United Kingdom
Debt
Management
Office

Annual Report and Accounts 2011-2012

of the United Kingdom Debt Management Office

and the Debt Management Account

United Kingdom Debt Management Office
Annual Report and Accounts 2011 – 2012

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and

Debt Management Account
Annual Report and Accounts 2011 – 2012

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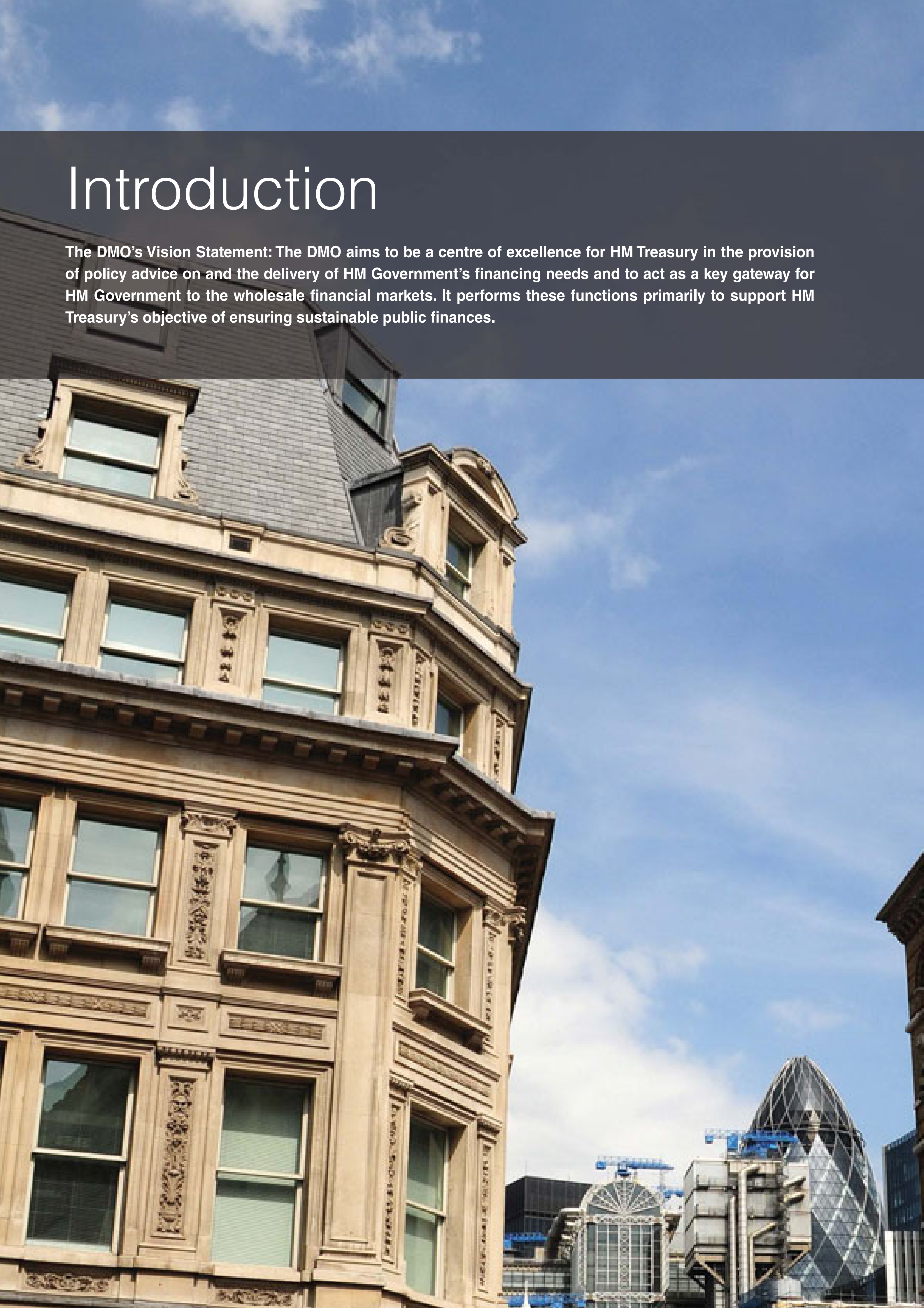
Introduction

The DMO's Vision Statement: The DMO aims to be a centre of excellence for HM Treasury in the provision of policy advice on and the delivery of HM Government's financing needs and to act as a key gateway for HM Government to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objective of ensuring sustainable public finances.



What this document covers

This document presents the Annual Report and Accounts of the United Kingdom Debt Management Office (DMO) and the Annual Report and Accounts of the Debt Management Account (DMA) for the year ended 31 March 2012.

The **DMO** is an executive agency of HM Treasury. Its main aims are:

- to carry out HM Government's debt management policy of minimising its financing cost over the long-term, taking account of risk;
- to minimise the cost of offsetting HM Government's net cash flows over time, while operating within a risk appetite approved by Ministers;
- to provide loans to local authorities for capital purposes;
- to manage the funds of selected public sector bodies; and
- to advise and support HM Treasury's financial stability measures and initiatives aimed at helping UK small businesses.

The **DMA** is one of the central Exchequer accounts (others include the National Loans Fund and the Consolidated Fund managed by HM Treasury and the Exchange Equalisation Account managed by the Bank of England for HM Treasury). The DMA records the assets, liabilities and other transactions that arise from the DMO's debt management (except for gilts issued by the DMO, which are liabilities of the NLF), cash management and other activities that support Government initiatives and a specific National Savings and Investments product.

The following sections of this document apply to both the DMO and the DMA:

The following sections are specific to the DMO:

The following section is specific to the DMA:

Chief Executive's statement

In 2011-2012, the DMO once again successfully delivered the Government's financing programme in what continued to be challenging financial market conditions and with gilt yields falling to record lows. The £179.4 billion of gilt financing the DMO delivered in 2011-2012 was the second highest on record, and represented the fourth successive year of elevated financing requirements, which together have seen the DMO raise over £700 billion via gilt sales.

To help ensure that such significant volumes of sales could be delivered effectively, we have continued to use supplementary distribution methods, principally syndicated gilt offerings, to support the auction programme and to help target our core domestic investor base more directly.

A programme of eight syndicated gilt offerings raised £34.4 billion in 2011-2012, £7.4 billion more than in the previous financial year. Sales by syndication were higher than originally intended because of higher than expected demand for several of the syndicated offerings. To offset this increase, the gilt mini-tender programme was reduced accordingly. The syndication programme helped the DMO to sell a record amount of £39.0 billion of index-linked gilts, almost double the level of sales only three years ago. In all, the DMO held 60 operations (including 49 auctions), which was one fewer than in the previous year.

I am pleased with the efficient way in which the gilt market has continued to absorb the high level of issuance. We continued to receive positive views from market participants, including the Gilt Edged Market Makers (GEMMs), on the increased level of liquidity in the gilt market. Aggregate average daily turnover rose by over a third compared to last year to £28.4 billion per day. This was a 90% increase on four years ago.

The DMO again performed strongly in 2011-2012 in carrying out its cash management function with all related objectives being met. This was especially impressive in the continued volatile money market conditions.

The Treasury bill market has quadrupled in size in the past four years to £70 billion. We have seen strong demand and record low yields both at our weekly tenders and via bilateral sales. Like gilts, Treasury bills attracted significant overseas investor interest, with around 46% of the market being held by such investors at the end of 2011.

During the year, total loans outstanding from the Public Works Loan Board increased to £62.6 billion. This incorporated £16.1 billion of new advances, £13.0 billion of which were lent as part of the Housing Self-financing initiative of the Department for Communities and Local Government.

The DMO again successfully provided a cost-effective service to its clients through the fund management operations of the Commissioners for the Reduction of the National Debt. The market value of these funds was over £45.3 billion as at 31 March 2012.

The DMO successfully executed seven further auctions of EU Allowances for the UK's Emissions Trading System in the fourth (and final) year of Phase II of the Scheme, (one fewer than in 2010-2011). The DMO was appointed to this role by the Department of Energy and Climate Change in 2008.

The DMO played a major role in successfully establishing and launching HM Treasury's National Loan Guarantee Scheme on 20 March 2012. The DMO will continue to administer this scheme on behalf of HM Treasury.

Looking forward, the DMO's remit for 2012-2013 requires gilt sales of £164.4 billion. This continued high level of issuance will need to be delivered in a financial environment which may continue to be volatile and unpredictable.

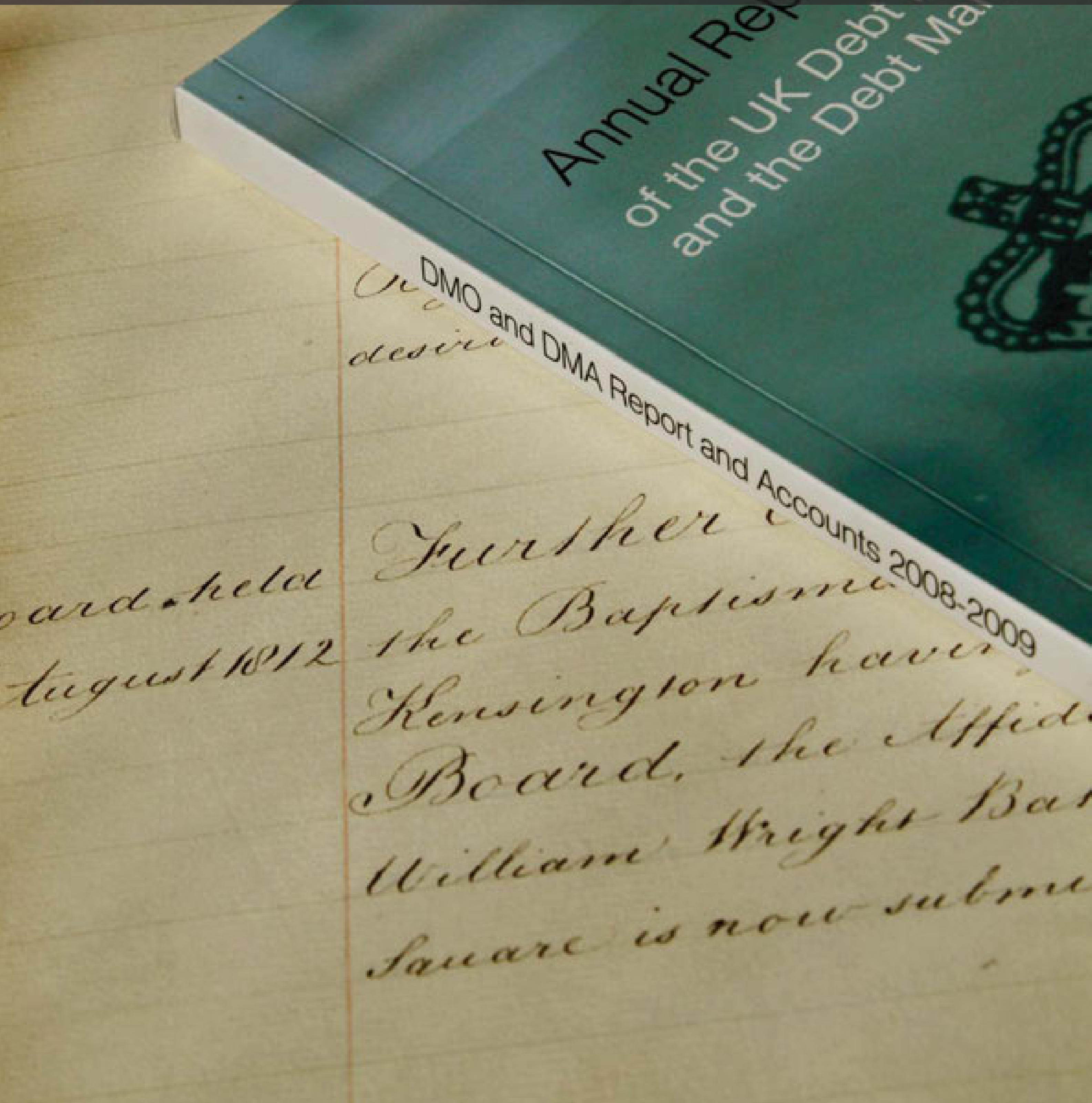
In summary, the DMO has performed strongly this year across its range of activities and operations. It is therefore with confidence that I can look forward to the challenges of 2012-2013.

Once again I would like to express my sincere appreciation to all DMO staff, to colleagues at HM Treasury and at the Bank of England, and to our market counterparties for their professionalism, commitment and hard work throughout the year. The success of the DMO would not have been possible without their collective contribution.

Robert Stheeman
Chief Executive
5 July 2012

Foreword

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.



Principal activities and history of the United Kingdom Debt Management Office

The DMO aims to be a centre of excellence for HM Treasury in the provision of policy advice on and the delivery of HM Government's financing needs and to act as a key gateway for HM Government to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objective of maintaining sound public finances.

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 responsibilities of the Chancellor and other HM Treasury Ministers, the Permanent Secretary to HM 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 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.

HM Treasury has specific objectives for debt management and cash management. The DMO is given annual remits by HM Treasury for its debt management and cash management. The remits are published in the Debt and Reserves Management Report, usually issued as part of the Budget announcements each spring. The DMO conducts its operations for the forthcoming financial year within the scope of these remits and in order to meet its specified objectives and targets.

Debt management

HM Treasury's debt management objective is "to minimise, over the long term, the cost of meeting the Government's financing needs, taking into account risk, whilst ensuring that debt management policy is consistent with the aims of monetary policy". The DMO advises HM Treasury on the development of an appropriate debt issuance strategy.

HM Government seeks to minimise the costs of servicing its debt over the long-term and tries to ensure that the chosen policy is robust in a wide range of economic conditions.

The composition of debt issued is the primary means by which HM Government adjusts the nature and maturity of its debt portfolio. In order to determine this composition, the Government takes into account, among other things, investor demand for gilts, its own appetite for risk, the shape of the yield curves and the expected effects of issuance.

The DMO's main debt management activity is the issue of gilt-edged securities (gilts) on behalf of the National Loans Fund (NLF). The DMO additionally issues Treasury bills.

The remit set by HM Treasury specifies the planned annual total of gilt sales in cash terms, the split between conventional and index-linked gilt sales and within conventional gilts the split by maturity band. The dates of scheduled outright auctions are also specified. The remit also provides the basis for the conduct of mini-tenders, syndications, post auction options, switch, conversion or buy-back operations in a particular year. The DMO decides the size of gilt auctions and the choice of gilts to be auctioned, together with the size and choice of gilts to be issued via syndications and mini-tenders in accordance with the terms set out in the remit for the year. The DMO also decides the size and maturity breakdown of Treasury bill tenders.

The DMO publishes Operational Notices describing how it acts in the gilts and sterling money markets – copies of these documents are available on the DMO website at www.dmo.gov.uk.

In addition to gilt issuance, the DMO contributes to the development of an efficient and liquid secondary market for gilts, by means that include

the stewardship of the Gilt-edged Market Makers (GEMMs) system.

Under an agreement with the DMO, GEMMs provide a secondary market in all non-rump gilts, and are the point of access for institutional investors who wish to take part in the DMO's gilt auctions.

For various operational reasons, the DMO may redeem gilt holdings bought from the market by selling them back to the NLF at market rates prior to maturity.

Cash management

The DMO's cash management objective is "to minimise the cost of offsetting the Government's net cash flows over time, while operating to a risk appetite approved by Ministers".

Meeting these net cash flow requirements for HM Government is achieved through a combination of regular weekly Treasury bill tenders and bilateral dealing with market counterparties.

The DMO's remit includes information on the planned approach to Treasury bill issuance and the planned stock of Treasury bills at the end of the financial year.

Gilt purchase and sale service

The DMO offers a gilt purchase and sale service to those registered on the approved group of investors database, maintained by Computershare Investor Services PLC, on behalf of the DMO. This service enables members of the public to undertake secondary market transactions in gilts, on an execution only basis.

Public Works Loan Board (PWLB)

The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

The operations of the PWLB (part of the former National Investment and Loans Office) have been integrated with the DMO since 1 July 2002.

The PWLB produces its own annual report and accounts.

Commissioners for the Reduction of the National Debt (CRND)

The principal function of the CRND is managing the investment portfolios of certain public funds.

The functions of the CRND (part of the former National Investment and Loans Office) have been carried out within the DMO since 1 July 2002.

Each fund produces its own annual accounts.

Hedging of NS&I's Guaranteed Equity Bonds

Since March 2002, National Savings & Investments (NS&I) has issued Guaranteed Equity Bonds to investors. On behalf of NS&I, the DMA hedges the equity index exposure resulting from the sale of these products by entering into derivative contracts with market counterparties to receive amounts based on equity index increases and pay amounts based on floating interest rates. Taking account of the position of both the DMA and NS&I, HM Government has no material exposure to equity index risk as a result of the issue of Guaranteed Equity Bonds.

Special Liquidity Scheme

On 21 April 2008, the Bank of England launched a scheme to allow banks to swap temporarily their high quality mortgage-backed and other securities for UK Treasury bills. The scheme was closed on 27 January 2012.

Discount Window Facility

On 20 October 2008, the Bank of England launched the Discount Window Facility as a permanent successor to the Special Liquidity Scheme. The purpose of the Discount Window Facility, is to provide liquidity insurance to the banking system. The DMO facilitates this operation by purchasing gilts issued by the NLF and lending them to the Bank of England when required.

Credit Guarantee Scheme

On 8 October 2008, HM Government announced the Credit Guarantee Scheme as part of a comprehensive package of measures to address the stress in the financial markets. The principle of the scheme is that HM Treasury guarantees debt issued by banks and building societies that meet prescribed criteria. The DMO administers this operation on behalf of HM Treasury. The financial guarantee liability and related fee income are recorded in HM Treasury's accounts.

National Loan Guarantee Scheme

On 29 November 2011, HM Government announced the National Loan Guarantee Scheme as part of a series of new initiatives aimed at helping UK small businesses. Under the scheme, HM Treasury guarantees debt issued by banks that meet prescribed criteria. Banks are then required to pass through the benefit of cheaper funding by way of loans to small businesses. The DMO administers this operation on behalf of HM Treasury. The financial guarantee liability and its related fee income form part of HM Treasury's Accounts.

Emissions Trading System

The EU Emissions Trading System allocates emissions 'allowances' to industry, which can then be traded. The DMO has been appointed by the Department of Energy and Climate Change (DECC) to conduct the auction of Phase II EU Allowances in the UK.

