

REVISION TO THE DMO'S FINANCING REMIT 2010-11

1. Planned gilt sales are rising by £0.2 billion to £165.2 billion as a result of the publication today of the revisions to the fiscal aggregates announced in the Economic and Fiscal Outlook, November 2010, by the Office for Budget Responsibility (OBR). Both short-dated and long-dated conventional gilt sales are projected to rise by £0.1 billion to £52.7 billion and £40.5 billion respectively. There are no changes to the number or scheduling of auctions. The proportionate split of sales is essentially unchanged from the remit revision announced at the June 2010 Budget, namely:

- £52.7 billion of short maturity conventional gilt sales (31.9%);
- £38.2 billion of medium maturity conventional gilt sales (23.1%);
- £40.5 billion of long maturity conventional gilt sales (24.5%);
- £33.8 billion of index-linked gilt sales (20.5%).

2. The planned end-financial year stock of Treasury bills is unchanged at £60.8 billion with the planned stock change in 2010-11 remaining at -£2.5 billion.

3. The revisions show an increase in the Government's net financing requirement for 2010-11 of £0.2 billion to £162.7 billion compared with the projection published at the June 2010 Budget. The factors contributing to this change are:

- a reduction of £1.9 billion to £144.2 billion in the forecast Central Government Net Cash Requirement (CGNCR) for 2010-11;
- an increase of £2.0 billion to £6.0 billion in sterling financing for the foreign currency reserves; and
- an increase of £0.1 billion, to £0.2 billion, in secondary market gilt purchases completed by the DMO in 2010-11 to-date.

4. Annex A sets out the updated financing arithmetic.

Changes to average gilt auction sizes

5. The average required auction sizes for the remainder of the financial year are being reduced as a result of the allocation of proceeds arising from take-up of the Post Auction Option Facility (PAOF). In addition, the average auction size for long conventional gilts is being marginally lowered as a result of a reduction by £0.1 billion to £24.1 billion in planned auction sales.

6. The resultant average required auction sizes for the remainder of the financial year are shown in Table 1 below.

Table1: Average auction sizes (£bn)

	Short	Medium	Long	Index-linked
Pre- Autumn Forecast	4.24	3.36	2.18	1.08
Post- Autumn Forecast	3.42	2.70	2.00	0.95
Change	-0.82	-0.65	-0.18	-0.13
<i>Figures may not sum due to rounding</i>				

Detailed adjustments

i) Allocation of PAOF

7. Two adjustments for PAOF proceeds are being made:

- for proceeds which have accrued since the June 2010 Budget; and
- for forecasts of additional PAOF proceeds in the remainder of the financial year (on the basis that the rate of accrual per maturity/type of auction in the financial year to date continues for the remainder of the financial year).

8. DMO policy is to exclude PAOF proceeds from the calculation of average auction sizes¹ in the periods between re-statements of the public finances projections. In the period since the June 2010 Budget some £3.4 billion of PAOF proceeds have accrued (split as in Table 2 below) and, while counting towards the overall gilt sales totals for the year, these amounts have not to-date been included in the auction sales totals. These proceeds are now being factored into the financing plan for the remainder of the financial year, thereby reducing the planned amounts needed to be raised via auctions.

Table 2: Post-June Budget PAOF proceeds (£mn)

Short	1,612
Medium	1,220
Long	232
Index-linked	331
	3,395

9. In addition, a forward looking adjustment has been made in accordance with paragraph 13 of the DMO's financing remit announcement in March, which specified that "*at PBR², an assumption will be made that proceeds from PAOF will continue to accrue for the remainder of the auction programme in the same proportion per type and maturity of operation as before PBR and these amounts will be factored into the required average auction sizes to the end of the financial year*".

10. The calculation and impact of these adjustments is summarised in Table 3 below.

¹ Average auction sizes are calculated for the respective maturities/types of gilt as the auction sales targets minus sales at auctions to-date, divided by the number of auctions remaining in the financial year.

² The remit reference to the PBR is also applicable to this announcement.

Table 3: Calculation of PAOF adjustments to auction sizes

(£bn)	Short	Medium	Long	Index-linked	Totals
Auction sales to 29 November 2010	39.98	28.13	15.40	12.69	96.19
Target sales for financial year	52.70	38.20	24.10	17.00	132.00
Remaining sales by auction -balance (1)	12.72	10.07	8.70	4.31	35.81
Remaining auctions	3	3	4	4	14
Average auction size unadjusted for PAOF	4.24	3.36	2.18	1.08	
PAOF proceeds since 22 June	1.61	1.22	0.23	0.33	3.39
Balance (2)	11.11	8.85	8.47	3.98	32.41
Average auction size (post June Budget)	3.70	2.95	2.12	1.00	
Implied future PAOF*	0.86	0.74	0.48	0.18	2.26
Remaining sales at auction -balance (3)	10.25	8.11	7.99	3.80	30.15
Average auction size (including projected PAOF proceeds)	3.42	2.70	2.00	0.95	
*Calculation of implied future PAOF	Short	Medium	Long	Index-linked	Totals
Number of auctions held in FY to-date	9	8	7	11	35
Total PAOF proceeds in FY to-date	2.58	1.97	0.84	0.49	5.89
Average PAOF proceeds per auction	0.287	0.246	0.120	0.045	
No of auctions remaining	3	3	4	4	14
Implied future PAOF proceeds	0.86	0.74	0.48	0.18	2.26
<i>Figures may not sum due to rounding</i>					

ii) Treatment of additional proceeds from the long supplementary sales programme

11. At the June 2010 Budget total long conventional gilt sales of £40.4 billion were planned, comprising £24.2 billion via auctions and £16.2 billion via supplementary methods (£12.8 billion via syndications and £3.4 billion via mini-tenders). The outturn from supplementary methods was £0.2 billion higher than planned at £16.4 billion as a result of long-dated conventional issuance via syndication raising £13.0 billion.

