DMO FINANCING REMIT 2011-12: 23 MARCH 2011

1. The DMO's financing remit for 2011-12 has been published today as part of the Budget 2011 announcements. The main points are summarised below.

a) Debt issuance by the DMO

The DMO plans to raise £167.4[1] billion in 2011-12 split as follows:

Gilt sales:	£169.0 billion
Net Treasury bill sales:	-£1.6 billion

b) Planned gilt sales

2. The planned split of issuance by maturity and type of gilt is as follows:

• <u>Short-dated conventional</u>:	£58.0 billion (34.3%) in 12 auctions.
• <u>Medium-dated conventional</u>:	£34.9 billion (20.7%) in 10 auctions.
• <u>Long-dated conventional</u>:	£37.7 billion (22.3%) in 10 auctions (aiming to raise £21.3 billion) and a combination of syndications and sales by mini-tenders (aiming to raise £16.4 billion).
• <u>Index-linked gilts</u>:	£38.4 billion (22.7%) in 15 auctions (aiming to raise £18.6 billion) and a combination of syndications and sales by mini-tenders (aiming to raise £19.8 billion).

3. It is intended that the gilt sales plans will be met through a combination of:

- £132.8 billion of issuance in 47 outright auctions; and
- £36.2 billion of issuance via supplementary distribution methods, split:

   i. £31.6 billion in a programme of up to eight syndicated offerings; and
   ii. £4.6 billion in a programme of sales via mini-tenders.

4. The DMO attaches priority to meeting the individual targets for the different types and maturities of gilts set out above, but the composition of issuance methods used to achieve these targets is a current planning assumption. In particular, total financing achieved via supplementary methods (and the split between methods) will be

[1] Sales figures in this announcement are in cash terms unless otherwise indicated.

dependent on market and demand conditions at the time the transactions are conducted. The planning assumption is that supplementary distribution methods will be used to sell long-conventional and index-linked gilts.

c) The gilt auction programme

5. The planned timing of gilt sales at auction by type in 2011-12 is attached at Annex A. The DMO will publish planned average auction sizes (in cash terms) for each maturity/instrument type in its quarterly issuance calendar announcement for April-June 2011 (on 31 March 2011) and will publish updated planned average auction sizes in its regular auction size press releases and in subsequent quarterly issuance calendar announcements.

d) The syndication programme

6. The DMO intends to implement the programme of syndicated offerings in 2011-12 more evenly across the year than in 2010-11 via smaller and more regular operations than in 2010-11. The planning assumption of up to eight syndicated offerings implies a frequency of two such operations per quarter.

e) Interaction between the gilt auction and syndication programmes

7. The intended smaller size and greater frequency of syndicated offerings will not necessarily result in evenflow issuance via syndication, because the outcome of each syndicated offering will depend on market and demand conditions at the time each transaction takes place. The primary method of accommodating variances in the syndication programme will be via changes to the mini-tender programme (see the next section below). Should it become necessary, however, in order to maintain the optimal sizing of subsequent syndicated offerings the DMO may, at the margin, add gilt auction(s) to the calendar. It will only do so, however, as part of the quarterly issuance announcements, following consultation with market participants in the quarterly consultation meetings[2].

8. In order to facilitate the scheduling of a syndicated offering, the DMO may, on an exceptional basis, alter the timing of an existing gilt auction. An auction may be moved to another day in the week in which it was originally scheduled, to the previous week or to the following week. Any such changes may occur after the publication of the relevant quarterly issuance calendar but if so with a minimum of one week's advance notice. Any such changes would be announced alongside an announcement about the likely timing of a syndicated offering.

[2] In association with an auction being added, existing auction dates also may be adjusted in order to maintain regularity of issuance across each of the maturity areas/instrument types; this would only be done via the quarterly consultation/calendar announcement process.

f) Mini-tenders

9. The DMO envisages holding approximately six mini-tenders in 2011-12, aiming to raise a total of £4.6 billion. The weeks in which the operations are planned will be announced in the DMO's quarterly issuance announcements. Mini-tenders will generally be around half the size (in cash terms) of auctions of comparable gilts.