Relationship of the Debt Management Account to the National Loans Fund

The NLF is central government's principal borrowing and lending account and is administered by HM Treasury. The DMA's principal role is to meet the financing needs of the NLF. These include long-term requirements (debt management), short-term requirements, and day-to-day cash needs (cash management).

In its debt management role, the DMA issues gilts on behalf of the NLF. This requires the DMA to purchase newly created gilts from the NLF, which it then sells to the market. In this way, gilts issued are liabilities of the NLF and the responsibility for paying gilt coupons and redeeming the debt on maturity lies with the NLF. The DMA regularly undertakes secondary market gilt transactions in small volumes.

The DMA issues sterling Treasury bills as part of both its debt and cash management operations, however, this type of financial instrument may also be issued by the NLF in certain circumstances.

The DMA transacts with the financial markets, on behalf of the NLF, for the purpose of managing HM Government's cash requirements. In this role, the DMA undertakes day-to-day borrowing and lending with the market, largely in the form of Treasury bill issuance, sale and repurchase agreements (repos) and reverse sale and repurchase agreements (reverse repos). The repos and reverse repos of the DMA are usually collateralised with gilts. For this purpose the DMA holds a large gilt portfolio bought from the NLF.

The DMA actively manages its daily target float to ensure that the NLF holds no cash at the end of each day. This is the means by which the DMA balances the daily financing needs of the NLF. The DMA pays interest, at the Bank Rate, on any advance from the NLF. The DMA receives interest on any daily deposit made with the NLF at the same rate.

Under the terms of the Finance Act 1998, the NLF made a cash advance of £6 billion to the DMA at inception in order to establish the account. Subsequent cash advances and repayments have been made from time to time as required so that at 31 March 2011, the advance was £157 billion. By 31 March 2012, the advance had fallen to £52 billion. The decrease was principally due to the closure of the Special Liquidity Scheme.

While the DMA pays interest on funds advanced to it from the NLF at the Bank Rate, it receives interest from the gilts and Treasury bills purchased from the NLF. Changes in the advance from the NLF to the DMA are transactions internal to HM Government and do not constitute part of overall government borrowing.

Retained surpluses and deficits of the DMA are assets or liabilities of the NLF. In the case of a retained surplus, HM Treasury may make a payment from the DMA to the NLF (equal to all or part of the surplus) thereby reducing the liability of the DMA. In the case of a retained deficit, HM Treasury may make a payment to the DMA from the NLF (equal to all or part of the deficit).

Relationship of the Debt Management Account to the Commissioners for the Reduction of the National Debt

The Commissioners for the Reduction of the National Debt (CRND) is a statutory entity within the DMO that performs a fund management service for public sector clients.

The Secretary and Comptroller General of the CRND is also the Deputy Chief Executive of the DMO.

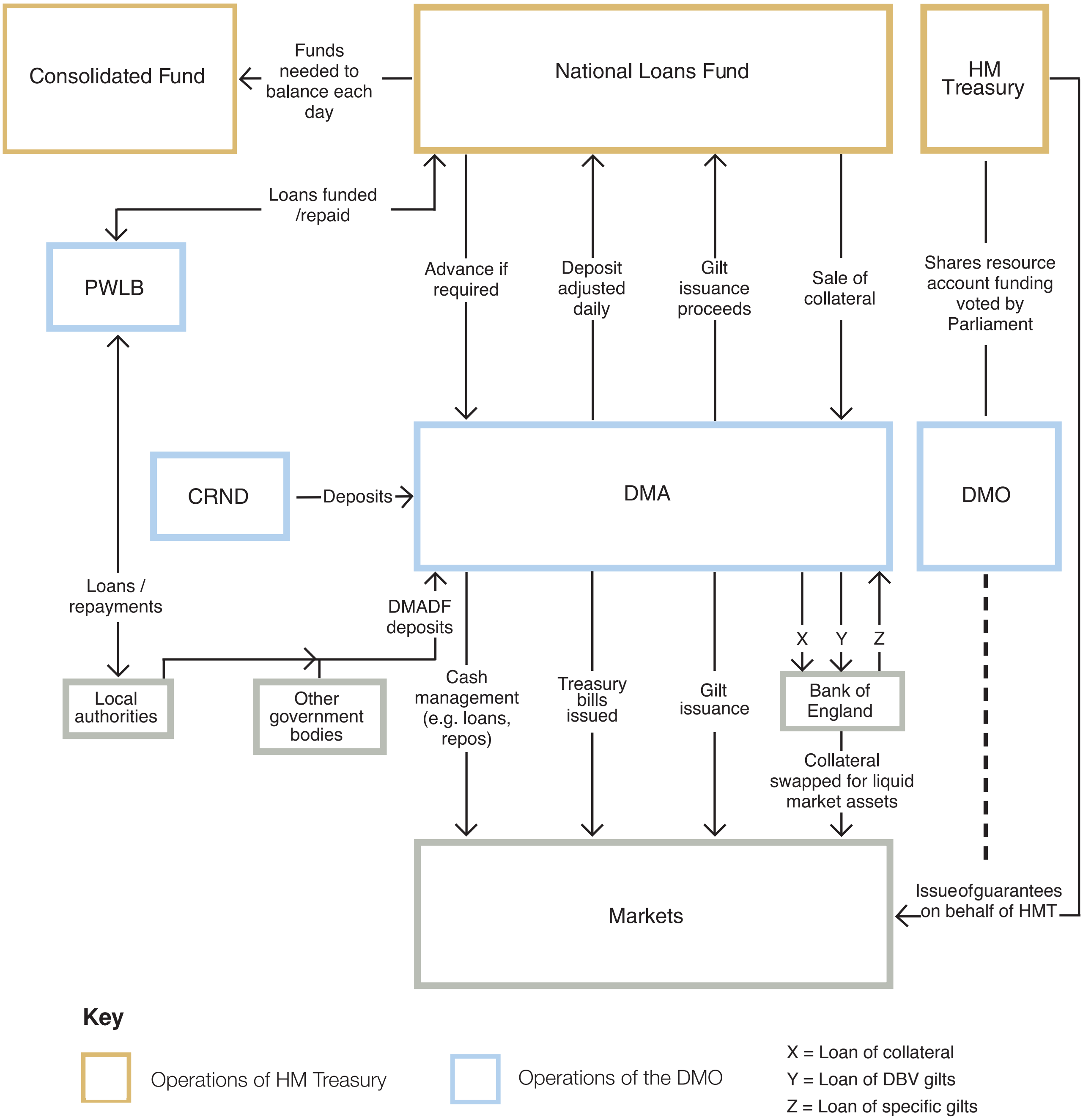
The CRND's client mandates authorise the investment of funds under management into gilts, deposits or both. In practice, the majority of CRND client funds are invested in short-term deposits with the DMA.

The DMA also transacts non-marketable gilts on behalf of the CRND's funds and trades these back-to-back with the NLF. These transactions are carried out on an arm's length basis and in line with a Memorandum of Understanding between the DMO and CRND.

The value of the CRND's deposits with the DMA at 31 March 2012 was £44.9 billion (31 March 2011: £49.3 billion).

Key relationships of the DMO and DMA

This diagram sets out the principal relationships of the DMO and DMA with other organisations and funds. It is intended for illustrative purposes only.



Note:

1) The DMO also uses the Bank of England for custody and settlement functions.

2) The DMA's loan of collateral to the Bank of England facilitates the Special Liquidity Scheme and Discount Window Facility.

Other organisational arrangements

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.

Employee relations

A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views 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 join a trade union of their choice.

Improving good practice and investment in people

The DMO was re-accredited as an Investor in People again in November 2011. The DMO's training and development policy aims to ensure that its staff have the right skills to meet its objectives. The DMO provides targeted training and support for professional studies to enhance the skills base of its employees.

Staff sickness absence

Recorded working days lost due to permanent DMO staff sickness absence in 2011-2012 were 601.5 or 2.5 per cent of the total available (2010-2011: 373.5 or 1.7 per cent of the total available).

Pension liabilities

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in the Remuneration Report on page 42 to 48. 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 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.

Supplier payment policy

All the DMO's supplier invoices are processed for payment by HM Treasury, which during the year was committed to the government-wide prompt payment target of 5 working days for all valid invoices not in dispute. The HM Treasury group applied this target to all suppliers irrespective of size and paid 93% of valid invoices within this target.

HM Treasury services

HM Treasury continues to provide several support services to the DMO, including purchase order processing, invoice processing and payment, payroll processing and some financial accounting services.

Sustainable development

The DMO exceeded the Government's objectives on Sustainable Development including the Prime Minister's 10% carbon reduction commitment across the Government estate which was announced in May 2010 (completed within 12 months) by achieving a 25.8% carbon reduction.

In 2010-2011, the DMO implemented:

- an energy reduction strategy, that uses calculated energy savings (in both monetary and CO_2 terms) against cost effective recommendations;
- a full recycling process.

Other initiatives were implemented that will reduce the DMO's energy use by a further 10%:

- enhanced lighting controls for offices and meeting rooms, including presence detectors and manual overrides;
- energy saving detectors for audio visual equipment; and
- replacement of inefficient lamps (tungsten) with energy efficient lamps (LEDs).

The DMO plans to, in co-operation with its landlord and other partners, initiate the following projects:

- monitoring targeted metering;
- voltage optimisation;
- power factor correction;
- landlord area lighting upgrades;
- spray taps and efficient hand driers;
- solar reflective film on windows;
- improving draught seals and insulation; and
- Air Handling Unit (AHU) heat recovery.

Auditors

The Comptroller and Auditor General is responsible for auditing the DMO and DMA accounts, as specified by the Government Resource Accounts Act 2000 and the National Loans Act 1968 respectively.

I have taken all of the necessary steps to ensure that the auditors are aware of any relevant information.

Reporting of personal data related incidents

The DMO had no protected personal data related incidents during 2011-2012, nor during any previous period.

Robert Stheeman
Chief Executive
5 July 2012


United Kingdom
Debt Management Office

Management commentary

In 2011-2012, the DMO successfully delivered a historically high-level of financing.

Review of activities in 2011-2012

2011-2012 was another successful year for the DMO, which met its debt and cash management remits, its strategic objectives and published targets. A full account of these is given on page 26 to 31.

Debt management

Debt issuance

In 2011-2012, the DMO again delivered a large gilt sales programme, as required to meet HM Government's financing requirement. The DMO's gilt sales target started the year at £169.0 billion, as announced in the Budget on 23 March 2011. This was later revised upwards to £178.9 billion at the Autumn Statement on 29 November 2011. This was the DMO's second largest gilt sales target, second only to the record £227.6 billion in 2009-2010. This challenging remit was successfully delivered, with overall gilt sales of £179.4 billion.

A total of 49 gilt auctions were held in 2011-2012, and the average release time for auction results fell to 5.0 minutes (2010-2011: 6.1 minutes). Gilt auctions remained the core of the financing programme, raising £142.5 billion (79.4%) of total gilt sales.

The DMO sold £34.4 billion of long-dated conventional and index-linked gilts in a programme of eight syndicated offerings in 2011-2012. Mini-tenders of gilts were used to support the syndication programme by providing operational flexibility to accommodate unexpected variances in the proceeds from individual syndications. In practice, as the sizes of some of the syndicated offerings were increased, mini-tenders were cancelled. Only three tenders were held, raising £2.6 billion (compared to original plans for approximately six tenders, expected to raise £4.6 billion).

The Post Auction Option Facility (POAF) continued to be available, through which successful bidders at gilt auctions had the right to acquire up to an additional 10% of their auction allocation between 12pm and 2pm on the day of the auction, at the average accepted/strike price of the auction. In 2011-2012 the PAOF was activated 29 times out of 49 auctions, raising an additional £5.8 billion.

The gilt issuance profile remained similar to that of 2010-2011. The need to deliver a large financing programme again led the DMO to plan the largest proportion of its issuance in the deepest and most liquid part of the market (and consequently that part with lowest execution risk), short-dated conventional gilts. The size and proportion of the short-dated conventional gilt programme was £60.6 billion (33.8%) in the remit for 2011-2012. This compared to £53.2 billion (32.0%) in 2010-2011. Index-linked gilt sales were also increased by £5.0 billion to a record amount of £39.0 billion. This constituted 21.7% of gilt sales, compared to 20.4% in 2010-2011.

Gilt market turnover and liquidity increased significantly compared to 2010-2011. Average daily turnover in the first three quarters of 2011-2012 was £27.6 billion, compared to £20.9 billion in the previous financial year, an increase of 32.6%. Maintaining market liquidity is a key factor in addressing the needs of a diversified investor base. 2011 saw a continuation of the trend of recent years, with another increase from £309.2 billion to £388.6 billion in the estimated value of gilts held by overseas investors, equivalent to 31% of available gilts.

The DMO received its remit for 2012-2013 on 21 March 2012, which showed planned gilt sales of £167.7 billion, a reduction of 6.5% on the total in 2011-2012. This remit was revised down on 24 April 2012 to £164.4 billion.

Gilt holdings

In addition to holding gilts for use as collateral in its cash management operations, as described in the section below, and for lending to the Bank of England to facilitate the Discount Window Facility, the DMA continues to hold relatively small portfolios of gilts for other purposes:

- Purchase and sale service (fair value of £13 million at 31 March 2012) - this portfolio of gilts is used for purchase and sale transactions with retail investors.
- Rump stocks (fair value of £6 million at 31 March 2012) - these are gilts in which the DMO will make a bid price upon request from a GEMM. GEMMs are not required to make a market in such gilts, due to the small nominal values outstanding.
- Other tradable gilts (fair value of £347 million at 31 March 2012) - this portfolio comprises a residual from each gilt auction. A small amount of each gilt auction may be retained due to rounding the allotment of gilts to successful bidders. Gilts are also retained in the case of an uncovered gilt auction. The portfolio may also include any gilts bought by the DMO in the secondary market for other reasons.

Cash management

During 2011-2012, the DMO continued to successfully meet its cash management remit against a backdrop of challenging money market conditions, which were influenced by factors including market concerns over the eurozone. To meet Exchequer borrowing needs, the DMO continued to raise cash principally through the sterling repo market, though there remained a strong market demand to buy Treasury bills at tender and through bilateral agreement. The Debt Management Account Deposit Facility (DMADF) continued to take cash deposits from local authorities and Government agencies, which can place surplus funds with the DMA for up to six months. Use of this facility increased during the year as a result of credit risk aversion among customers, although the level of deposits were significantly lower than during the 2008-2009 credit crisis.

Repos and reverse repos were the DMO's principal tools for carrying out its cash management operations. Throughout 2011-2012, the DMO held gilts for use as collateral in repo transactions. The collateral is held in the DMA on a continuing basis and has been purchased on various occasions since 3 February 2000. At 31 March 2012, gilts held specifically for use as cash management collateral had a carrying value of £99.7 billion.

The DMO's performance is monitored and assessed using a range of key performance indicators, details of which will be reported in the DMO Annual Review 2011-2012.

Hedging of NS&I's Guaranteed Equity Bonds

The DMA held a number of equity derivatives in the year. These had an aggregate nominal value of £229 million at 31 March 2012 (31 March 2011: £290 million). Both NS&I's equity index exposure and the DMA's hedge are reported at fair value on the respective statements of financial position. The net fair value of the derivatives in the DMA accounts was £17 million at 31 March 2012 (31 March 2011: £8 million).

PWLB

Throughout the year, the PWLB continued to provide local government capital finance and aimed to meet all local authorities' needs for long-term borrowing.

During this period, the PWLB agreed 477 applications for loans totalling £16.1 billion (2011: £5.3 billion). This increase in appetite for new advances by PWLB borrowers was principally due to the introduction of the Housing Self-financing scheme by the Department for Communities and Local Government (DCLG) from 1 April 2012. This required certain local authorities to pay a lump sum to DCLG, the funds for which could be borrowed from the PWLB. This resulted in an increase in fee income for the PWLB to £6 million (2011: £2 million).

In total, 310 local authorities applied for advances.

At 31 March 2012, the overall level of nominal debt outstanding to the PWLB amounted to £61.9 billion (31 March 2011: £53.1 billion).

Additional information on the PWLB's activities, including its Annual Report and Accounts and lending arrangements, can be found on the PWLB section of the DMO website (www.dmo.gov.uk).

CRND

During the year CRND continued to provide an efficient value for money service to its clients, with the main investment objectives being to maintain sufficient liquidity to meet withdrawals and to protect the capital value of the funds under management.

Special Liquidity Scheme

Since its launch by the Bank of England in April 2008, the DMO has supported the Special Liquidity Scheme by lending unsecured Treasury bills, which were issued by and bought from the NLF, to the Bank of England for a fee. The DMO established, and subsequently refreshed monthly, the stock of Treasury bills available for this scheme by purchasing specially created Treasury bills from the NLF in quantities informed by the Bank of England's estimates of future demand. Held by the DMA, the Treasury bills earn interest from the NLF. Treasury bills loaned to the Bank of England have been returned on or before the due date. By agreement with HM Treasury, stock lending fees received from the Bank of England, less recovery of costs to cover HM Treasury and DMO involvement in the scheme, have been shared between the DMA and the NLF.

The scheme closed on 27 January 2012 as the final Treasury bills on loan to the Bank of England were returned to the DMA. The DMA subsequently sold back to the NLF all its remaining stock of Treasury bills held to facilitate the Special Liquidity Scheme. As at 31 March 2012, the DMA held no Treasury bills for the purpose of providing collateral under the Special Liquidity Scheme (31 March 2011: £123.2 billion).

Discount Window Facility

Under the Discount Window Facility, the DMO may lend gilt-edged securities to the Bank of England, so that it may swap them with participating banks for eligible securities. In October 2008, gilts with a nominal value of £47.8 billion were created by the NLF and sold to the DMA for this purpose.

Credit Guarantee Scheme

The DMO administers the operational elements of the 2008 Credit Guarantee Scheme, on behalf of HM Treasury. This year, this has principally involved collecting fees payable by the participating banks, and accounting.

The related assets, liabilities and income arising from these guarantees are recorded in the accounts of HM Treasury.

National Loan Guarantee Scheme

The National Loan Guarantee Scheme was launched on 20 March 2012, aimed at helping businesses access cheaper finance by reducing the cost of bank loans. In the year, the DMO set up the processes required to administer this scheme on behalf of HM Treasury and worked with the participating banks to confirm that the debt instruments that they proposed to issue, in order to raise funds to finance loans under the scheme, met the legal and other requirements to qualify for a government guarantee.

