellor and accountable to Parliament for DMO's performance and operations, in respect of both the Office's administrative costs and the Debt Management Account. The Permanent Secretary has designated the Chief Executive as Agency Accounting Officer. As such he./she is responsible for ensuring that proper procedures are followed for securing the proper and regular use of public funds for which he is responsible. He./she is further responsible for ensuring that the requirements of Government Accounting are met, that the DMO observes any general guidance issued by the Treasury or Cabinet Office, and for putting into effect any recommendations accepted by Government of the Public Accounts Committee, other Parliamentary Select Committees or other Parliamentary authority. Both the principal and DMO Accounting Officers are liable to be summoned to appear before the PAC at hearings when matters concerning the DMO are being discussed.

14. The Chief Executive is responsible for ensuring that effective procedures for handling complaints about the Office are established and publicised. This includes replying to complaints personally if they cannot be resolved satisfactorily at a local level.

15. The Office is subject to the jurisdiction of the Parliamentary Commissioner for Administration. The principal Accounting Officer remains the principal officer for this purpose, but delegates to the Chief Executive responsibility for the preparation of replies on any matter concerning the operation of the Office, and for replying in the majority of cases.

Management of the Office

16. The Office is managed internally by the Chief Executive, who with the heads of the main functional responsibilities and other relevant senior officials constitute the Managing Committee. All strategic operational and management issues will be considered by the Managing Committee. The Chief Executive will establish an Audit Committee, chaired by a person of suitable experience and stature appointed from outside the DMO. From time to time the Chief Executive or Managing Committee may wish to engage other advice from outside the Office.

Corporate and Business Plans

17. The Chief Executive is responsible for the preparation of an annual Business Plan (which will normally be produced as a single document). This will contain the aim, objectives and targets for the Office. This document will be published, subject to the deletion of any commercially sensitive material that it contains. The targets will be published. The corporate plan element will develop a strategic framework over the following three years, identifying how the Office intends to meet its aim and policy objectives against a changing background. The business plan element will focus on the activities, priorities and tasks in the coming year and how resources will be allocated accordingly to meet the Office aim, objectives and targets. The plan will also set out the key assumptions and forecasts, and any new initiatives that the Office proposes to take.

Annual Report and Accounts

18. The Office will prepare and publish each year its Annual Report and Accounts. The Annual Report will review the operations of the Office over the past year and will provide details of the extent to which the Office has achieved its key performance targets. The Office will be committed to maintaining and improving the standard of service to its customers in line with the Citizen's Charter principles.

19. The Office will publish annually:

- an annual review, covering gilts and the gilts market, and the DMO's cash management operations;
- the Debt Management Account; and
- a report on the Office's performance against its targets and the audited accounts for its own administrative expenditure. The latter will also form part of the Treasury's Appropriation Account and in later years the Treasury's own Resource Account.

Financial Arrangements

20. The budget for the Office is set by the Chancellor of the Exchequer and will form one section of the Treasury's Supply Estimates or Request for Resources as presented to Parliament. The Office will be subject to gross running cost control. The Chief Executive of the Office otherwise has full financial authority within the budget allocated subject to the annual Business Plan approved by the Chancellor.

Audit

21. The DMO internal audit arrangements will conform to Treasury standards. The Chief Executive will arrange for the internal audit of the DMO, with guidance from the DMO Audit Committee and the Head of Treasury Internal Audit, so as to satisfy the responsibilities of the Treasury's Accounting Officer and the Chief Executive as Agency Accounting Officer and Accounting Officer for the Debt Management Account.

22. The DMO's administrative accounts and the DMA are subject to external audit by

the Comptroller and Auditor General.

Human Resources

23. The Chief Executive is responsible for setting the DMO's personnel policies and managing the staff. The Office has delegated authority for pay, pay bargaining and setting terms and conditions. A Staff Handbook will be prepared setting out the full terms and conditions of the Office.

24. The pay and other personnel policies will be designed to:

- recruit, retain and motivate staff;
- be appropriate to DMO requirements; and
- be consistent with wider public sector pay policy and the Civil Service Management Code.

25. All staff will be given the training necessary to ensure their professional effectiveness as well as other opportunities for training and personal development. The DMO will achieve and retain Investors in People accreditation.

26. In addition:

- with the exception of those on secondment from organisations outside the civil service, and some staff recruited on short term contracts, staff will be eligible for membership of the PCSPS;
- all staff will be subject to the requirements usually placed on civil servants in respect of acceptance of outside appointments and use of official information: in addition, reflecting their access to sensitive financial

information, staff will be expected to follow guidance relating to their personal financial transactions;

- the Office's management will involve all staff in the issues that concern them.

Review Arrangements

27. A review of this framework document will be conducted by March 2003. The review will make whatever changes are appropriate in consultation with the Treasury and the Cabinet Office.

28. Any amendments to the framework document required before the next review will be agreed by the Chancellor and the Chief Executive in consultation with the Cabinet Office.

Publication

29. Copies of this framework document and any subsequent amendments will be placed in the libraries of the Houses of Parliament and can be obtained from the DMO (020 7862 6500 or via the web site: www.dmo.gov.uk)

TARGETS FOR THE DEBT MANAGEMENT OFFICE 2001-02

1. To ensure full compliance with the Government's remit for the DMO as set out in the Debt and Reserves Management Report 2001-02, within the tolerances and subject to the review triggers notified separately to the Office and consistent 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 structured Treasury Bill tenders does not exceed 30 minutes, and that for ad hoc Treasury Bill or other tenders does not exceed 15 minutes, while achieving complete accuracy.
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).
4. To acknowledge all letters and e-mail enquiries from the public within 5 working days and for at least 95 % to be sent a substantive reply within 2 weeks.
5. To achieve less than 8 breaches of the operational market notices (excluding any breaches that the Treasury accept were beyond control of the Office).
6. To ensure that the qualifications that the National Audit Office (NAO) have made in respect of the accounts of the Gilt-edged Official Operations Account are satisfactorily addressed in the running and presentation of the DMA; and that the 1999-2001 DMA accounts are presented to the NAO by the statutory deadline.
7. To ensure that the statutory constraint on DMO market borrowing (not to exceed its deposits with the NLF and Bank of England) is always met.

8. To ensure that, when 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.
9. To ensure that instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through to settlement is effective, so that DMO achieves at least 99% (by value) successful settlement of agreed trades on the due date.
10. To achieve 100% accuracy in material published on the DMO web site (insofar as the material is under the control of the DMO and not third parties).

SERVICES PROVIDED BY HM TREASURY

Accountancy advice
Call-off contracts
Health and Safety
Internal Accounting (FAMIS) and Finance
Invoice Registration and Payment
Legal Advice
Library Services
Ministerial Correspondence Unit
Parliamentary
Payroll
Procurement and Contracts Management
Reprographics
Security
Taxi hire
Training
Travel Agency
Web site Hosting
Welfare