10. In 2011-12 the mini-tender programme will be used primarily to support the syndication programme by providing operational flexibility to accommodate any unanticipated variations in proceeds from the syndication programme. With this in mind, the DMO may add mini-tenders to the operations calendar either via the quarterly issuance announcement or with at least four week's notice, or it may remove them with a minimum of one week's notice.

g) Post auction option facility (PAOF)

11. The PAOF will continue to be available with successful bidders at auctions having the option to purchase additional stock of up to 10% of the amount allocated to them at the auction. The option to buy (at the average accepted price at conventional gilt auctions and at the strike price at index-linked gilt auctions) will be open from 12 noon to 2pm on the day of an auction.

12. The proceeds from PAOF will count towards the achievement of overall remit sales targets, but will be separately identified from amounts raised at auctions themselves. In the period before any restatement of the public finances and the financing remit (currently expected in the Autumn Statement 2011), sums raised by PAOF will not be taken account of in the calculation of required average auction sizes.

13. At any re-statement of the financing requirement (e.g. at the Autumn Statement) the proceeds from PAOF to that date will be added to the auction proceeds totals, thereby reducing the respective amounts to be raised by sector/type of gilt in the period following the re-statement, other things equal. These proceeds will also be taken into account in the calculation of required average auction sizes for the remainder of the financial year. All other factors constant, therefore, the proceeds may be used to reduce auction sizes or to reduce the number of required operations in the period following the re-statement. Any use of PAOF in these ways would be communicated as part of the DMO's announcement of any update to its financing remit at the time of the re-statement.

14. In addition, following the re-statement of the financing requirement, the DMO will assume that proceeds from PAOF up to that point will continue to accrue for the remainder of the financial year at the same rate per type and maturity of gilt. These assumed future PAOF proceeds will be subtracted from the balance of sales remaining in the period following the in-year re-statement and average auction sizes will be calculated on the basis of the adjusted (lower) sales balances.

15. In the event that the degree to which PAOF is taken up after the re-statement is different from assumed proceeds (and this difference is not accommodated in the supplementary issuance programme) then the outturn will be reflected in changes to the end-year Treasury bill stock and/or the DMO's net cash position.

h) Treasury bill sales

16. The stock of Treasury bills in market hands at end-March 2011 is forecast to be £62.5 billion. The stock is planned to return to a level of £60.8 billion by the end of 2011-12. The planned reduction represents the run-down of the stock of bilateral Treasury bills currently expected to be in issue at end-March 2011.

17. The DMO has discretion to vary the Treasury bill stock over the end of the financial year in line with its cash management operational requirements. Any difference between the outturn and planned target stock for 2011-12 will be reported in April 2012, along with any wider implications for the DMO's financing remit in 2011-12 arising from the publication of the outturn for the 2011-12 Central Government Net Cash Requirement (CGNCR).

i) Changes to the financing requirement

18. The Debt and Reserves Management Report (DRMR) 2011-12 includes revised forecasts for the CGNCR for 2010-11 and 2011-12 of £141.2 billion and £120.4 billion respectively. These represent a reduction of £3.0 billion for 2010-11 and an increase of £0.4 billion for 2011-12 since Autumn Statement 2010.

19. The other main changes impacting on financing since the Autumn Statement 2010 are:

<u>2010-11</u>

- the forecast net contribution to financing from National Savings & Investments (NS&I) has increased by £0.3 billion from £0.0 billion to +£0.3 billion;

- the outturn of gilt sales was £166.4 billion, £1.2 billion higher than the £165.2 billion plan, primarily reflecting higher auction proceeds via the PAOF; and

- a net increase of £1.6 billion in planned net Treasury bill sales over the financial year (from a planned reduction of £2.5 billion to a reduction of £0.9 billion). This reflects the sale of bilateral Treasury bills that mature after 31 March 2011. These stocks will be run-down in 2011-12.