The related assets, liabilities, income and expense arising from these guarantees are recorded in the accounts of HM Treasury.

Asset Purchase Facility

The DMO met the funding requirements of the Bank of England's Asset Purchase Facility. The Bank of England uses this facility to purchase high-quality private sector assets.

During 2011-2012, the DMA also lent gilts to the Bank of England in delivery by value (DBV) transactions, and borrowed specific gilts of the same value.

Emissions Trading System

During 2011-2012, the DMO conducted seven (2010-2011: eight) successful auctions of EU Allowances for carbon emissions. Phase II of the scheme concludes in December 2012.

The transactions are reported in the Trust statement prepared by the Department of Energy and Climate Change.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Achievements against objectives

HM Treasury Ministers set the DMO's objectives, which are published in the DMO's business plan and its Framework Document. The objectives for 2011-2012 and the DMO's performance against them is summarised below.

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

The DMO provided analysis and advice to HM Treasury in connection with the preparation of its financing remit for 2011-2012. The high financing requirement for the year, necessitated substantial programmes in all maturities and types of gilt. The analysis suggested that conditions for issuance in 2011-2012 would not be materially different from those in 2010-2011. In particular there was perceived to be ongoing structural demand from the UK pension and insurance industries for long-dated gilts and, in particular index-linked gilts, which it was judged to be cost-effective to meet. Ongoing interest was also identified from overseas investors for shorter dated gilts amidst ongoing volatility in international capital markets.

This backdrop led to a broadly similar financing remit structure as in 2010-2011 although, on cost effectiveness grounds, the proportion of short-dated conventional and index-linked gilts was increased and that of medium-and long-dated conventional gilts reduced. The core auction programme was again supported by supplementary distribution methods, namely syndicated offerings and mini-tenders, designed to facilitate a higher issuance of long-dated conventional and index-linked gilts than would have been possible by auctions alone. The proportion of total issuance planned via supplementary methods rose marginally to 21% (2010-2011: 20%). In addition, the Post-Auction Option Facility (POAF), under which successful bidders at auctions receive an option to buy up to 10% of their allocation in a period between 12 noon and 2.00pm on the day of the auction (at the average accepted/strike price of the auction) continued.

Planned gilt sales of £169.0 billion were announced in the DMO remit published alongside the Budget on 23 March 2011. This was an increase of £2.6 billion (1.5%) on the previous year's total. Planned issuance at auctions comprised £58.0 billion of short-dated conventional gilts, £34.9 billion of medium-dated conventional gilts, £37.7 billion of long-dated conventional gilts, and £38.4 billion of index-linked gilts. Issuance by syndicated offering was expected to raise £31.6 billion and mini-tenders £4.6 billion (all of long-dated conventional and index-linked gilts).

A small reduction to planned gilt sales of £1.5 billion (to £167.5 billion) was announced at the CGNCR outturn on 21 April 2011, but planned sales rose by £11.4 billion, to £178.9 billion, at the Autumn Statement on 29 November 2011.

The DMO successfully delivered the financing remit with gilt sales of £174.9 billion (slightly above the planned target, reflecting the impact of PAOF, the total proceeds of which were £5.8 billion in 2011-2012).

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

The DMO successfully delivered its cash management objectives for 2011-2012 despite ongoing challenging market conditions prevalent throughout the period.

The DMO monitored and assessed its overall performance in meeting HM Government's objectives in cash management using a number of key performance indicators.

A full account of cash management performance will be included within the DMO's Annual Review 2011-2012.

3. To provide advice and operational services to HM Treasury on issues relating to the management of HM Government's balance sheet.

DMO has continued to provide advice and analysis to HM Treasury to support the management of the wider balance sheet for HM Government, including in relation to the administration of HM Government's Credit Guarantee Scheme and the National Loans Guarantee Scheme.

4. To provide advice and operational services to HM Government's departments on whole markets-related issues and activities.

The DMO has continued to work with the Department for Energy and Climate Change (DECC) to implement the Government's sale by auction of EU allowances in the UK for Phase II of the EU Emission Trading Scheme (EU ETS). The DMO successfully conducted seven EU ETS auctions in 2011-2012, one fewer than in 2010-2011.

5. To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.

The DMO continued to provide a cost-effective service to client funds through the Commissioners for the Reduction of the National Debt (CRND). The DMO charged £0.6 million in 2011-2012 for services relating to the management of funds with a value of £45.3 billion at 31 March 2012.

6. To provide a cost-effective lending service to local authorities through the Public Works Loan Board.

The Public Works Loan Board (PWLB) agreed £16.1 billion of new loans to borrowers in 2011-2012 (including £13.0 billion in connection with the Housing Self-financing transaction). The operating cost of the PWLB in 2011-2012 is disclosed in the Accounts of the DMO, note 6, on page 76. Full details of the PWLB's operations appear in the PWLB's Report and Accounts 2011-2012.

7. To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.

During 2011-2012, the average number of whole-time equivalent persons employed by the DMO was 117, of which 84 were permanent civil servants and 33 were interim staff either employed via a recruitment agency or on a fixed term contract basis.

The DMO was re-accredited as an "Investor in People" in November 2011 and continues to work towards maintaining this status.

The DMO's training programme, complemented by additional specialist and individual training and support for ongoing professional studies, continues to maintain and enhance the skills base of its employees to the required level.

8. To manage, operate and develop an appropriate risk and control framework.

The DMO continued to operate an effective risk and control framework throughout the year as detailed in the governance statement on pages 52 to 61.

Performance against targets

1. To ensure full compliance with HM Government's remit for the DMO (which is set out in the Debt and Reserves Management Report 2011-2012).

Achieved. The DMO complied fully with the financing remit in 2011-2012.

The gilt sales outturn was £179.4 billion (cash) relative to the revised target of £178.9 billion, as restated at the Autumn Statement 2011. Sales were achieved through the conduct of 49 auctions (34 conventional and 15 index-linked), 8 syndicated offerings and 3 mini-tenders. All syndications and mini-tenders were of long-dated conventional gilts or index-linked gilts.

Outright gilt sales of £169.0 billion were planned for 2011-2012, as announced at the Budget in March 2011. This comprised a programme of £132.8 billion via 47 auctions and a supplementary distribution programme including £31.6 billion via syndication (via up to 8 syndicated offerings) and £4.6 billion via mini-tenders. In addition, the use of the Post Auction Option Facility was continued. The gilt sales requirement was reduced by £1.5 billion to £167.5 billion on 21 April 2011, reflecting the outturn Central Government Net Cash Requirement for 2010-2011.

The gilt sales requirement later rose by £11.4 billion to the final revised target of £178.9 billion, as a result of the revision to the fiscal aggregates announced by the Office of Budgetary Responsibility at the Autumn Statement in November 2011. Two additional gilt auctions were therefore scheduled (one short-dated and one medium-dated conventional gilt auction). The evolution of planned and actual issuance by maturity and type through 2011-2012 is presented in the table below.

The auction results throughout the year were satisfactory and were achieved against a back-drop of challenging market conditions. Cover, the ratio of the total amount of bids to the amount of gilts on offer at an auction, ranged from 2.26 at the auction of 4¼% Treasury Gilt 2039 on 13 October 2011 to 1.25 at the auction of 5% Treasury Stock 2025 on 4 May 2011. The average cover ratio was 1.83 compared to 1.93 in 2010-2011.

There were no credit breaches during the financial year.

2011-2012 Gilt sales

	Conventional gilts (£bn)			Index-linked gilts (£bn)	Total (£bn)
	Short-term	Medium-term	Long-term		
Remit	58.0	34.9	37.7	38.4	169.0
April revision	57.4	34.7	37.4	38.0	167.5
Autumn Statement	60.6	39.8	39.5	39.0	178.9
Gilt sales at 31 March 2012	**60.6**	**40.1**	**39.7**	**39.0**	**179.4**

2. To ensure that the maximum time taken to issue the results of gilt operations, Treasury bill tenders and ETS auctions does not exceed 15 minutes – with the aim of publishing the results within 10 minutes of the close of offer whilst achieving complete accuracy.

Achieved. The release times for the 49 auctions held during the financial year ranged from 3 to 9 minutes and averaged 5 minutes (2010-2011: 6 minutes).

The release times for the three mini-tenders held during the year ranged from 4 to 8 minutes and averaged 6 minutes.

The release time for the 7 EU ETS auctions held during the financial year ranged from 5 to 9 minutes and averaged 7 minutes.

The release time for the 51 weekly Treasury bill tenders conducted during the financial year ranged from 4 to 10 minutes and averaged 6 minutes.

There were no ad hoc or other Treasury bill tenders.

Date	Gilt	Proceeds (£m)	Release time (mins)
5 Apr 11	3¾% Treasury Gilt 2021	3,766	5
6 Apr 11	1 1/8% Index-linked Treasury Gilt 2037	1,248	6
13 Apr 11	2% Treasury Gilt 2016	4,862	5
14 Apr 11	4¼% Treasury Gilt 2040	1,975	6
19 Apr 11	0½% Index-linked Treasury Gilt 2050	997	6
4 May 11	5% Treasury Stock 2025	3,653	6
10 May 11	1 7/8% Index-linked Treasury Gilt 2022	1,697	4
12 May 11	4¼% Treasury Gilt 2040	2,207	6
19 May 11	2¼% Treasury Gilt 2014	5,106	8
24 May 11	0¾% Index-linked Treasury Gilt 2034	3,462	n/a*
2 Jun 11	3¾% Treasury Gilt 2021	3,707	4
7 Jun 11	0 5/8% Index-linked Treasury Gilt 2040	1,086	4
15 Jun 11	4¼% Treasury Gilt 2027	2,549	5
21 Jun 11	2% Treasury Gilt 2016	4,757	6
23 Jun 11	0½% Index-linked Treasury Gilt 2050	494	4
28 Jun 11	4% Treasury Gilt 2060	4,836	n/a*
5 Jul 11	3¾% Treasury Gilt 2021	3,643	5
6 Jul 11	1¼% Index-linked Treasury Gilt 2027	1,461	4
14 Jul 11	4¼% Treasury Gilt 2040	2,206	6
19 Jul 11	2% Treasury Gilt 2016	5,146	5
26 Jul 11	0¾% Index-linked Treasury Gilt 2034	4,136	n/a*
2 Aug 11	4¼% Treasury Gilt 2034	2,163	5
11 Aug 11	0 5/8% Index-linked Treasury Gilt 2042	1,031	6
18 Aug 11	1¾% Treasury Gilt 2017	4,789	5
23 Aug 11	1 7/8% Index-linked Treasury Gilt 2022	1,493	6
1 Sep 11	3¾% Treasury Gilt 2021	3,256	5
6 Sep 11	4¾% Treasury Gilt 2030	1,185	8
15 Sep 11	0¾% Index-linked Treasury Gilt 2047	1,142	5
22 Sep 11	1¾% Treasury Gilt 2017	4,977	5
27 Sep 11	3¾% Treasury Gilt 2052	4,483	n/a*
4 Oct 11	3¾% Treasury Gilt 2021	4,053	5
11 Oct 11	1 1/8% Index-linked Treasury Gilt 2037	1,303	4
13 Oct 11	4¼% Treasury Gilt 2039	2,483	5
20 Oct 11	1¾% Treasury Gilt 2017	4,933	5
25 Oct 11	0 3/8% Index-linked Treasury Gilt 2062	4,259	n/a*
3 Nov 11	4¼% Treasury Stock 2032	2,345	5

Date	Gilt	Proceeds (£m)	Release time (mins)
8 Nov 11	0 5/8% Index-linked Treasury Gilt 2040	1,197	4
17 Nov 11	5% Treasury Gilt 2018	4,856	9
22 Nov 11	0 1/8% Index-linked Treasury Gilt 2029	3,518	n/a*
1 Dec 11	3¾% Treasury Gilt 2021	3,688	5
6 Dec 11	4¼% Treasury Gilt 2040	2,269	5
7 Dec 11	1¼% Index-linked Treasury Gilt 2032	1,315	4
14 Dec 11	4% Treasury Gilt 2022	3,837	4
15 Dec 11	1¾% Treasury Gilt 2017	4,123	4
20 Dec 11	4¼% Treasury Gilt 2027	906	5
4 Jan 12	1¾% Treasury Gilt 2017	4,252	4
10 Jan 12	0¾% Index-linked Treasury Gilt 2047	1,118	4
11 Jan 12	3¾% Treasury Gilt 2021	3,758	8
19 Jan 12	4% Treasury Gilt 2016	4,706	4
24 Jan 12	3¾% Treasury Gilt 2052	5,351	n/a*
1 Feb 12	5% Treasury Stock 2025	3,564	4
2 Feb 12	0 1/8% Index-linked Treasury Gilt 2029	1,324	4
7 Feb 12	1¾% Treasury Gilt 2017	4,116	5
16 Feb 12	4½% Treasury Gilt 2034	2,138	5
21 Feb 12	0 3/8% Index-linked Treasury Gilt 2062	4,307	n/a*
1 Mar 12	4% Treasury Gilt 2022	3,197	4
6 Mar 12	0¾% Index-linked Treasury Gilt 2034	1,201	4
7 Mar 12	1% Treasury Gilt 2017	3,957	3
15 Mar 12	4½% Treasury Gilt 2042	2,642	4
22 Mar 12	0 5/8% Index-linked Treasury Gilt 2042	1,183	4
		179,412	

*Operations for which the release time is shown as n/a were syndications, which are not included in the release target.

3. To achieve accuracy, within agreed tolerances, in the recording and reporting of transactions through the DMA, and meeting the required deadlines for the publication and submission for audit of the annual reports of the DMO, DMA, the PWLB and CRND.

Achieved. Management accounts and other internal control procedures did not identify any significant errors. The Comptroller and Auditor General certified that the 2010-2011 financial statements of the DMO, the DMA, the PWLB, and the CRND investment accounts each gave a true and fair view.

The Annual Report and Accounts of the DMO and DMA were laid before Parliament on 18 July 2011. The relevant Annual Report and Accounts of the other entities were also laid.

4. To ensure that the DMO responds to enquiries under the Freedom of Information Act within the statutory timeframe.

Achieved. All of the DMO's responses to Freedom of Information Act requests were within the statutory 20 day limit.

5. To avoid breaches of the DMO's operational market notices.

Not achieved. There was one minor technical breach of the cash management operational market notice in 2011-2012. Appropriate steps have been taken to minimise the risk of reoccurrence.

6. To ensure that, for cash management purposes, target weekly balances and expected daily variations are notified according to the agreed schedule.

Achieved. All weekly targets were notified to the Bank of England according to the agreed schedule.

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

Achieved. 99.8% of trades were successfully settled on the due date. During the year, trades with a total value of £6,621 million (0.21%) failed as a result of external circumstances outside the DMO's control. Most failed trades were due to market counterparties having insufficient securities to meet their traded obligations, but one trade failed due to DMO processing failures (0.008% by value).

8. To ensure factual accuracy in the publication of all market sensitive data and to make announcements in a timely manner.

Not achieved. The target to make announcements in a timely manner was successfully achieved on all but one occasion, where details of an auction size were published 5 minutes late on the wire services. The press notice and web notice went out on time as scheduled. The target to ensure factual accuracy was not achieved. There were a total of eight errors in the financial year, comprising six website errors and two errors in published material.

Appropriate steps have been taken to minimise the risk of reoccurrence.

9. To process all loan and early settlement applications from local authorities within two working days (between the date of the agreement and the completion of the transaction).

Achieved. During 2011-2012, all loan or early settlement applications from local authorities were processed within two working days.

10. To ensure that the gilts purchase and sales service is operated according to its published terms and conditions.

Achieved. The gilt purchase and sale service during 2011-2012 was conducted fully in line with its terms and conditions, with no exceptions. The pattern of sales and purchases through the financial year is shown in the following table.

	Sales	Purchases	Aggregate retail sales	Aggregate retail purchases
	(transactions)	(transactions)	£m	£m
Apr-Jun 2011	1,015	285	9.4	5.6
Jul-Sep 2011	1,142	2,027	18.7	58
Oct-Dec 2011	928	305	21.5	12.2
Jan-Mar 2012	1,093	1,839	15.5	40.1
Total	**4,178**	**4,456**	**65.1**	**115.9**

11. To administer the Credit Guarantee Scheme on behalf HM Treasury in accordance with the relevant Scheme's published rules.

Achieved. The Credit Guarantee Scheme was administered by the DMO fully in accordance with the scheme's published rules.

Financial results of the United Kingdom Debt Management Office

The DMO is financed through an allocation of HM Treasury's net funding approved by Parliament.

The DMO's net operating cost for 2011-2012 was £11.3 million (2010-2011: £14.7 million). This decrease of £3.4 million is due to:

	£m
Increase in gross administration costs	0.1
Increase in administration income	(3.5)
Increase in gross programme costs	0.3
Increase in programme income	(0.3)
	(3.4)

These changes are explained below.

Administration

Administration expenditure primarily includes payroll and staff-related costs, IT infrastructure, accommodation, business services and depreciation.

During 2011-2012, **gross administration expenditure** amounted to £14.9 million (2010-2011: £14.8 million). The **increase of £0.1 million** is the result of a net increase in staff costs due to reduced capitalisation and higher support costs for the successful delivery of new initiatives such as the National Loans Guarantee Scheme. This increase is partly off-set by reduced expenditure on other administration costs, particularly lower depreciation charges that resulted from the review and revision of the useful economic lives of all fixed assets held at 31 March 2011.

Parliament approves an annual limit on income that the DMO may off-set against its gross expenditure. This income is known as appropriations-in-aid. Income received by the DMO principally comprised fees charged for issuing new loans to PWLB customers and for the provision of fund management services to other Government clients of CRND. In addition, the DMO recovered costs associated with various other activities it undertakes on behalf of others, including acting as an agent for the Department of Environment and Climate Change (DECC) for auctions of allowances under the Emissions Trading Scheme.

During 2011-2012, **administration income increased by £3.5 million** to £7.0 million (2010-2011: £3.5 million).The main reason for this increase was a Housing Self-financing initiative funded by the PWLB. During the year, PWLB worked with the Department for Communities and Local Government (DCLG) on a plan to reduce council housing subsidy with self-financing housing revenue accounts. This plan involved re-allocating the debt of local housing authorities, which required PWLB to process a large number of loan repayments and the advance of new loans for settlement on 28 March 2012. The operation resulted in a net increase of £8 billion in the total outstanding local authority debt position with PWLB and the amount of new lending associated with the initiative generated fee income of £4.5 million.