12. Total planned long-dated conventional gilt sales are today rising by £0.1 billion to £40.5 billion, but as a result of the £0.2 billion higher than expected outturn from supplementary sales, planned sales at auctions are being reduced by £0.1 billion to £24.1 billion. The updated planned split of issuance is shown in Table 4.

Table 4: Planned gilt issuance split by method of issue, type and maturity of gilt in 2010-11

Figures in red = sale programmes complete				
	Auction	Syndication	Mini-tender	Total
Short-dated conventional				
£ billion	52.7			52.7
Per cent				31.9
Medium-dated conventional				
£ billion	38.2			38.2
Per cent				23.1
Long-dated conventional				
£ billion	24.1	13.0	3.4	40.5
Per cent				24.5
Index-linked				
£ billion	17.0	13.2	3.6	33.8
Per cent				20.5
Total	132.0	26.2	7.0	165.2

**As a planning assumption the DMO will use the supplementary issuance programme to sell long-dated conventional and index-linked gilts. Figures may not sum due to rounding.*

13. Annex B sets out progress against meeting these plans at 29 November 2010.

Future financing projections

14. The Economic and Fiscal Outlook, November 2010 includes updated projections for the CGNCR from 2011-12 to 2015-16. Annex C sets out revised illustrative gross financing projections using the new projections together with the latest estimates for gilt redemptions in these years. The projections are not gilt sales forecasts and, in particular, they make no assumption about any contribution to financing from National Savings & Investments or Treasury bill sales.

Annex A: updated financing arithmetic

	2010-11 June 2010 revision	2010-11 29-November-2010
Financing arithmetic (£bn)		
CGNCR	146.1	144.2
Redemptions	38.6	38.6
Financing for APF	0.0	0.0
Financing for reserves	4.0	6.0
Buy-backs	0.1	0.2
Planned short-term financing adjustment ¹	-26.3	-26.3
Gross Financing requirement	162.5	162.7
Less		
NS&I	0.0	0.0
Net Financing requirement	162.5	162.7
Financed by		
1. Debt issuance by the DMO		
a) Treasury bills (net stock change in FY)²	-2.5	-2.5
b) Gilt sales (planned outright sales)	165.0	165.2
Short conventionals	52.6	52.7
Medium conventionals	38.2	38.2
Long conventional	40.4	40.5
Index-linked	33.8	33.8
2. Other planned change in short term debt		
Ways and Means	0.0	0.0
3. Change in short term cash position³	0.0	0.0
Total financing	162.5	162.7
Short-term debt levels at end of financial year		
T bill stock (in market hands)	60.8	60.8
Ways and Means	0.4	0.4
DMO net cash position	0.5	0.5
<p>1. To accommodate changes to the current year's financing requirement resulting from (i) publication of the previous year's outturn CGNCR and/or (ii) carry over of unanticipated changes to the cash position from the previous year.</p>		
<p>2. The stock change shown here is a planning assumption. The DMO may finish the financial year with a higher or lower Treasury bill stock than assumed above, depending on the extent to which the DMO uses other short term cash instruments to raise finance and the extent to which there is a deviation from plan on proceeds from supplementary methods of issuance.</p>		
<p>3. The zero change for the short-term cash position in 2010-11 assumes that the DMO's planning assumption for the end-year Treasury bill stock is met. To the extent that the DMO uses alternative short-term cash instruments to raise finance within year, this will be reflected (as a negative number) in this line in the Table above. A negative (positive) number here indicates an increase in (reduction in) the financing requirement for the following financial year.</p>		
<p>Figures may not sum due to rounding</p>		

Annex B: Gilt sales v remit at 29 November 2010 (£ millions)

	Conventional Gilts			Index-linked	Total
	Short	Medium	Long	gilts	
Total gilt sales to-date	41,590	29,350	32,051	25,177	128,169
Planned sales at auctions	52,700	38,200	24,100	17,000	132,000
1. Sales at auctions*	41,590	29,350	15,629	13,017	99,587
Balance of auction sales to plan	10,249	8,112	7,991	3,803	32,413
Auctions remaining	3	3	4	4	14
Auction evenflow	3,416	2,704	1,998	951	
2. Sales by syndication			12,994	9,319	22,314
Planned sales by syndication					26,200
3. Sales by tender			3,428	2,841	6,268
Planned sales by tender					7,000
Total supplementary sales			16,422	12,160	28,582
Balance to plan			-22	4,640	4,418
4. PAOF proceeds**	0	0	0	0	0
Total planned sales	52,700	38,200	40,500	33,800	165,200
<i>* including PAOF proceeds in FY to-date</i>					
<i>** Since 29 November 2010</i>					
Sales remaining to meet plan					37,031

Annex C: Illustrative gross financing projections

(£bn)	2011-12	2012-13	2013-14	2014-15	2015-16
CGNCR projections	120	91	70	39	27
Gilt redemptions	49	53	47	60	40
Gross financing requirement	169	144	117	98	67
CGNCR change since June 2010 Budget	-1	1	5	4	na
Redemption change since June 2010 Budget	0	0	0	8	na
<i>Figures may not sum due to rounding</i>					