20. The combination of these factors together with the lower CGNCR has led to a forecast net cash position for the DMO at end-March 2011 of £6.5 billion, relative to a planned net cash position of £0.5 billion. As usual, in these circumstances, the additional cash position will be run down in 2011-12 reducing the financing requirement in 2011-12 by £6.0 billion.

2011-12

- £6.0 billion has been added to the gross financing requirement to finance the foreign exchange reserves; and

- NS&I's net contribution to financing is forecast to be £2.0 billion.

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21. The gilt auction calendar for 2011-12 is published at Annex A.

22. The revised financing arithmetic for 2010-11 and 2011-12 is published at Annex B.

23. The planned split of gilt issuance by type, maturity and method of issue is published at Annex C.

24. Revised illustrative financing projections to 2015-16 are published at Annex D.

25. A technical note on the redemption of 2½% Index-linked Treasury Stock 2011 is published at Annex E.

Annex A: Gilt auction calendar 2011-12

Date	Type
05-Apr-11	Conventional
06-Apr-11	Index-linked
13-Apr-11	Conventional
14-Apr-11	Conventional
19-Apr-11	Index-linked
04-May-11	Conventional
10-May-11	Index-linked
12-May-11	Conventional
19-May-11	Conventional
02-Jun-11	Conventional
07-Jun-11	Index-linked
15-Jun-11	Conventional
21-Jun-11	Conventional
05-Jul-11	Conventional
06-Jul-11	Index-linked
14-Jul-11	Conventional
19-Jul-11	Conventional
02-Aug-11	Conventional
11-Aug-11	Index-linked
18-Aug-11	Conventional
23-Aug-11	Index-linked
01-Sep-11	Conventional
15-Sep-11	Index-linked
22-Sep-11	Conventional
04-Oct-11	Conventional
11-Oct-11	Index-linked
13-Oct-11	Conventional
20-Oct-11	Conventional
03-Nov-11	Conventional
08-Nov-11	Index-linked
17-Nov-11	Conventional
01-Dec-11	Conventional
06-Dec-11	Conventional
07-Dec-11	Index-linked
15-Dec-11	Conventional
04-Jan-12	Conventional
10-Jan-12	Index-linked
19-Jan-12	Conventional
01-Feb-12	Conventional
02-Feb-12	Index-linked
07-Feb-12	Conventional
16-Feb-12	Conventional
01-Mar-12	Conventional
06-Mar-12	Index-linked
07-Mar-12	Conventional
15-Mar-12	Conventional
22-Mar-12	Index-linked

Auction dates are subject to confirmation depending on the timetable for Budgetary announcements by HM Treasury and the Office for Budget Responsibility.

Annex B: Gilt financing arithmetic 2010-11 and 2011-12

Budget 2011 **Financing arithmetic (£bn)**	**2010-11**	**2011-12**
CGNCR	141.2	120.4
Redemptions[1]	38.6	49.0
Financing for reserves	6.0	6.0
Buy-backs	0.2	0.0
Planned short-term financing adjustment[2]	-26.3	-6.0
Gross Financing requirement	**159.7**	**169.4**
Less		
Contribution from National Savings & Investments	0.3	2.0
Net Financing requirement	**159.4**	**167.4**
Financed by:		
1. Debt issuance by the DMO		
a) Treasury bills (net stock change in FY)[3]	**-0.9**	**-1.6**
b) Gilt sales (planned outright sales)	**166.4**	**169.0**
Short-dated conventionals	53.2	58.0
Medium-dated conventionals	38.1	34.9
Long-dated conventionals	41.1	37.7
Index-linked	34.0	38.4
2. Other planned changes in short term debt		
Ways and Means	0.0	0.0
3. Change in short term cash position[4]	6.0	0.0
Total financing	**165.5**	**167.4**
Short-term debt levels at end of financial year		
Treasury bill stock (in market hands)	62.5	60.8
Ways and Means	0.4	0.4
DMO net cash position	6.5	0.5

1. The redemption total for 2011-12 assumes that 7¾% Treasury Stock 2012-15 will be redeemed at the earliest possible opportunity on 26 January 2012.