Secondment income recovered from HM Treasury and recharges to Gilt Edged Market Makers reduced to zero in 2011-2012 as the associated staff employment arrangements and the shared usage of an information network ended during the final quarter of 2010-2011. Costs recovered from the Bank of England for the running of the Special Liquidity Scheme and from DECC in support of the Emissions Trading Scheme also reduced as the level of administrative support required to provide operational needs declined.

Programme

Programme expenditure covers the DMO's trading and gilt issuance activities. These include settlement and custodial charges, brokerage fees and the cost of acting as an agent for the National Loans Fund (NLF) in issuing government backed securities.

During 2011-2012, **gross programme expenditure increased by £0.3 million** to £4.8 million (2010-2011: £4.5 million). This movement was principally due to DMO's increased level of trading activity over the course of the financial year.

The DMO also has Parliamentary approval to off-set programme expenditure with associated income. During 2011-2012, the DMO received £1.4 million (2010-2011: £1.1 million) of **programme income**, an **increase of £0.3 million**. This is due to higher commission received from Computershare Investor Services for secondary market trading activity in the gilt purchase and sale service.


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Financial results of the Debt Management Account

Income statement

The DMA's operations for the financial year 2011-2012 gave rise to **net interest income of £5,011 million** (2011: £5,119 million), **other gains of £1 million** (2011: other losses of £3 million), and **fee income** of **£5 million** (2011: £44 million). This resulted in an **income statement surplus for the year of £5,017 million** (2011: £5,160 million). **Net unrealised gains on investment securities recorded in the revaluation reserve were £13,202 million** (2010: net unrealised gains of £1,642 million).

Net interest income £5,011m

	£m
Income net of associated cost of funds	
Cash management (excluding non-interest gains and losses)	64
Facilitation of HM Treasury and Bank of England schemes	
Gilts held for the Discount Window Facility	1,717
Treasury bills held for the Special Liquidity Scheme	137
Other interest income	
Collateral pool	3,439
Deposit at National Loans Fund (part not allocated as cost of funds)	272
Other	15
Other interest expense	
Deposits from CRND funds	(225)
Treasury bills issues	(300)
Advance from National Loans Fund (part not allocated as cost of funds)	(108)
	5,011

Net interest income was generated mainly by the DMA's holding of **collateral gilts** for cash management operations (£3,439 million) and involvement in the **Discount Window Facility** (£1,717 million) and the **Special Liquidity Scheme** (£137 million). These holdings resulted in net interest income because interest income on gilts and Treasury bills, for use as collateral or for lending to the Bank of England to facilitate the Discount Window Facility or the Special Liquidity Scheme was greater than the interest expense on the liabilities that funded these assets.

Interest income from the DMA's gilts and Treasury bills reflected the yields available when they were purchased from the NLF. The Bank Rate was 5.25 per cent when the DMA purchased the majority of the Discount Window Facility gilts and was significantly higher than the present Bank Rate when the DMA purchased the majority of the collateral gilts, so their yields reflected relatively high prevailing market rates. The Treasury bills for the Special Liquidity Scheme were replaced every nine months, so their yields reflected the prevailing rates of the previous nine months.

These asset yields were greater than the average rates that the DMA paid on the corresponding liabilities during 2011-2012. The DMA funds its purchase of such gilts and Treasury bills with an advance from the NLF, which incurs interest at the Bank Rate. The Bank Rate decreased to 0.5 per cent on 5 March 2009, and remained at this historic low level throughout 2011-2012.

The total carrying value of these collateral gilts for cash management and Discount Window Facility gilts at 31 March 2012 was £149,166 million (31 March 2011: £249,976 million). All Special Liquidity Scheme Treasury bills had been cancelled by 31 March 2012, following the closure of the scheme on 27 January 2012.

Interest income was also generated by the **deposit at the NLF**, which earned interest at the Bank Rate, and by **loans and advances to banks**, which yielded money market rates. Interest expense was also generated by **deposits taken from other government departments**, which incurred interest at rates related to the Bank Rate, by **deposits by banks**, and by **Treasury bills in issue**, which generally incurred money market rates.

The DMO uses gilt collateral for its cash management operations. The amount of collateral required is influenced by the daily cash requirements of HM Government and the transactions undertaken by the DMO to satisfy these requirements. The size and composition of the DMA's statement of financial position during the year, and the maturity of the DMO's money market transactions, are influenced by the seasonal pattern of HM Government's cash flows.

Relative to HM Government's marginal cost of funds, cash management operations achieved a net interest surplus. Details of the DMO's cash management performance can be found in the DMO Annual Review 2011-2012.

The DMA did not seek to achieve a particular yield by timing its purchases of gilts and Treasury bills, for use as collateral or for lending to the Bank of England to facilitate the Discount Window Facility or Special Liquidity Scheme. Similarly, the DMA also did not seek to affect its funding rate – it incurred the Bank Rate on its advance from the NLF. As a result, the net interest income from these operations did not reflect the performance of the DMA. In addition, both the interest income and the interest expense which arose from these operations were internal to Government, so HM Government incurred net interest income of zero from these operations.

Other gains and losses £1m gain

The DMA holds derivatives to hedge foreign exchange risk and HM Government's exposure to equity index risk relating to Guaranteed Equity Bonds issued by National Savings & Investments (NS&I). Valuation changes net of realised gains on the equity index / interest rate derivatives used for hedging the Guaranteed Equity Bonds resulted in net income of £3 million (2011: £6 million) in the DMA, largely due to a rise in the FTSE 100 index in the year to 31 March 2012. The gain incurred by the DMA is mirrored by higher borrowing costs incurred by NS&I. Taking account of the positions of both the DMA and NS&I, HM Government incurred no material gain or loss.

The DMA holds gilts and Treasury bills as collateral. Disposal of these assets resulted in £1 million of net expense in the year (2011: less than £1 million of net income). The DMA also holds assets as part of its cash management operations. Changes in the value of these assets resulted in net expense of £1 million (2011: net expense of £9 million).

Unrealised gains on investment securities due to revaluation £13,202m

Falling yields on gilts, held by the DMA for use as collateral in its cash management operations and for use in the Discount Window Facility reflected the increase in value of these instruments. Demand for HM Government gilts increased as a result of improved sentiment about the UK credit rating relative to its peers, as well as other economic factors. This increased demand for HM Government gilts caused the price of these instruments to increase.

Because of their classification as investment securities available-for-sale, changes in the fair value of the gilt collateral pool and Discount Window Facility gilts are not reflected as gains and losses in the income statement, but in the revaluation reserve. During 2011-2012, the revaluation reserve increased by £13,202 million (2011: £1,642 million).

Fee income £5m

The DMA earned fee income in 2011-2012 of £5 million (2011: £44 million) from activities that included lending Treasury bills to the Bank of England to facilitate the Special Liquidity Scheme.

Composition of the statement of financial position

Investment securities classified as available-for-sale had a fair value of £149,166 million at 31 March 2012 (31 March 2011: £249,976 million). This decrease was principally due to the sale of all outstanding holdings of Special Liquidity Scheme Treasury bills following the closure of the scheme on 27 January 2012. At 31 March 2012, the DMA's remaining investment securities comprised gilts held as collateral and gilts held to facilitate the Discount Window Facility.

These assets continued to be funded in part by the advance from the NLF to the DMA. As at 31 March 2012, the carrying value of the NLF advance was £52,042 million (31 March 2011: £157,100 million).

The lending and borrowing that the DMA engaged in, as part of its cash management operations, varied in response to the funding requirements of the National Loans Fund, which reflect HM Government's daily cash flows. Loans and advances to banks, securities held for trading, and deposits by banks are particularly affected in this respect. As at 31 March 2012, securities held for trading were £5,953 million (31 March 2011: £3,313 million), loans and advances to banks were £36,577 million (31 March 2011: £17,324 million), and deposits by banks were £20,013 million (31 March 2011: £10,988 million).

Issuance of Treasury bills by the DMA

During the year, the DMA issued Treasury bills with a nominal value of £241.3 billion (2011: £214.4 billion) of which £70.4 billion was still in issue at 31 March 2012 (31 March 2011: £63.6 billion). Such Treasury bills had a carrying value of £75.9 billion (31 March 2011: £63.6 billion). This change was planned in order for the DMO to meet its remit for 2011-2012.

Treasury bills sold by the NLF to the DMA for use in the Special Liquidity Scheme, prior to its closure on 27 January 2012, are not included in the issuance figures above.

Forward look

Vision statement

The DMO aims to be a centre of excellence for HM Treasury in the provision of policy advice on and the delivery of the Government's financing needs and to act as a key gateway for Government to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objective of ensuring sustainable public finances.

The DMO's key business planning themes for 2012-2013

The key business planning themes for 2012-13 remain consistent with previous years. The plan is primarily focused on the continued delivery of the DMO's debt management, cash management, fund management, local authority lending and other functions to the highest standards of quality and cost-effectiveness. We fully recognise that the effective delivery of these functions and services is our overriding objective and intend to allocate our resources, skills, systems and development activities accordingly.

The DMO's key themes for 2012-2013

1. Delivery of the debt management remit - which comprises gilt sales of £164.4 billion to be delivered through a minimum of 53 gilt market operations

2. To act on behalf of HM Treasury to effect the cancellation of gilts held by the Department for Business, Innovation and Skills following their transfer from the Royal Mail Pension Plan to the Government.

3. Delivery of the cash management remit – which will require handling the cash consequences of, among other things, the gilt and Treasury bill programme in as an efficient and cost-effective way as possible.

4. Continuing to consult and liaise with key stakeholders – and in particular the Gilt-Edged Market Makers - in the financial markets in which the DMO has an interest; and to consider further developments, innovations and enhancements to facilitate the effective delivery of the debt and cash management remits. In this respect, the DMO will be launching a market consultation on the case for the issuance of gilts with maturities longer (and potentially significantly longer) than those currently in issue (ie in excess of 50 years) and/or perpetual gilts.

5. The DMO will continue to maintain close contact with the Bank of England on operational matters pertaining to the Asset Purchase Facility.

6. Managing the administration of the National Loan Guarantee Scheme which was launched in March 2012.

7. Continuing to manage the administration of the Credit Guarantee Scheme.

8. Continuing to manage the gilt registration contract with Computershare Investor Services PLC on behalf of HM Treasury and preparing for the re-tendering of the contract.

9. Continuing to minimise operational risk by ensuring the DMO's business operations are fully supported by resilient and efficient systems and processes.

10. Continuing to seek out operational process efficiencies with the intention of further reducing cost and risk.

11. Continuing to monitor the resource and skills required to deliver the DMO's array of objectives within the Spending Review 2010 budget settlement agreed with HM Treasury.

12. In line with our commitment to Investors in People status, for which the DMO was re-accredited for a further three years in 2011, we will continue to manage and develop our staff to achieve their professional potential and support the objectives of the office.

The DMO's objectives for 2012-2013

The DMO's objectives for 2011-2012 are set out in the published business plan which is available on the DMO website at www.dmo.gov.uk.

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

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

3. To provide advice and operational services to HM Treasury on issues relating to the management of the Government's balance sheet.

4. To provide advice and operational services to government departments on wholesale markets-related issues and activities.

5. To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.

6. To provide a cost-effective lending service to local authorities through the Public Works Loan Board.

7. To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.

8. To manage, operate and develop an appropriate risk and control framework.

Planning uncertainties

In view of the size and scale of the debt and cash management remits and market conditions, the DMO will need to retain the flexibility and capability to adapt quickly to changing market and other conditions and, where necessary, re-order priorities in the plan.

The DMO's operational targets for 2012-2013

1. To ensure full compliance with HM Government's remit for the DMO (which is set out in the Debt and Reserves Management Report 2012-13).

2. To ensure that the maximum time taken to issue the results of gilt operations, Treasury bill tenders and ETS auctions does not exceed 15 minutes – with the aim of publishing the results within 10 minutes of the close of offer - whilst achieving complete accuracy.

3. To achieve accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and meeting the required deadlines for the publication and submission for audit of the annual reports of the DMO, DMA, the PWLB and CRND.

4. To ensure that the DMO responds to enquiries under the Freedom of Information Act within the statutory timeframe.

5. To avoid breaches of the DMO's operational market notices.

6. To ensure that, for cash management purposes, target weekly balances and expected daily variations are notified according to the agreed schedule.

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

8. To ensure factual accuracy in the publication of all market sensitive data and to make announcements in a timely manner.

9. To process all loan and early settlement applications from local authorities within two working days (between the date of the agreement and the completion of the transaction).

10. To ensure that the gilts purchase and sales service is operated according to its published terms and conditions.

11. To administer the Credit Guarantee Scheme on behalf of HM Treasury in accordance with the Scheme's published rules.

12. To administer the National Loan Guarantee Scheme on behalf of HM Treasury in accordance with the Scheme's published rules.

Remuneration report

This report provides details of senior management contracts, remuneration and pension entitlement.

Remuneration report

The DMO has a Pay Committee, which during 2011-2012 comprised:

- **Robert Stheeman**
  Chief Executive (Chair)
- **Jo Whelan**
  Deputy Chief Executive and Joint Head of Policy and Markets
- **Jim Juffs**
  Chief Operating Officer
- **Joanne Perez**
  Joint Head of Policy and Markets
- **Brian Larkman**
  Non-executive director
- **Brian Duffin**
  Non-executive director

The Pay Committee is responsible for overseeing the DMO's delegated pay arrangements and ratifying the DMO's Pay Remit submission to HM Treasury and its subsequent implementation. Pay progression takes into account individual performance, job size, external market comparators and public sector pay policy and affordability.

Remuneration policy

Senior DMO staff

The Chief Executive is a member of the Senior Civil Service, employed by HM Treasury and included in HM Treasury's appraisal arrangements. Remuneration is set by HM Treasury in accordance with the Senior Salaries Review Body's Report.

Further information about the work of the Review Body can be found at www.ome.uk.com.

Salaries of the Deputy Chief Executive, Chief Operating Officer and Joint Head of Policy and Markets are set internally in accordance with DMO's delegated pay arrangements by the Chief Executive and the non-executive directors.

Non-executive directors

The Chief Executive, in discussion with the Deputy Chief Executive, Chief Operating Officer and Joint Head of Policy and Markets, determines the remuneration of the non-executive directors. Remuneration is reviewed annually taking account of external market comparators as well as public sector pay policy and affordability, but the DMO reserves the right not to make adjustments.

Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this Report hold appointments that are open-ended. Compensation for early termination, other than for misconduct, would be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

Senior DMO staff

The Chief Executive's appointment was for an initial 3 year fixed term period. This has been extended four times for a further fixed term period, currently until 31 December 2014. The contract is subject to a 3 month notice requirement.

The appointments of the Deputy Chief Executive, the Chief Operating Officer and Joint Head of Policy and Markets have been made in accordance with the provisions of the Civil Service Commissioners' Recruitment Code. The employment contract for each requires a 3 month termination period.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommission.org.uk.

Non-executive directors

Brian Larkman was originally contracted for an initial 3 year period from 1 January 2005. Upon completion, his contract was extended to 31 December 2010 and has been further extended for an additional 3 year term to 31 December 2013.

Brian Duffin commenced his employment as a non-executive director on 1 January 2010. His contract is for a 3 year period, which finishes on 31 December 2012.

The employment contracts for both Brian Larkman and Brian Duffin are subject to a 5 week early termination notice period. Contracts will automatically terminate on the date stated unless an extension has been agreed. As office holders there is no provision for compensation for early termination.

Remuneration received

	2011-2012 Salary £000	2011-2012 Performance related payments £000	2010-2011 Salary £000	2010-2011 Performance related payments £000
Senior DMO staff				
Robert Stheeman - Chief Executive	140-145	10-15	140-145	10-15
Jo Whelan - Deputy Chief Executive and Joint Head of Policy and Markets *	100-105	10-15	100-105	5-10
Full time equivalent salary	*135-140*		*135-140*	
Jim Juffs - Chief Operating Officer	130-135	15-20	130-135	15-20
Joanne Perez – Joint Head of Policy and Markets **	60-65	5-10	65-70	5-10
Full time equivalent salary	*125-130*		*125-130*	
Non-executive directors				
Brian Larkman				
- salary	20 -25	-	20-25	-
- other contractual remuneration***	-	-	5-10	-
Brian Duffin				
- salary	15-20	-	15 -20	-
- other contractual remuneration****	0-5	-	-	-
Colin Price				
- salary	-	-	-	-
- other contractual remuneration*****	-	-	15-20	-

(This disclosure has been audited.)

* The salary disclosed reflects part time hours and is calculated on a pro rata basis from a full time equivalent of 0.72 in 2011-2012 (2010-2011: 0.72).

** The salary disclosed reflects part time hours and is calculated on a pro rata basis from a full time equivalent of 0.50 in 2011-2012. During 2010-2011, the full time equivalent was 0.60 from 1 April to 30 June and 0.50 from 1 July to 31 March.

*** Brian Larkman received a payment in 2010-2011 for untaken annual leave (for the period 1 January 2005 to 31 March 2010) upon expiry of his previous employment contract to 31 December 2010.

**** Brian Duffin received a payment in 2011-2012 for untaken annual leave (for the period 1 January 2011 to 31 December 2011).

***** Colin Price received a payment in 2010-2011 for untaken annual leave (for the period 21 February 2001 to 31 December 2009) relating to his employment contract which expired on 31 December 2009. Colin Price's term of office as a non-executive director of the DMO was completed on 31 December 2009.


United Kingdom
Debt Management Office
United Kingdom
Debt Management Office

'Salary' includes gross salary, overtime and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by the DMO and thus recorded in its accounts.

The DMO is not responsible for the remuneration of any Ministers or the non-executive HM Treasury representative (Sam Beckett), who is an employee of HM Treasury.

Performance related payments

The payment of performance related awards are assessed annually by the DMO Pay Committee. These one-off payments are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay.

The awards reported for 2011-2012 relate to performance in 2010-2011 and the comparative awards reported for 2010-2011 relate to performance in 2009-2010.

Remuneration multiples

The relationship between the remuneration of the highest-paid member of the DMO's Managing Board and the median remuneration of the organisation's workforce is reported below.

The Chief Executive is the highest-paid member of the DMO's Managing Board.

Total remuneration includes, where appropriate, salary, non-consolidated performance related payments, benefits-in-kind and any severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

	2012	2011
Total remuneration of the Chief Executive (£000)	150-155	150-155
Median remuneration total of other DMO employees	50,000	49,340
Ratio	3.0	3.1

(This disclosure has been audited.)

The ratio above represents the total remuneration of the Chief Executive (taking the mid-point of the range disclosed) and the median total remuneration of all other DMO employees. The slight reduction in the ratio in 2012 resulted from a range of factors including changes in staff composition, staff numbers and employee remuneration.

Pension benefits

	Accrued pension at age 60 at 31 March 2012 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31 March 2012	CETV at 31 March 2011 *	Real increase in CETV
	£000	£000	£000	£000	£000
Robert Stheeman	15-20	0-2.5	312	258	28
Jo Whelan	10-15	0-2.5	186	152	18
Jim Juffs	15-20	0-2.5	343	292	26
- plus lump sum	55-60	2.5-5.0			

(This disclosure has been audited.)

*The actuarial factors that are used in the CETV calculation were changed during 2011-2012. For consistency, the CETVs at 31 March 2011 and 31 March 2012 have both been calculated using the new factors. The CETV at 31 March 2011, therefore, differs from the corresponding figure published in last year's report, which was calculated using the previous factors in force.

CETV is an abbreviation for 'Cash Equivalent Transfer Value'. This measure of value is explained on page 47.

Joanne Perez has chosen to join a partnership pension scheme rather than the Principal Civil Service Pension Scheme (PCSPS). The total contributions paid to the partnership pension provider amounts to £11,259 (2010-2011: £11,800).

The non-executive directors are not entitled to any pension benefits.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2012.

Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial 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. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his/her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with the Pensions Increase legislation. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted, is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website http://www.civilservice.gov.uk/pensions.

The cash equivalent transfer value (CETV)

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 include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost.

CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include 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.

Robert Stheeman
Chief Executive
5 July 2012

Statement of Accounting Officer's responsibilities

The DMO prepares accounts under the Government Resources and Accounts Act 2000 and under Schedule 5A of the National Loans Act 1968.

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the DMO to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction on page 85.

Under Schedule 5A of the National Loans Act 1968, HM Treasury has directed the DMO to prepare for each financial year a statement of the accounts for the Debt Management Account in the form and on the basis set out in the accounts direction on page 123.

Both accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the DMO and the Debt Management Account, and of their income and expenditure and cash flows for the financial year.

In preparing both accounts, the Accounting Officer is required to:

- observe the relevant accounts direction issued by HM Treasury, including 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 have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going-concern basis.

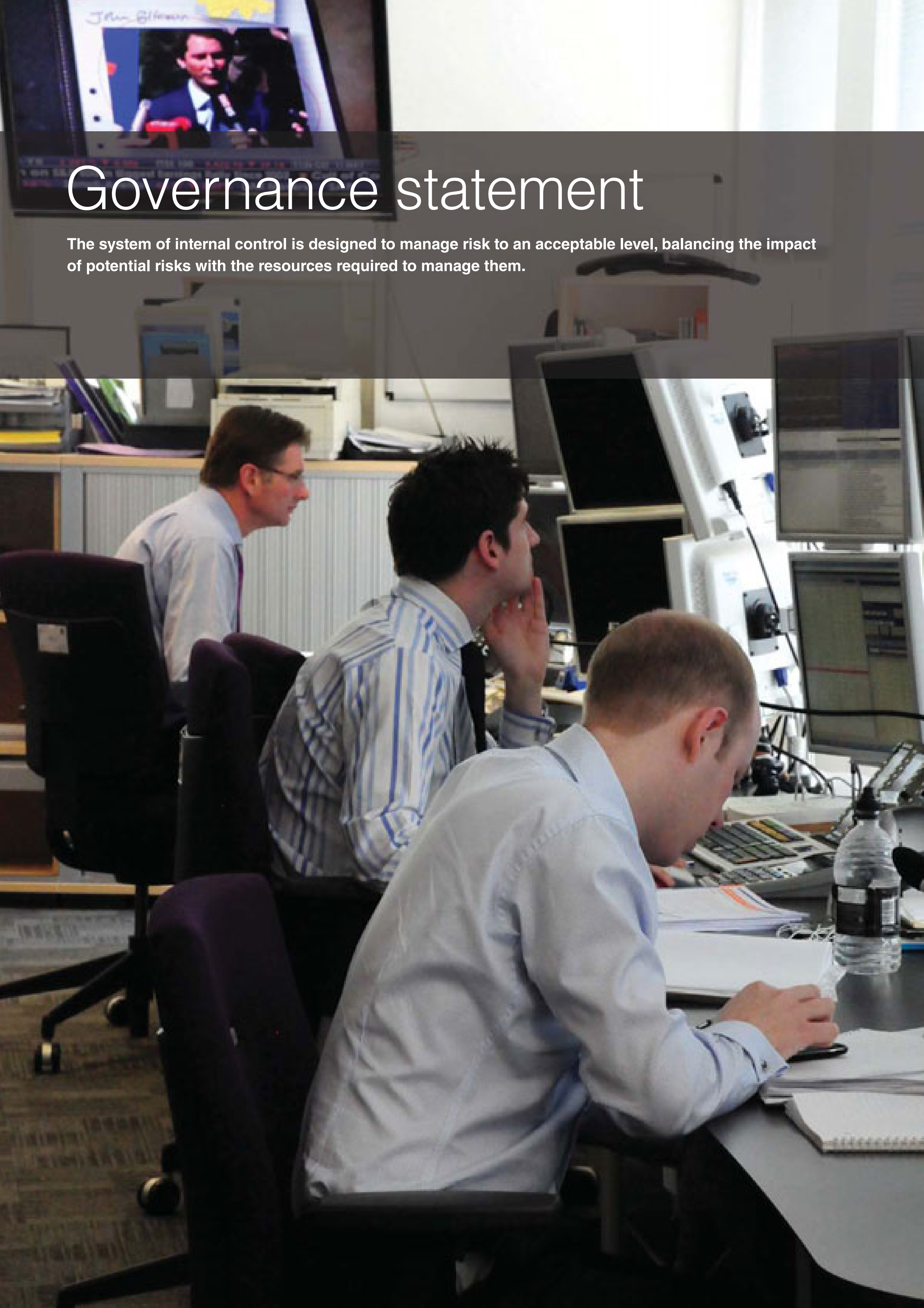
In addition, in preparing the accounts of the DMO, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM). The Accounting Officer is required to prepare the DMA accounts in accordance with applicable accounting standards and be consistent with the relevant requirements of the FReM.

HM Treasury has appointed the Chief Executive as Accounting Officer of the Debt Management Office and the Debt Management Account.

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

Governance statement

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.



Governance statement

Scope of responsibility

Throughout 2011-2012, ministerial responsibility for the United Kingdom Debt Management Office (DMO) was vested in the Commercial Secretary to the Treasury, Lord Sassoon. As the DMO's Chief Executive and Accounting Officer for the DMO, I am responsible to HM Treasury ministers for the overall operation of the Agency in accordance with its Framework Document.

As Accounting Officer I am responsible for the Debt Management Account (DMA) and the DMO. My accountability is subject to the overall responsibility of the Permanent Secretary of HM Treasury in his capacity as Accounting Officer for that organisation. In exercising my responsibilities for the DMA I pay due regard to the consequences for the National Loans Fund (NLF) and will consult the Permanent Secretary if I consider that any actions taken could have implications for him in his role as NLF Accounting Officer.

The Public Works Loan Board (PWLB) and the Commissioners for the Reduction of the National Debt (CRND) are separate business entities within the DMO. Responsibility for the reports and accounts of the PWLB and CRND lies with the Secretary of the PWLB and the Secretary and Comptroller General of CRND respectively. The Secretary of the PWLB and the Secretary and Comptroller General of CRND are each responsible for maintaining a sound system of internal control that supports the delivery of each entity's agreed policies, objectives and targets. As Accounting Officer I am responsible for the wider DMO control framework within which both the CRND and the PWLB are managed. The Secretary of the PWLB and the Secretary and Comptroller General of CRND take assurance from me as to the continued sound maintenance of this framework in relation to their own control responsibilities.

I pay due regard to the objectives set by Treasury Ministers for HM Government's debt and cash management in exercising my specific responsibilities for debt and cash management. This includes ensuring that all activities of the DMA are conducted in a manner that provides value for money. I have put arrangements in place to ensure there is a proper evaluation of the balance between cost and risk in the DMO's operations, taking into account any cost, risk or other strategic objectives, parameters or guidelines agreed with HM Treasury.

I am responsible to the Chancellor of the Exchequer and accountable to Parliament for the DMO's use of resources in carrying out its functions as set out in the Framework Document and Managing Public Money.

I am responsible for activities in relation to a number of schemes and initiatives, including the 2008 Credit Guarantee Scheme and the recently launched National Loan Guarantee Scheme. These are conducted as agent for HM Treasury.

The DMO is committed to the highest standards of corporate governance and is guided by the Corporate Governance Code for central government departments (the Code) and the principles laid down in that Code. I confirm that the DMO has complied with the principles which cover:

- Parliamentary accountability;
- the role of the board;
- board composition;
- board effectiveness; and
- risk management.

The DMO does not conduct any part of its business with or through arm's length bodies (ALBs) and therefore has not applied principle six which covers departmental governance arrangements with ALBs.

Managing Board

The Accounting Officer was supported during 2011-2012 by a Managing Board (the board) which, in addition to the Accounting Officer, comprises:

- Jo Whelan
Deputy Chief Executive and Joint Head of Policy and Markets;
- Jim Juffs
Chief Operating Officer;
- Joanne Perez
Joint Head of Policy and Markets;

- Sam Beckett
Non-executive HM Treasury representative;
- Brian Larkman
Non-executive director - Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006; and
- Brian Duffin
Non-executive director - Brian Duffin was Chief Executive of Scottish Life from 1999 to 2007 and Executive Director of Royal London Mutual from 2001 to 2007. He is currently Chairman of the GEC 1972 Pension Plan.

Board membership remained unchanged throughout the period under review. Non-executive directors are appointed by the Accounting Officer following a formal process and have fixed terms defined in their contracts of service. HM Treasury's representative was appointed by the Accounting Officer in accordance with the DMO's Framework Document. All non-executive board members receive an induction on joining and have access to additional information and training where they consider it necessary in the discharge of their duties.

The primary role of the board is to advise the Accounting Officer on any key decisions affecting the DMO. Specifically the board's responsibility, as defined within its written Terms of Reference, is to advise the Accounting Officer in order to:

- Secure the aims, objectives and targets laid down by Ministers for the DMO;
- Set and advise on the strategic framework for all areas of the DMO's business, including meeting the DMO's strategic objectives and advising on the development of key policies and business initiatives taking account of risks;
- Oversee implementation of the strategic objectives, policies and initiatives, and, as part of this, to advise on appropriate prioritisation and allocation of resources;
- Monitor and advise on the DMO's control environment and financial position taking due account of the role and recommendations of Audit Committee;
- Support the DMO's core values, and to promote policies and activities that are fair and command respect both internally and externally;
- Ensure that the decision-making and risk management processes in the DMO are fit for purpose and are robust; and
- Ensure that the DMO has the resource capability to deliver its objectives.

An executive sub-committee of the board generally meets weekly and supports the Accounting Officer on operational decisions.

The board has undertaken a formal self evaluation of its performance covering 2011-2012. The board concluded that, during the period under review, it has operated effectively in delivering the objectives set out in its terms of reference. Suggestions for minor improvement are being considered and will be implemented where appropriate.

2011-2012 Board activities

Board meetings were held regularly throughout 2011-2012. In addition to regular agenda items, including progress against the remit, risk management, staffing and progress against the operational business plan, the board paid particular attention to the following matters during the year:

- IT security;
- Consultation on CPI linked Gilt issuance;
- Housing Revenue Account self financing project;
- Compliance with the Bribery Act;
- Development and introduction of the National Loan Guarantee Scheme; and
- Market conditions.

Board attendance is outlined in the table below:

	Possible	Actual
Robert Stheeman	8	8
Jo Whelan	8	8
Jim Juffs	8	8
Joanne Perez	8	8
Sam Beckett	8	5
Brian Larkman	8	7
Brian Duffin	8	8

Audit Committee

The Accounting Officer was supported during 2011-2012 by the Audit Committee on matters relating to risk, internal control and governance. The Audit Committee covers the activities of the DMO, DMA, CRND and the PWLB. The members of the Audit Committee during 2011-2012 were:

- Brian Larkman (Chair);
- Brian Duffin;
- Caroline Mawhood - Caroline Mawhood was an Assistant Auditor General at the National Audit Office until 2009 and President of the Chartered Institute of Public Finance and Accountancy for 2008-09. She is a non-executive member of the Audit Committees of the Department of Energy and Climate Change and the Corporation of London and an independent member of the Audit Progress Committee of the European Commission. She is also the Honorary Treasurer of Breakthrough Breast Cancer charity.

Audit Committee meetings are typically attended by the Accounting Officer, either or both of the Joint Heads of Policy & Markets/Deputy Chief Executive, the Chief Operating Officer and the Head of Internal Audit.

The Audit Committee's overall objective is to give assurance to the Accounting Officer and, as necessary, to the Secretary and Comptroller General of the CRND and to the Secretary of the PWLB that:

- High quality processes are in place to manage and control risk for the DMO's financial and non-financial activities;
- Overall governance arrangements are appropriate and operating effectively;
- The financial control framework is effective and supported by an appropriate compliance culture;
- External financial reporting is prudent, accurate, timely, appropriate and consistent with relevant guidance;
- Internal financial and management reporting is timely, prudent, appropriate and consistent with external financial reports;
- Whistle blowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the PWLB's business are adequate;
- Internal Audit assurance provides an appropriate level of comfort to the Accounting Officer; and
- Relationships with the National Audit Office (NAO) are effective.

During the period under review the Audit Committee paid particular attention to the following areas:

- business continuity planning;
- anti-money laundering controls;
- anti-fraud controls;
- staff resourcing;
- risk management and financial control; and
- external and internal financial reporting.

The Audit Committee covers a regular programme of agenda items, together with other current topics, through an annual schedule of four meetings. All scheduled meetings were held and no additional meetings were deemed necessary.

The Accounting Officer, and board, have also been informed by the following operational committees throughout the period under review:

Debt Management Committee

The Debt Management Committee meets to commission and review the DMO's advice and recommendations to HM Treasury on the debt financing remit at Budget and any revisions at the Autumn Statement. The Committee also ensures that the quarterly issuance strategy of the DMO is based on sound evidence.

It is the main forum used to commission and review advice on debt management policy or market-related issues as they arise during the year.

The Debt Management Committee met eighteen times in 2011-2012.

Cash Management Committee

The Cash Management Committee meets to agree the cash management strategy, taking account of: the Exchequer forecast, the DMO's remit, market conditions, the house view on interest rates, risk limits, and any dealing parameters for the Treasury bill programme.

The Cash Management Committee also reviews performance measures relating to dealing.

The Cash Management Committee met regularly (typically every fortnight) in 2011-2012.

Fund Management Review Committee
The Fund Management Review Committee reviews the performance of the Government funds under the management of the CRND, including any reporting on compliance activities undertaken in relation to the funds.

The Fund Management Review Committee met four times in 2011-2012.

Business Delivery Committee
The Business Delivery Committee reviews the status of the delivery of DMO's business and work plan as a collective cross functional body, resolving emerging issues in a timely way, and agreeing priorities, to ensure the plan stays on track.

The Business Delivery Committee met regularly (typically weekly) throughout 2011-2012.

Risk Committees
The Accounting Officer is informed by three risk committees covering credit and market risk, operational risk and risk controls. More detail on the roles, responsibilities and activities of these committees can be found in the sections below

Risk management and internal control

The Accounting Officer is responsible for maintaining a sound system of internal control that supports the achievement of the DMO's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which he is personally responsible, in accordance with the responsibilities assigned to him in Managing Public Money.

The system of internal control is based upon what the Accounting Officer, with the support of the board, considers to be appropriate taking account of the DMO's activities, the materiality of risks inherent in those activities and the relative costs and benefits of implementing specific controls to mitigate those risks. The DMO board has determined a formal risk appetite statement which sets out the amount of risk that the DMO is currently willing to accept and is aligned to its capacity to bear risk. The DMO's position differs from that of a commercial organisation in that it must always be in a position to transact the underlying business required to meet its remit. As a result the risks associated with this activity cannot be avoided and the system of internal control can only provide reasonable assurance against failure to achieve aims and objectives.

The Risk and Control Framework

The board has designed and put in place a formal risk management framework covering all the activities conducted and overseen by the DMO. This Framework helps ensure that the Accounting Officer is appropriately informed and advised of any identified risks and also allows the management of risks to be monitored. The risk management framework covers both regular operations and new business initiatives, and evolves as the range and nature of the DMO's activities change. The Framework is supported by a clear 'three lines of defence' model:

First line of defence
Day-to-day management of risk is the responsibility of management staff within business areas. The DMO fosters a risk aware culture and encourages all members of staff, including board members, to identify new risks and changes in previously identified risks so that these may be assessed and so that appropriate mitigating actions may be put in place.

Mitigating actions typically include segregation of duties, staff training, clear lines of management delegation and robust business continuity arrangements.

Second line of defence
Oversight of risk is provided by the board and risk committees, whose role is to provide regular and systematic scrutiny of risk issues which lie within their remit and to support the Accounting Officer in exercising his overall responsibility for risk management.

The DMO considers that the principal risks it faces arise in three broad areas: credit and market risk, operational risk, and risk controls so it has established committees to meet regularly to review the changing risk pattern for each of these areas and to set up appropriate responses. The work of these committees is described in more detail below.

Credit and Market Risk Committee

The Credit and Market Risk Committee (CMRC) meets regularly, with more frequent meetings held when required, for example during times of market stress. CMRC monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, and instruments held as collateral as well as setting absolute limits on net daily flows across the DMA.

The CMRC has advised the Accounting Officer and the board, during the year, on significant current and emerging risk issues and actions to mitigate such risks, in particular on the impact of ongoing volatility in the eurozone on DMO activities. CMRC met twelve times during the year.

Operational Risk Committee

The Operational Risk Committee (ORC) meets regularly to monitor operational risks and to review significant risk issues. The ORC is responsible for reviewing risk incidents identified through the DMO's risk incident reporting process, and considering whether planned mitigating action is appropriate. It also reviews and tracks the progress of actions identified by Internal Audit. The Committees scope includes issues relating to information risk, IT security, business continuity, anti fraud and key supplier risks.