2. 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.

3. 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.

4. The change in the short-term cash position for 2010-11 (and the level of the net short term cash position at the end of the financial year) will also include any impact on financing arising from other activities carried out within Government (e.g. issuance of tax instruments, transfers between central government and other sectors, and foreign exchange transactions). The zero change for the short-term cash position in 2011-12 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.

Figures may not sum due to rounding.

Annex C: Planned split of gilt issuance by type, maturity and method of issue

	Auction	Syndication	Mini-tender	Total
Short-dated conventional				
£ billion	**58.0**			**58.0**
Per cent				34.3%
Medium-dated conventional				
£ billion	**34.9**			**34.9**
Per cent				20.7%
Long-dated conventional				
£ billion	**21.3**	**13.5**	**2.9**	**37.7**
Per cent				22.3%
Index-linked				
£ billion	**18.6**	**18.1**	**1.7**	**38.4**
Per cent				22.7%
Total	**132.8**	**31.6**	**4.6**	**169.0**

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.

Annex D: Illustrative financing projections

The table below shows annual illustrative financing projections from 2012-13 to 2015-16 using updated projections of the CGNCR plus the latest estimate of gilt redemptions and planned financing for the reserves in these years. These are not gilt sales forecasts and, in particular, make no assumption about any contribution to financing from NS&I or the sales of Treasury bills.

(£bn)				
	2012-13	2013-14	2014-15	2015-16
CGNCR projections	105	80	46	33
Gilt redemptions	53	47	60	52
Financing for the reserves	6	6	6	0
Financing requirement	**164**	**133**	**112**	**85**
CGNCR change since Autumn Forecast (AF) 2010	14	10	7	6
Financing for the reserves change since AF 2010	6	6	6	na
Redemption change since AF 2010	0	0	0	12

Figures may not sum due to rounding.

Annex E: Index-linked uplift and the redemption of 2½% Index-linked Treasury Stock 2011

The redemption total for 2011-12 of £49.0 billion does not include the full value of the index-linked uplift on 2½% Index-linked Treasury Stock 2011. The reasons include the rules governing the Central Government Net Cash Requirement (CGNCR). These rules state that part of the accrued inflation uplift on any redeeming gilt that represents the return to investors should be included in the CGNCR in the redemption year, and the remainder should be included in the redemption total for the year in which the relevant gilt redeems.

More specifically, in cases where an index-linked gilt is re-opened (following an initial issue) any accrued uplift on that gilt that is accrued before the re-opening occurs will be treated as principal (and therefore part of the redemption total). However, any accrued inflation uplift that occurs after the re-opening of the gilt will be treated as a return to the investor and thus will be included within the CGNCR for the year in which the gilt matures.

Since all cash flows on 2½% Index-linked Treasury Stock 2011 are now known, it is possible to calculate the final breakdown between those cash flows that count towards redemptions and those that count towards the CGNCR forecast for 2011-12. The nominal amount of this gilt in issue is £4.803 billion, and the total uplifted amount by the time of redemption will be £14.715 billion, so the total uplift is £9.912 billion.

The nominal amount in issue (less Government holdings at end-February 2011 of £0.532 billion) will count toward redemptions[3]. Of the £9.912 billion of total uplift, £4.183 billion is included in redemptions and £5.729 billion is included in the CGNCR forecast for 2011-12.

The value of the uplift on Government holdings is not, however, included in either the 2011-12 redemption total or the CGNCR forecast. This reduces both the amount of uplift that counts towards redemptions (to £3.720 billion) and the amount included in the CGNCR (to £5.095 billion).

[3] This amount (and amounts in the final paragraph) may need to be adjusted subsequently if the amount of Government holdings at end-March 2011 is different to the amount at end-February 2011. The publication of the 2010-11 CGNCR outturn on 21 April 2011 will provide an opportunity for any such adjustment.