The ORC has advised the Accounting Officer and the board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The Committee has focused this year on further developing business continuity planning, including operational planning for the Olympic period, reviewing trading controls and improving the data quality and reliability of the DMO website. ORC met eight times during the year.

Controls Group

The Controls Group meets periodically to review issues affecting the DMO's system of internal control and to analyse material changes to the control environment. The Group recommends actions to management to implement changes where appropriate. The Controls Group consists of representatives from Finance, Risk, Compliance and Internal Audit.

The Controls Group has advised the Accounting Officer, the board and senior management on significant risk concerns stemming from the introduction of new business activities as well as risks relating to other change management activities. The Group has also advised the Accounting Officer on suitable mitigating action where appropriate.

During the year, the Controls Group review work has included improvements in cash forecasting, internal reorganisation of certain control functions for PWLB, the Housing Revenue Account self financing project and trade settlement processing.

Risk Management Unit (RMU)

The risk committees are supported by the DMO's Risk Management Unit (RMU) which ensures key risk issues arising from these committees are communicated to the Accounting Officer and senior management on a regular basis, with additional ad hoc reporting if an emerging issue requires it. The RMU also supports the formal risk reporting processes with defined outputs, including regular detailed risk reports which are reviewed by the board and senior management.

As well as supporting the risk committee structure, the RMU provides control advice on risks. As part of the second line of defence the RMU is separate from and independent of the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risk is facilitated by the RMU, via quarterly consultation with heads of business units and functional teams. Significant risk issues are assessed for materiality and probability of occurrence. New risks, and risks to which exposure is increasing are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is obtained on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines.

Third line of defence

The DMO's Internal Audit function provides the Accounting Officer with independent and objective assurance on the overall effectiveness of the Agency's system of internal control. It does this through a risk based work programme which is approved by the Audit Committee at the start of each year. All audits make a series of recommendations which, once agreed with management, are monitored for implementation. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the Accounting Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

Risk policies and procedures

The DMO's risk policies reflect the high level standards and requirements which determine the way in which risks are managed and controlled. The Accounting Officer, with the support of the board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2011 this included broadening the scope of certain DMO policies to cover requirements introduced by the Bribery Act.

Staff are required to confirm that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies on whistle-blowing, fraud and anti-money laundering. The DMO ensures that this exercise is undertaken on an annual basis allowing staff to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage.

Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

Risk profile

The Accounting Officer, and board, believe that the principal risks and uncertainties facing the DMO are outlined in the table below together with the key actions taken to manage and mitigate them:

Principal risks and uncertainties	Mitigation and management
IT systems and infrastructure The DMO relies on a number of IT and communications systems to conduct its operations effectively and efficiently. In particular, certain systems are central to the DMO achieving its internal target for the release of accurate data, including auction results, to the market. Failure to achieve these targets could result in markets acting on inaccurate information and cause significant reputational damage. A number of the operational systems and services on which the DMO relies are provided or supported by third party suppliers .	In line with good practice the DMO has put in place comprehensive business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business as usual activity. The DMO's Business Continuity Plan (BCP) including Disaster Recovery (DR) and other arrangements are subject to continual review and update. The DMO ensured a programme of DR testing was carried out in 2011, and that BCP arrangements to support auctions were observed during the year with teams working from the DR site during auction sessions. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives. The DMO recruited a dedicated business continuity specialist in 2011 to help enhance and promote planning across the organisation.

Principal risks and uncertainties	Mitigation and management
	The DMO is represented on the Public Finance Business Continuity Management Group and took part in a market wide business continuity exercise conducted in November 2011. To mitigate the risk of failure of a key third party the DMO undertakes a corporate risk assessment of each potential supplier in order to assess financial strength and operational capacity. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed SLAs.
Transaction processing The DMO relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes the DMO to operational risk arising from process breakdown and human error.	A key component of the DMO's control framework is the segregation of duties to ensure independent checking and reconciliation, and to 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 and there are clearly defined authorisation levels for committing the DMO externally. In 2011-2012 system enhancements were made to improve management information on trade activity and regular accounting reports. The DMO's RMU conducts regular control and compliance testing, providing the executive sub-committee of the board with assurance on the effectiveness of operational controls and compliance with relevant Financial Services Authority rules in the dealing and settlement areas. The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure. This promotes early identification and resolution of risk incidents and provides visibility to the Accounting Officer and board. DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.

Principal risks and uncertainties	Mitigation and management
People risk The DMO relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives. The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time.	The DMO's Training and Development policy aims to ensure that its staff have the right skills to meet its objectives. The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates. The DMO has put in place a formal performance appraisal process and all staff are given clear and achievable objectives. Staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure. A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit for wider communication and consultation with all staff. On an annual basis DMO staff take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, are considered by the Accounting Officer and board. The DMO was reaccredited as an Investor in People in 2011.
IT and data security Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information. The DMO seeks to ensure the highest standards of data protection and information management. The DMO is exposed to the risk of an external attack on its IT systems and infrastructure.	The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security. Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO also provides assurance to the board that information risks are being managed effectively. The DMO has put in place several layers to defend against external attack and its infrastructure undergoes an annual penetration test to ensure the control environment is robust. These tests are undertaken by specialists and form part of the assessment against the CESG requirements which is condition for continuing connection to the Government Secure Internet (GSI).

Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of the DMO's aims and objectives has been in place throughout 2011-2012. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and the executive managers within the DMO who have been delegated responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

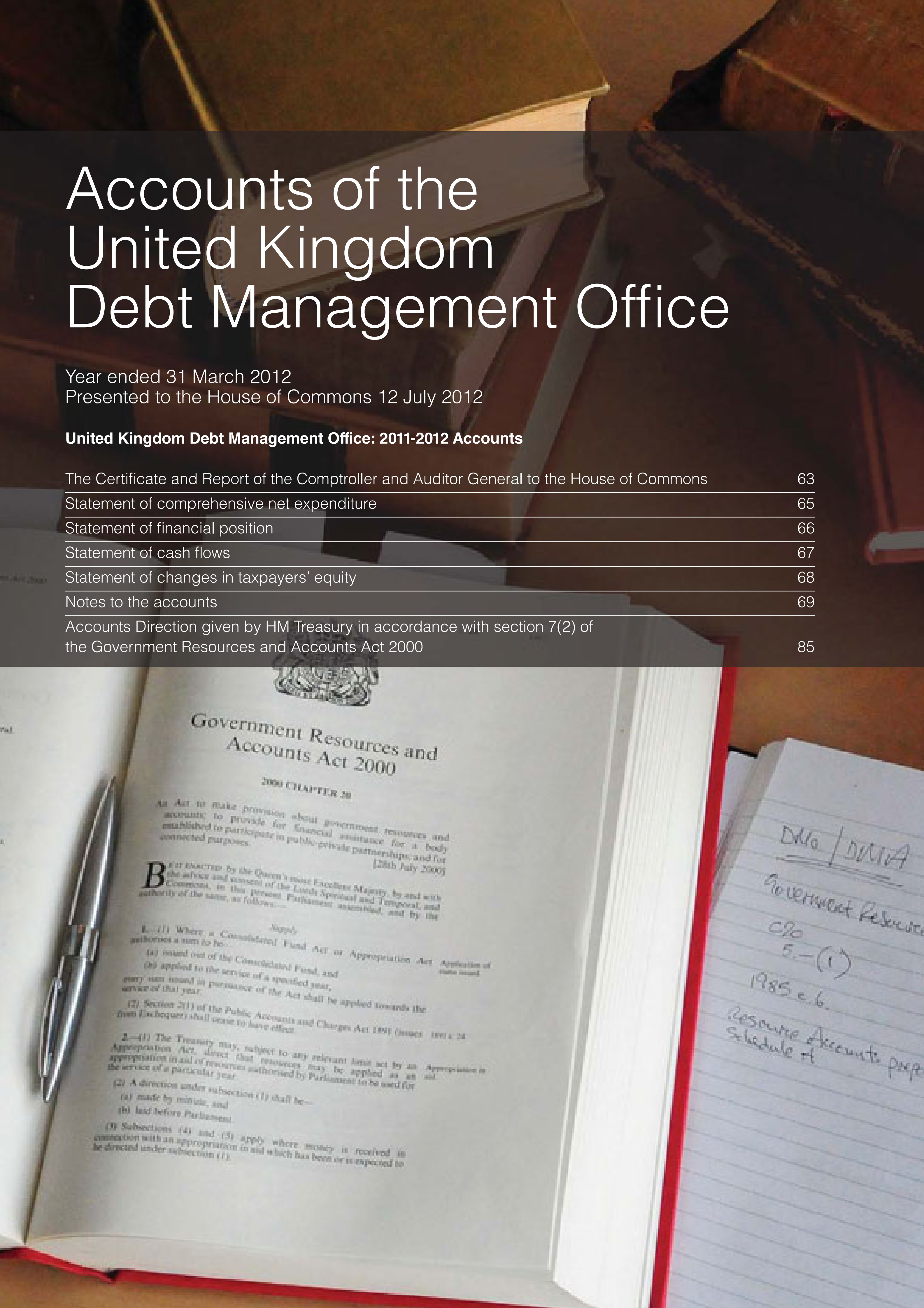
In my role as Accounting Officer I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board and the Audit Committee.

Plans to address weaknesses and ensure continuous improvement of the system are in place.

No significant internal control issues, including data security incidents, have been identified in 2011-2012, and no ministerial directions were given. No material conflicts of interest have been noted by board or Audit Committee members in the Register of Interests.

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

Robert Stheeman
Chief Executive
5 July 2012



Accounts of the United Kingdom Debt Management Office

Year ended 31 March 2012
Presented to the House of Commons 12 July 2012

United Kingdom Debt Management Office: 2011-2012 Accounts

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

I certify that I have audited the financial statements of the UK Debt Management Office for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Debt Management Office, Chief Executive and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the UK Debt Management Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the UK Debt Management Office; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Introduction, Foreword, Management Commentary and Governance Statement, to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the UK Debt Management Office's affairs as at 31 March 2012 and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Chief Executive's Statement, Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
6 July 2012

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

United Kingdom Debt Management Office Statement of comprehensive net expenditure

For the year ended 31 March 2012

	Note	2012 £000	2011 £000
Administration costs			
Staff costs	2	9,089	8,628
Other administration costs	3	5,822	6,187
Gross administration costs		**14,911**	**14,815**
Administration income	5	(7,056)	(3,499)
Net administration costs		**7,855**	**11,316**
Gross programme costs	4	4,788	4,530
Programme income	5	(1,373)	(1,110)
Net programme costs		**3,415**	**3,420**
Net operating cost		**11,270**	**14,736**

All income and expenditure are derived from continuing operations.

The notes on page 69 to 84 form part of these accounts.

United Kingdom Debt Management Office
Statement of financial position

As at 31 March 2012

	Note	2012 £000	2011 £000
Non-current assets			
Property, plant and equipment	7 (i)	123	149
Intangible assets	7 (ii)	1,297	1,076
Trade and other receivables	8	44	133
Total non-current assets		**1,464**	**1,358**
Current assets			
Trade and other receivables	8	1,714	1,690
Cash and cash equivalents	9	1	15
Total current assets		**1,715**	**1,705**
Total assets		**3,179**	**3,063**
Current liabilities			
Trade and other payables	10	(2,657)	(2,788)
Non-current assets less net current liabilities		**522**	**275**
Non-current liabilities			
Provisions	11	(60)	(113)
Total net assets		**462**	**162**
Taxpayers' equity			
General fund		**462**	**162**

The notes on page 69 to 84 form part of these accounts.

Robert Stheeman
Chief Executive
5 July 2012

United Kingdom Debt Management Office Statement of cash flows

For the year ended 31 March 2012

	Note	2012 £000	2011 £000
Cash outflow from operating activities			
Net operating cost		**(11,270)**	**(14,736)**
Adjustment for non-cash transactions			
Depreciation and amortisation of fixed assets	3	320	1,017
Payables for early retirements	3	6	2
Auditor's fee	3	40	40
		366	**1,059**
Adjustment for movements in working capital other than cash			
Decrease / (increase) in receivables		67	(279)
Increase / (decrease) in current payables		213	(1,007)
Less movement in payables relating to items not passing through the statement of comprehensive net expenditure		76	35
Use of early retirements	11	(59)	(73)
		297	**(1,324)**
Net cash outflow from operating activities		**(10,607)**	**(15,001)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(71)	(122)
Purchase of intangible assets		(523)	(856)
Net cash outflow from investing activities		**(594)**	**(978)**
Cash flows from financing activities			
Payment of amounts due to the Consolidated Fund		(378)	(200)
From the Consolidated Fund (supply)		11,565	16,179
Net financing		**11,187**	**15,979**
Net (decrease) in cash and cash equivalents in the year		**(14)**	**-**
Cash and cash equivalents at the beginning of the year		**15**	**15**
Cash and cash equivalents at the end of the year		**1**	**15**

The notes on page 69 to 84 form part of these accounts.

United Kingdom Debt Management Office
Statement of changes in taxpayers' equity

For the year ended 31 March 2012

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2010		**(986)**	**43**	**(943)**
Changes in taxpayers' equity for 2010-2011:				
Funding from HM Treasury		16,179	-	16,179
Net operating cost for the year		(14,736)	-	(14,736)
Non-cash charges in statement of comprehensive net expenditure for the year:				
Non-cash charges - auditors' remuneration	3	40	-	40
Transfer between reserves		43	(43)	-
CFERs payable to the Consolidated Fund	10	(378)	-	(378)
Balance at 31 March 2011		**162**	**-**	**162**
Changes in taxpayers' equity for 2011-2012:				
Funding from HM Treasury		11,565	-	11,565
Net operating cost for the year		(11,270)	-	(11,270)
Non-cash charges in statement of comprehensive net expenditure for the year:				
Non-cash charges - auditors' remuneration	3	40	-	40
CFERs payable to the Consolidated Fund	10	(35)	-	(35)
Balance at 31 March 2012		**462**	**-**	**462**

The notes on page 69 to 84 form part of these accounts.

Notes to the accounts

For the year ended 31 March 2012

1 Statement of accounting policies

(i) Basis of preparation

These accounts have been prepared in accordance with the 2011–2012 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The DMO's accounts have been prepared in accordance with the Accounts Direction given by HM Treasury as set out on page 85, under the legislative authority of the Government Resources and Accounts Act 2000.

Where the FReM permits a choice of accounting policy, the most appropriate policy for the DMO to provide a true and fair view has been selected. The DMO's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The presentational and functional currency of the DMO accounts is sterling.

Certain IFRS have been issued or revised this year, but are not yet effective and will be applied in subsequent reporting periods. These are:

- IFRS 7 Financial Instruments: Disclosures. Revisions to IFRS 7 increased the disclosure requirements for transfers of financial assets. Application of the revised IFRS 7 is required for reporting periods beginning on or after 1 July 2011. The DMO expects to apply IFRS 7 in its 2012-2013 Accounts. The application of IFRS 7 is not expected to impact on the disclosures of financial instruments reported by the DMO.

- IFRS 9 Financial Instruments, which will replace IAS 39. IFRS 9 is expected to improve and simplify the reporting of financial instruments. Application of IFRS 9 is required for any reporting period beginning on or after 1 January 2015. Earlier application is permitted. The DMO expects to apply IFRS 9 in its 2015-2016 Accounts. The application of IFRS 9 is not expected to impact on the disclosure of financial instruments reported by the DMO.

The particular policies adopted by the DMO are described below.

(ii) Other comprehensive expenditure

No statement of other comprehensive expenditure has been prepared as all income and expenditure is reported in the statement of comprehensive net expenditure.

(iii) Accounting convention

These accounts have been prepared under the historical cost convention.

(iv) Administration and programme expenditure

The statement of comprehensive net expenditure is analysed between administration and programme expenditure. The classification of expenditure as administration or as programme follows the definition of administration costs set out in the FReM.

Administration expenditure reflects the cost of running the DMO, including PWLB and CRND, and includes staff related costs, IT and telecommunication costs, accommodation and non-cash charges.

Programme costs reflect non-administration costs, including external settlement charges and gilt issuance costs.

(v) Operating income

All operating income relates to the operating activities of the DMO and is recognised in the statement of comprehensive net expenditure on an accruals basis.

Operating income is recognised by the following criteria:

- cost recoveries on a full cost basis for services provided to external clients;
- recovery of the direct costs when acting as an agent for the National Loans Fund; and
- fees set by statute and received from PWLB customers and from the Department for Environment and Climate Change (DECC) for the management of the Emissions Trading System.

Full cost recovery income is charged on the basis of staff-time and all direct external costs incurred for a given service, plus an apportioned share of overheads such as accommodation and IT infrastructure. This income is charged for either an agreed annual activity or delivery of specific service units, for example, auction of allowances under the Emissions Trading System.

Income is analysed between that which can be applied against associated expenditure (appropriations-in-aid) and that which is surrenderable to the Consolidated Fund (CFER).

The DMO is subject to net administration cost control provisions. For funding purposes, HM Treasury treats operating income as appropriations-in-aid.

(vi) Non-current assets

Assets acquired for on-going use with a purchase cost in excess of £5,000 are capitalised. Profits or losses arising on the disposal of fixed assets are calculated by reference to the carrying value of the asset.

Any property, plant or equipment or intangible fixed assets, for which the value is high and / or the useful economic life is long, are revalued. Currently, the DMO has no assets that meet these criteria.

Software license purchases and internally developed software that meet the capitalisation criteria are classified as intangible assets.

(vii) Depreciation and amortisation

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 upon initial recognition and are reviewed annually:

Information technology	between 4 and 8 years
Plant and machinery	between 5 and 10 years
Furniture and fittings	lesser of 10 years or outstanding lease term (where appropriate)
Software licences	between 4 and 8 years or license duration up to 10 years
Internally generated software	between 4 and 12 years

Estimated useful lives of all assets held at 31 March 2011 were reviewed and revised during 2011-12. The result of changes in estimated useful economic lives resulted in a reduction of £442,000 in depreciation and amortisation charged in 2011-12 and is expected to result in a reduction in 2012-13 of £196,000. Corresponding increases to depreciation and amortisation charged in subsequent years are expected as follows: 2013-2014: £185,000; 2014-2015: £142,000; 2015-2016: £120,000; 2016-2017: £120,000; 2017-2018: £71,000.

(viii) Operating leases

Amounts paid and received under the terms of operating leases are charged to the statement of comprehensive net expenditure on a straight-line basis over the term of the lease.

(ix) Notional charges

Certain costs are charged on a notional basis and included in the accounts. These charges relate to auditors' remuneration. Notional costs are charged to the statement of comprehensive net expenditure and recorded as a movement on the general fund.

(x) Value added tax

Value added tax (VAT) on purchases is charged to the statement of comprehensive net expenditure, to the extent that it is irrecoverable and 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. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

(xi) Foreign exchange

Transactions with external suppliers that are denominated in foreign currencies are translated into sterling at the rates of exchange applicable when the liability is paid.

(xii) 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 DMO recognises as an administration cost the monthly charges made by the PCSPS to contribute to the schemes. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the DMO recognises the contributions payable for the year.

(xiii) Early departure costs

The DMO is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The DMO provides for the cost when the early retirement is agreed, effectively charging the full cost at the time an obligation becomes binding on the DMO and holding this as a provision. The liability shown in the statement of financial position has been discounted using a real rate of 2.8 per cent (2010-2011: 2.9 per cent) in line with HM Treasury guidance.

(xiv) Financial assets

On initial recognition, financial assets are classified as loans and receivables. Loans and receivables are assets with fixed or determinable repayments that are not quoted in an active market. Loans and receivables are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method. De-recognition of financial assets only occurs when the obligation is settled.

(xv) Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest method unless stated otherwise. Financial liabilities are derecognised when the obligation is discharged. Financial liabilities include trade and other payables and accruals.

2 Staff numbers and related costs

			2012
	Permanent staff £000	Others £000	Total £000
Salaries	4,989	2,848	7,837
Social security costs	487	64	551
Other pension costs	934	122	1,056
	6,410	**3,034**	**9,444**
Amounts charged to capital	-	(355)	(355)
Total operating staff costs	**6,410**	**2,679**	**9,089**
Less recoveries in respect of outward secondments	-	-	-
Total net costs	**6,410**	**2,679**	**9,089**
Average number of whole-time equivalent persons employed by the DMO	84	33	117
of which, staff employed on capital projects	-	3	3

			2011
	Permanent staff £000	Others £000	Total £000
Salaries	5,235	2,458	7,693
Social security costs	473	45	518
Other pension costs	962	92	1,054
	6,670	**2,595**	**9,265**
Amounts charged to capital	-	(637)	(637)
Total operating staff costs	**6,670**	**1,958**	**8,628**
Less recoveries in respect of outward secondments	(76)	-	(76)
Total net costs	**6,594**	**1,958**	**8,552**
Average number of whole-time equivalent persons employed by the DMO	80	29	109
of which, staff employed on capital projects	-	4	4

The heading ‘Others’ includes interim staff employed, either via recruitment agencies or on a fixed term contract.

Details of senior staff salaries and pension entitlements are included in the Remuneration Report on pages 42 to 48.

There have been nil recoveries in respect of outward secondments in the period to 31 March 2012. In 2010-2011, £76,206 was recovered and is shown as administrative income in the statement of comprehensive net expenditure.

In the permanent staff salaries for 2010-2011 are departure costs for one member of staff, who left the DMO under the terms of a voluntary exit scheme. The associated costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. The costs are included in the note on exit packages disclosed in the HM Treasury Report and Accounts 2011-2012.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, but the DMO is unable to identify its share of the underlying assets and liabilities. The scheme's Actuary valued the scheme as at 31 March 2007 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2011–2012, employer contributions of £1,029,955 were payable to the PCSPS (2010–2011: £1,037,473) at one of four rates in the range 16.7 per cent to 24.3 per cent (2010-2011: 16.7 to 24.3 per cent) of pensionable pay, based on salary bands. The scheme's Actuary usually reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of the benefits accruing during 2011-2012 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £24,669 (2010-2011: £14,105) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 11.5 to 12.5 per cent (2010-2011: 6.5 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £1,654, 0.8 per cent of pensionable pay (2010-2011: £2,000, 0.8 per cent), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2012 were £2,417 (31 March 2011: £2,223). Contributions prepaid at that date were £nil.

3 Other administration costs

	2012 £000	2011 £000
Rentals under operating leases		
Other operating leases	**1,328**	**1,319**
Non-cash items		
Depreciation and amortisation of non-current assets	320	1,017
Provision for early departure cost		
Provided in year	5	1
Unwinding of discount on provisions	1	1
External auditors' fee	40	40
	366	**1,059**
Other expenditure		
IT and telecommunications	1,613	1,433
Business and information services	777	752
Accommodation related costs	623	721
Legal services	453	127
Recruitment	141	200
Training	137	189
Travel, subsistence and hospitality	88	98
Printing and stationery	58	68
Consultancy	21	11
Other costs	217	210
	4,128	**3,809**
	5,822	**6,187**

£40,000 (2010-2011: £40,000) of the external auditors' fee relates to audit work.

4 Programme costs

Programme costs relate to DMA transactions, NLF gilt issuance and the retail gilt purchase and sale service.

	2012 £000	2011 £000
DMA, CRND and PWLB transaction costs		
Settlement and custodial charges	2,927	2,672
Brokerage	1,061	1,071
	3,988	**3,743**
NLF gilt issuance costs (reimbursed – see note 5)		
Stock Exchange listing fees	600	591
Auction advertising	-	27
	600	**618**
Gilt purchase and sale service costs	200	169
	4,788	**4,530**

5 Operating income

(i) Analysis of operating income by activity

	2012 £000	2011 £000
Administration income		
Fees and charges to PWLB customers	5,665	1,869
Fees and charges to CRND clients	606	627
Rentals and other accommodation related income - internal to government	553	516
Emissions Trading Scheme cost recovery from DECC	186	240
Special Liquidity Scheme - Bank of England	35	90
Recharges to Gilt Edged Market Makers	-	66
Other income	11	91
	7,056	**3,499**
Programme income		
Recharges to the National Loans Fund	600	618
Gilt purchase and sale service commission - Computershare	773	492
	1,373	**1,110**
	8,429	**4,609**

(ii) Analysis of operating income by type

	2012 £000	2011 £000
Appropriations-in-aid	**7,841**	**3,638**
Income received from within HM Treasury	**553**	**592**
Surrendered to the Consolidated Fund		
Excess cash	-	289
Special Liquidity Scheme	35	90
	35	**379**
	8,429	**4,609**

6 Analysis of fees and charges income for the year ended 31 March 2012

This analysis of fees and charges is provided as specified by the FReM and not for the disclosure requirements under IFRS 8 Operating Segments.

Analysis of net operating cost

	CRND £000	PWLB £000	Gilt purchase and sale service £000	Emissions Trading Scheme £000
Full cost	674	1,702	511	186
Income	(606)	(5,665)	(773)	(186)
(Surplus) / deficit	**68**	**(3,963)**	**(262)**	**-**

Financial objective and performance:

- **CRND:** To invest and manage certain public funds and charge, where statute permits, an administrative cost calculated on a full-cost recovery basis. CRND also carries out other miscellaneous statutory functions for which there is no provision for recovering costs. This objective has been achieved in full.
- **PWLB:** To advance loans, primarily to local authorities, at a fee rate that is set by statute and designed to cover the cost of examining applications for loans, making advances and maintaining accounts. This objective has been achieved in full.
- **Gilt purchase and sale service:** To operate a gilt purchase and sale service for retail investors in the secondary market and charge the appropriate transactional cost as defined by statute. This objective has been achieved in full.
- **Emissions Trading Scheme:** To conduct the process of auction of emission allowances to industry on behalf of the Department of Energy and Climate Change (DECC) and to recover the full cost to the service from DECC. This objective has been achieved in full.

7 Non-current assets

(i) Property, plant and equipment

	Information technology £000	Furniture and fittings £000	Plant and machinery £000	Total £000
Cost or valuation				
At 1 April 2011	1,566	906	38	2,510
Additions	24	-	-	24
Disposals	(91)	-	-	(91)
At 31 March 2012	**1,499**	**906**	**38**	**2,443**
Depreciation				
At 1 April 2011	1,450	879	32	2,361
Charged in year	44	4	2	50
Disposals	(91)	-	-	(91)
At 31 March 2012	**1,403**	**883**	**34**	**2,320**
Net book value				
At 31 March 2012	**96**	**23**	**4**	**123**
At 31 March 2011	**116**	**27**	**6**	**149**

	Information technology £000	Furniture and fittings £000	Plant and machinery £000	Total £000
Cost or valuation				
At 1 April 2010	1,746	906	38	2,690
Additions	118	-	-	118
Disposals	(298)	-	-	(298)
At 31 March 2011	**1,566**	**906**	**38**	**2,510**
Depreciation				
At 1 April 2010	1,596	784	29	2,409
Charged in year	152	95	3	250
Disposals	(298)	-	-	(298)
At 31 March 2011	**1,450**	**879**	**32**	**2,361**
Net book value				
At 31 March 2011	**116**	**27**	**6**	**149**
At 31 March 2010	**150**	**122**	**9**	**281**

(ii) Intangible assets

	Software licences £000	Internally generated software £000	Assets under construction £000	Total £000
Cost or valuation				
At 1 April 2011	2,174	4,453	147	6,774
Additions	110	381	-	491
Transfer on completion	9	138	(147)	-
Disposals	-	(418)	-	(418)
At 31 March 2012	**2,293**	**4,554**	**-**	**6,847**
Amortisation				
At 1 April 2011	1,992	3,706	-	5,698
Charged in year	50	220	-	270
Disposals	-	(418)	-	(418)
At 31 March 2012	**2,042**	**3,508**	**-**	**5,550**
Net book value				
At 31 March 2012	**251**	**1,046**	**-**	**1,297**
At 31 March 2011	**182**	**747**	**147**	**1,076**

	Software licences £000	Internally generated software £000	Assets under construction £000	Total £000
Cost or valuation				
At 1 April 2010	1,939	3,696	349	5,984
Additions	235	444	147	826
Transfer on completion	-	349	(349)	-
Disposals	-	(36)	-	(36)
At 31 March 2011	**2,174**	**4,453**	**147**	**6,774**
Amortisation				
At 1 April 2010	1,818	3,150	-	4,968
Charged in year	174	592	-	766
Disposals	-	(36)	-	(36)
At 31 March 2011	**1,992**	**3,706**	**-**	**5,698**
Net book value				
At 31 March 2011	**182**	**747**	**147**	**1,076**
At 31 March 2010	**121**	**546**	**349**	**1,016**

8 Trade and other receivables

(i) Analysis by type

	2012 £000	2011 £000
Amounts falling due within one year		
Prepayments and accrued income	1,648	1,456
Other receivables	66	234
	1,714	**1,690**
Amounts falling due after more than one year		
Prepayments and accrued income	44	133
	1,758	**1,823**

(ii) Analysis by relationship with HM Government

	Amounts falling due within one year		Amounts falling due after more than one year	
	2012 £000	2011 £000	2012 £000	2011 £000
Balances with other central government bodies	232	483	-	-
Balances with local authorities	209	-	-	-
Intra-government balances	**441**	**483**	**-**	**-**
Balances with bodies external to government	1,273	1,207	44	133
	1,714	**1,690**	**44**	**133**

9 Cash and cash equivalents

	2012 £000	2011 £000
Balance at 1 April	15	15
Net change (outflow)	(14)	-
Balance at 31 March	**1**	**15**
The following balances were held at 31 March:		
Bank of England	-	14
Cash in hand	1	1
Balance at 31 March	**1**	**15**

10 Trade and other payables

(i) Analysis by type

	2012 £000	2011 £000
Amounts falling due within one year		
Trade payables	95	128
Taxation and social security	284	277
Accruals and deferred income	2,243	2,005
Payable to the Consolidated Fund		
Excess cash	-	289
Other payments due to be paid to the Consolidated Fund	35	89
	2,657	**2,788**

Reflected within the amounts falling due within one year is an increase of £76,176 (2010-2011: decrease of £34,763) of capital expenditure payables and accruals, which is an adjustment to the movements in working capital recorded in the statement of cash flows.

(ii) Analysis by relationship with HM Government

	Amounts falling due within one year	
	2012 £000	2011 £000
Intra-government balances: balances with other central government bodies	902	996
Balances with bodies external to government	1,755	1,792
	2,657	**2,788**

11 Provisions for liabilities and charges

(i) Analysis by type

	2012 £000	2011 £000
Balance at 1 April	113	185
Provided in the year	5	1
Provisions utilised in the year	(59)	(74)
Unwinding of discount	1	1
Balance at 31 March	**60**	**113**

Provisions are for the costs of funding the early departure of certain staff.

A statement on early departure and pension commitments is given in the statement of accounting policies on page 71.

(ii) Maturity analysis

	2012 £000	2011 £000
Within one year	46	57
Between two and five years	14	56
	60	**113**

12 Commitments under operating leases

At 31 March 2012, the total future minimum lease payments under non-cancellable operating leases are as follows:

	Buildings £000	Other £000	2012 Total £000	2011 Total £000
Obligations under operating leases for the following periods comprise:				
Less than one year	1,301	27	1,328	1,327
Between two and five years	4,614	50	4,664	4,801
Over five years	4,326	-	4,326	5,749
	10,241	**77**	**10,318**	**11,877**

13 Capital commitments

The DMO had no capital commitments at 31 March 2012 (31 March 2011: software licenses £12,515).

14 Contingent assets and liabilities

At 31 March 2012, the DMO had a contingent liability of £10,000 (31 March 2011: £nil). Subsequent events resulted in the liability crystallising in April 2012.

At 31 March 2012, the DMO had no contingent assets (31 March 2011: none).

15 Related party transactions

HM Treasury

The DMO is an executive agency of HM Treasury. HM Treasury is a related party. During the year HM Treasury has provided various business services to the DMO as listed on page 17.

Commissioners for the Reduction of the National Debt

Commissioners for the Reduction of the National Debt (CRND) is an entity within the DMO that performs a fund management service for a small number of public sector clients. CRND client mandates are kept distinct from other DMO business. CRND client mandates require the bulk of the funds to be invested in gilts or with the DMA. The DMO received payment from Court Funds Investment Account and Northern Ireland Courts and Tribunals Service Investment Account for fund management services of £108,000 and £75,000 respectively (2010-2011: £109,000 and £78,000).

Public Works Loan Board

PWLB is also operated within the DMO and subject to the same operational controls as applied to the DMO's operations as a whole, but charges to PWLB customers are set by statute and the Public Works Loan Commissioners retain their statutory role.

Bank of England

The Bank of England provides the DMA with banking and settlement agency services, the costs of which are borne by the DMO.

National Savings & Investments

The DMO has undertaken various transactions with National Savings & Investments relating to the recovery of external costs incurred by the DMO in hedging the guaranteed equity bonds issued by the NS&I. This recovery was £16,087 (2010-2011: £13,033).

Asset Protection Agency

The DMO has undertaken various transactions with the Asset Protection Agency (APA). These relate to the recharge of accommodation expenditure initially incurred by the DMO, and to the cost of providing various services during 2011-2012. This recharge was £552,763 (2010-2011: £493,126).

The APA is an executive Agency of HM Treasury, which is located in the same building as the DMO and occupies floor space that the DMO leases from the building landlord. Under the terms of a Memorandum of Terms of Occupation (MOTO) agreement, all accommodation expenditure relating to APA office space, and which is paid initially by the DMO, is recovered.

The DMO also provides on-going services to the APA by providing facilities management and IT services. The costs and charging for these services are governed by a service level agreement.

Department of Energy and Climate Change

The DMO has had transactions during the year with the Department of Energy and Climate Change (DECC) relating to recovery of costs incurred by the DMO in conducting auctions of emission allowances. This recovery was £185,968 (2010-2011: £240,118).

Ministers and Managing Board

During the year, no Minister or DMO Managing Board member has undertaken any material transactions with the DMO.

16 Financial instruments

All cash requirements of the DMO are met through the Parliamentary Estimate process. In these circumstances, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the DMO's expected purchase and usage requirements.

Therefore, at 31 March 2012, the DMO had no material exposure to liquidity risk, interest rate risk or currency risk.

All material assets and liabilities were denominated in sterling.

17 Events after the end of the reporting period

There were no events that had a material effect on the accounts after the end of the reporting period.

18 Preparation of accounts

The accounts were authorised for issue on 6 July 2012.

Accounts Direction given by HM Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000

1. The UK Debt Management Office shall prepare accounts for the year ended 31 March 2012 in compliance with the accounting principles and disclosure requirements of the Government Financial Reporting Manual issued by HM Treasury ("the FReM") which is in force for 2011-2012.

2. The accounts shall be prepared so as to:

   (a) give a true and fair view of the state of affairs as at 31 March 2012 and of the income and expenditure (or, as appropriate, net resource outturn), changes in taxpayers' equity and cash flows of the DMO for the financial year then ended; and

   (b) 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.

3. Compliance with the requirements of the FReM 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 FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM 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 FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

Chris Wobschall

Deputy Director, Assurance and Financial Reporting Policy
HM Treasury
20 December 2011

Accounts of the Debt Management Account

Year ended 31 March 2012
Presented to Parliament 12 July 2012

Debt Management Account: 2011-2012 Accounts

Certificate and Report of the Comptroller and Auditor General to Houses of Parliament

I certify that I have audited the financial statements of the Debt Management Account for the year ended 31 March 2012 under the National Loans Act 1968. The financial statements comprise: the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Net Funding by National Loans Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Loans Act 1968. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Debt Management Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Debt Management Account; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Introduction, Foreword, Management Commentary, and Governance Statement, to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects, the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Debt Management Account's affairs as at 31 March 2012 and of the surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion, the information given in the Chief Executive's Statement, Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
6 July 2012

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

Debt Management Account Income statement

For the year ended 31 March 2012

	Note	2012 £m	2011 £m
Interest income	2	6,348	7,065
Interest expense	3	(1,337)	(1,946)
Net interest income		**5,011**	**5,119**
Other gains and losses	4	1	(3)
Fee income	5	5	44
Surplus for the year	6	**5,017**	**5,160**

All income and expenditure arose from continuing operations.

The notes on page 93 to 122 are an integral part of these accounts.

Debt Management Account Statement of comprehensive income

For the year ended 31 March 2012

	2012 £m	2011 £m
Surplus for the year from the income statement	**5,017**	**5,160**
Gains taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	13,202	1,642
Net income recognised directly in total funding by National Loans Fund	**13,202**	**1,642**
Transfers		
Transferred to income statement on disposal of investment securities classified as available-for-sale	1	-
Net transfers within total funding by National Loans Fund	**1**	**-**
Total comprehensive income	**18,220**	**6,802**

The notes on page 93 to 122 are an integral part of these accounts.

Debt Management Account
Statement of financial position

At 31 March 2012	Note	2012 £m	2011 £m
Assets			
Cash and balances at the Bank of England		794	868
Loans and advances to banks	7	36,577	17,324
Securities held for trading	8	5,953	3,313
Derivative financial instruments	9	42	22
Investment securities classified as available-for-sale			
UK Government gilt-edged securities for use as collateral subject to sale and repurchase agreements		23,378	12,946
UK Government gilt-edged securities for use as collateral not pledged		76,334	64,957
		99,712	**77,903**
Other UK Government gilt-edged securities		49,454	49,241
Treasury bills		-	122,832
	10	**149,166**	**249,976**
Other assets	11	5,572	10
Total assets before deposit at National Loans Fund		**198,104**	**271,513**
Deposit at National Loans Fund		34,067	30,546
Total assets		**232,171**	**302,059**
Liabilities			
Deposits by banks	12	20,013	10,988
Due to government customers	13	47,194	51,040
Derivative financial instruments	9	38	53
Treasury bills in issue	14	75,937	63,574
Other liabilities	15	13	590
Total liabilities before funding by National Loans Fund		**143,195**	**126,245**
Advance from National Loans Fund		52,042	157,100
Revaluation reserve		18,982	5,779
Income and expenditure account		17,952	12,935
Total funding by National Loans Fund		**88,976**	**175,814**
Total liabilities		**232,171**	**302,059**

The notes on page 93 to 122 are an integral part of these accounts.

Robert Stheeman
Chief Executive
5 July 2012

Debt Management Account Statement of cash flows

For the year ended 31 March 2012

	Note	2012 £m	2011 £m
Net cash (outflow)/inflow from operating activities	16	**(10,927)**	**15,451**
Investing activities			
Interest received on investment securities classified as available-for-sale		6,536	7,359
Sales of investment securities classified as available-for-sale arising from auctions and secondary market activities		169,632	297,763
Purchases of investment securities classified as available-for-sale arising from auctions and secondary market activities		(56,289)	(232,028)
Net cash from investing activities		**119,879**	**73,094**
Financing activities			
Interest received on deposit at National Loans Fund		283	292
Interest paid on advance from National Loans Fund		(777)	(1,363)
Increase in net funding by National Loans Fund		284,459	332,691
Decrease in net funding by National Loans Fund		(392,991)	(419,717)
Net cash used in financing activities		**(109,026)**	**(88,097)**
(Decrease)/increase in cash		**(74)**	**448**

The notes on page 93 to 122 are an integral part of these accounts.

Debt Management Account
Statement of changes in net funding by National Loans Fund

	Deposit at National Loans Fund £m	Advance from National Loans Fund £m	Revaluation reserve £m	Income and expenditure account £m	Total funding by National Loans Fund £m	Net Funding £m
At 1 April 2010	**28,511**	**242,127**	**4,137**	**7,775**	**254,039**	**225,528**
Surplus for the year	-	-	-	5,160	5,160	5,160
Transferred to income statement on disposal of investment securities classified as available-for-sale	-	-	-	-	-	-
Gains taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	-	-	1,642	-	1,642	1,642
Change in advance from National Loans Fund	-	(85,027)	-	-	(85,027)	(85,027)
Change in deposit at National Loans Fund	2,035	-	-	-	-	(2,035)
At 31 March 2011	**30,546**	**157,100**	**5,779**	**12,935**	**175,814**	**145,268**
Surplus for the year	-	-	-	5,017	5,017	5,017
Transferred to income statement on disposal of investment securities classified as available-for-sale	-	-	1	-	1	1
Gains taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	-	-	13,202	-	13,202	13,202
Change in advance from National Loans Fund	-	(105,058)	-	-	(105,058)	(105,058)
Change in deposit at National Loans Fund	3,521	-	-	-	-	(3,521)
At 31 March 2012	**34,067**	**52,042**	**18,982**	**17,952**	**88,976**	**54,909**

Each day, the DMA deposits any surplus cash with the NLF. The DMA receives interest on this deposit at the Bank Rate.

A DMA surplus or deficit is an asset or liability respectively of the NLF. HM Treasury may pay from the DMA to the NLF all or part of any DMA surplus. In the case of a retained deficit, HM Treasury may pay all or part of the deficit to the DMA from the NLF.

Notes to the accounts

For the year ended 31 March 2012

1 Accounting policies

(i) Basis of preparation

The accounts have been prepared in accordance with the Accounts Direction given by HM Treasury, in accordance with International Financial Reporting Standards (IFRS) in so far as they are appropriate to the DMA, and under the historical cost convention, except for re-measurement at fair value of available-for-sale financial assets, financial assets held for trading, and all derivative contracts. In particular, the following standards have been applied:

- IAS 1 Presentation of Financial Statements (revised 2007)
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 18 Revenue
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 7 Financial Instruments: Disclosures

Certain IFRS have been issued or revised, but are not yet effective, and will be applied in subsequent reporting periods. These are:

- IFRS 7 Financial Instruments: Disclosures. Revisions to IFRS 7 increased the disclosure requirements for transfers of financial assets. Application of the revised IFRS 7 is required for reporting periods beginning on or after 1 July 2011. The DMA expects to apply the revised IFRS 7 in its 2012-2013 Accounts. The application of the IFRS 7 revisions are not expected to impact on the disclosures of financial instruments reported by the DMA.

- IFRS 9 Financial Instruments, which will replace IAS 39. IFRS 9 is expected to improve and simplify the reporting of financial instruments. Application is required for reporting periods beginning on or after 1 January 2015. Earlier application is permitted. The DMA plans to apply IFRS 9 in its 2015-2016 Accounts. The impact of initial application of IFRS 9 is expected to be significant. The DMA's assets that are classified as available-for-sale will be reclassified and may be measured at amortised cost. This may reduce the impact on reserves of changes in the value of such assets.

(ii) Financial assets

The DMA classifies financial assets, on initial recognition, as securities held for trading or as securities classified as available-for-sale. The DMA also holds loans and receivables. All financial assets are recognised initially at fair value. Financial assets are derecognised when the rights to receive cash flows from them have expired or where the DMA has transferred substantially all the risks and rewards of ownership. Loaned securities are not derecognised when no asset has been received as part of the loan.

At the end of each reporting period, DMO management assess whether there is any objective evidence that a financial asset is impaired and hence whether any reduction in the carrying amount of the asset, or any impairment allowance, is required.

(a) Financial assets at fair value through profit and loss

Debt securities are classified as held for trading if they have been acquired principally for the purpose of selling in the short term, or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets are recognised on trade date, when the DMA enters into contractual arrangements with counterparties to purchase securities, and are derecognised when the DMA enters into contractual arrangements to sell them or when they are redeemed. Following initial recognition, fair values are re-measured, and gains and losses from changes therein are recognised as other gains and losses.

The treatment of derivatives is described in section (iv).

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, comprising cash and balances at central banks, and loans and advances to banks. Loans and advances to banks comprise deposits and reverse sales and repurchase agreements, where the DMA purchases securities and agrees to sell them back at a specified time and price. Securities pledged to the DMA as collateral via reverse repos are not included on the statement of financial position. Other assets comprise accrued fees receivable and amounts due from counterparties.

Loans and receivables are recognised at settlement date. If the transaction is regular way (where a transaction settles within a timeframe established by convention in the market) then no change in fair value is recognised between trade date and settlement date. If the transaction is non-regular way, a derivative is recognised at trade date. Both regular way and non-regular way transactions are recognised as loans and receivables from settlement date, and are derecognised when borrowers repay their obligations. Following recognition as loans and receivables such assets are subsequently measured at amortised cost using the effective interest rate method.

The fair value of financial assets and liabilities recognised at amortised cost is not disclosed because the carrying value is a reasonable approximation of the fair value, as these assets and liabilities are held for the short-term.

(c) Financial assets classified as available-for-sale

Debt securities are classified as available-for-sale where they are expected to be held for an indefinite period of time. However, they may be sold in response to changes in factors such as collateral requirements, liquidity needs, and interest rate movements.

These financial assets are recognised on trade date, when the DMA enters into contractual arrangements with counterparties (primarily the National Loans Fund) to purchase securities.

Following initial recognition, fair values are re-measured, and gains or losses from changes therein are recognised in the revaluation reserve until the securities are derecognised, at which point cumulative gains or losses previously recognised in this reserve are recognised as other gains and losses.

(iii) Financial liabilities

The DMA classifies its financial liabilities in the following categories: financial liabilities at fair value through profit and loss, and financial liabilities at amortised cost. DMO management determines the classification at initial liability recognition.

All financial liabilities are recognised initially at fair value.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(a) Financial liabilities at fair value through profit and loss
This category comprises derivatives, the treatment of which is described in section (iv) below.

(b) Financial liabilities at amortised cost
Following initial recognition, deposits by banks, amounts due to government customers, and Treasury bills in issue are measured at amortised cost using the effective interest rate. Deposits by banks include sales and repurchase agreements, where the DMA sells securities and agrees to buy them back at a specified time and price. Securities that are pledged by the DMA as collateral via sales and repurchase agreements remain on the statement of financial position.

Deposits by banks and amounts due to government customers are recognised at settlement date. If the transaction is regular way (where a transaction settles within a timeframe established by convention in the market) then no change in fair value is recognised between trade date and settlement date. If the transaction is non-regular way, a derivative is recognised at trade date. Both regular way and non-regular way transactions are recognised as deposits by banks and amounts due to government customers from settlement date, and are derecognised when obligations are repaid.

Treasury bills in issue are recognised on trade date, when the DMA enters into contractual arrangements with counterparties to sell securities, and are derecognised when redeemed.

(iv) Derivatives

The DMA enters into forward foreign exchange contracts, equity index / interest rate swaps, and forward starting repos and reverse repos.

Forward foreign exchange contracts are used to hedge the risk arising from movements in foreign exchange rates.

Equity index / interest rate swaps are entered into to hedge an equity index exposure of HM Government that is external to the DMA. The nature of this relationship is explained on page 13.

Forward starting repos and reverse repos are used as part of the DMO's cash management operations.

Derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative.

All derivatives are classified as held for trading. They are initially recognised at fair value when the DMA enters into contractual arrangements with counterparties and are subsequently re-measured at fair value. All gains and losses from changes in the fair values of derivatives are recognised in the income statement as they arise. These gains and losses are reported as other gains and losses except where derivatives are managed in conjunction with euro denominated sale and repurchase agreements, in which case gains and losses are reported in interest income within reverse sale and repurchase agreements.

The DMA does not apply hedge accounting.

(v) Determination of fair value

The fair value of a financial instrument on initial recognition is normally the transaction price.

Following initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities. Such instruments are classified as level 1 in the fair value hierarchy defined by IFRS 7.

When active market prices for specific instruments are not available (for example, for the equity leg of equity index / interest rate swaps), fair values are determined by using valuation techniques that refer to relevant observable market data. Such instruments are classified as level 2 in the fair value hierarchy defined by IFRS 7.

If the fair value of a financial asset becomes negative, it is recorded as a financial liability until its fair value becomes positive.

(vi) Offsetting financial assets and financial liabilities

Financial assets and liabilities (including derivatives) are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. When the DMA holds Treasury bills that it has issued, no financial asset or liability is disclosed, as no external transaction has occurred, so neither a financial asset nor liability exists.

(vii) Interest income and expense

Interest income and expense for all interest-bearing financial instruments including those classified as held for trading are recognised in interest income and interest expense in the income statement using the effective interest rate method of allocating interest over the relevant period. Interest income and expense is recognised from settlement date.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument. The calculation includes all amounts paid or received that are an integral part of the effective interest rate, such as premiums or discounts on acquisition or issue.

(viii) Other gains and losses

Other gains and losses comprises all gains and losses from changes in the fair value of financial instruments held for trading, excluding interest income on securities held for trading.

(ix) Fee Income

Fee income comprises net fees receivable. When the DMA is not entitled to all fees receivable (because a proportion will be payable after receipt) fee income is the net of the receivable and the related payable.

(x) Transaction costs

Transaction costs are paid and accounted for by the DMO.

(xi) Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are retranslated into sterling at the rates prevailing at the end of the reporting period.

Forward foreign exchange contracts are used to hedge the risk arising from movements in foreign exchange rates. These derivatives are accounted for at sterling fair value using the rates prevailing at the end of the reporting period.

Exchange differences arising on settlement, and those arising on retranslation, are recognised in interest income.

2 Interest income

	2012 £m	2011 £m
Investment securities classified as available-for-sale		
UK Government gilt-edged securities	5,370	5,480
Treasury bills	495	1,067
	5,865	**6,547**
Loans and advances to banks		
Reverse sale and repurchase agreements	146	189
Deposits	6	5
	152	**194**
Securities held for trading		
UK Government gilt-edged securities	5	1
Other securities	54	24
	59	**25**
Deposit at National Loans Fund	272	299
	6,348	**7,065**

3 Interest expense

	2012 £m	2011 £m
Deposits by banks		
Sale and repurchase agreements	(53)	(40)
Deposits	-	-
	(53)	**(40)**
Due to government customers		
Deposits	(231)	(249)
Treasury bills in issue	(335)	(321)
Advance from National Loans Fund	(718)	(1,336)
	(1,337)	**(1,946)**

4 Other gains and losses

	2012 £m	2011 £m
Losses on disposal:		
Derivative financial instruments held for trading		
Equity index / interest rate derivatives	(6)	(12)
Investment securities classified as available-for-sale		
UK Government gilt-edged securities	(1)	-
Securities held for trading		
Other securities	-	(6)
Change in the fair value of derivative financial instruments held for trading and held at year end:		
Equity index / interest rate derivatives	9	18
Change in the fair value of securities held for trading and held at year end:		
Other securities	(1)	(3)
	1	**(3)**

5 Fee income

	2012 £m	2011 £m
Net fee income	**5**	**44**

The DMO earned fee income from lending Treasury Bills to the Bank of England. The total fee payable by the Bank of England was shared between the DMA and the NLF.

6 Surplus for the year

Surplus for the year has been arrived at after charging net foreign exchange gains of £1 million (2011: £11 million). These gains arose from the DMA's foreign currency assets.

7 Loans and advances to banks

	2012 £m	2011 £m
Reverse sale and repurchase agreements		
Due in not more than 3 months	32,921	14,423
Due in more than 3 months but not more than 1 year	3,137	2,387
	36,058	**16,810**
Fixed term deposits		
Due in not more than 3 months	11	6
Call notice deposits		
Due in not more than 3 months	508	508
	36,577	**17,324**

Reverse sale and repurchase agreements are valued daily, and collateral will be returned to the provider of collateral, or additional securities requested from the provider of collateral, depending on whether the value of the collateral has risen or fallen.

Reverse sale and repurchase agreements included euro denominated transactions. The associated foreign currency risk was fully hedged through forward foreign exchange contracts (see note 9).

8 Securities held for trading

	2012 £m	2011 £m
Carrying value		
UK Government gilt-edged securities	13	20
Other securities	5,940	3,293
	5,953	**3,313**

	2012 Nominal £m	2012 Fair value £m	2011 Nominal £m	2011 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	3,422	3,429	1,100	1,100
In more than 3 months but not more than 1 year	2,516	2,512	2,190	2,200
	5,938	**5,941**	**3,290**	**3,300**
Due after 1 year				
In more than 1 year but not more than 5 years	5	5	7	7
In more than 5 years	6	7	6	6
	11	**12**	**13**	**13**
	5,949	**5,953**	**3,303**	**3,313**

9 Derivative financial instruments

	2012 Assets £m	2012 Liabilities £m	2011 Assets £m	2011 Liabilities £m
Equity index / interest rate derivatives	24	7	20	12
Forward foreign exchange contracts	17	30	2	41
Unsettled reverse sale and repurchase agreements	-	1	-	-
Unsettled sale and repurchase agreements	1	-	-	-
	42	**38**	**22**	**53**

	2012 Nominal £m	2012 Fair value £m	2011 Nominal £m	2011 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	23,982	(16)	6,126	(39)
In more than 3 months but not more than 1 year	1,028	(2)	60	(6)
	25,010	**(18)**	**6,186**	**(45)**
Due after 1 year				
In more than 1 year but not more than 5 years	173	22	230	14
In more than 5 years	-	-	-	-
	173	**22**	**230**	**14**
	25,183	**4**	**6,416**	**(31)**

Equity index / interest rate derivatives hedges HM Government's exposure to the equity index risk resulting from the Guaranteed Equity Bond products issued by National Savings & Investments.

The instruments are valued daily and collateral is requested from the counterparty, or returned to the counterparty, depending on whether the value of the contract has risen or fallen.

10 Investment securities classified as available-for-sale

	2012 Nominal £m	2012 Fair value £m	2011 Nominal £m	2011 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	2,996	3,072	41,626	41,594
In more than 3 months but not more than 1 year	4,393	4,571	92,280	92,384
	7,389	**7,643**	**133,906**	**133,978**
Due after 1 year				
In more than 1 year but not more than 5 years	29,044	33,170	23,765	26,605
In more than 5 years	84,972	108,353	79,764	89,393
	114,016	**141,523**	**103,529**	**115,998**
	121,405	**149,166**	**237,435**	**249,976**

11 Other assets

	2012 £m	2011 £m
Accrued fees	-	10
Due from counterparties	5,572	-
	5,572	**10**

12 Deposits by banks

	2012 £m	2011 £m
Sale and repurchase agreements		
Due in not more than 3 months	19,114	10,988
Due in more than 3 months but not more than 1 year	899	-
	20,013	**10,988**
	20,013	**10,988**

All repo transactions are valued daily. Securities will be returned to the provider of collateral, or additional securities requested from the provider of collateral, depending on whether the value of the collateral has risen or fallen.

13 Due to government customers

	2012 £m	2011 £m
Counterparty analysis		
Commissioners for the Reduction of the National Debt		
Call notice deposits	44,891	49,294
Other government counterparties		
Fixed term deposits	2,303	1,746
	47,194	**51,040**
Maturity analysis		
In not more than 3 months		
Fixed term deposits	2,226	1,733
Call notice deposits	44,891	49,294
	47,117	**51,027**
In more than 3 months but not more than 1 year		
Fixed term deposits	77	13
	47,194	**51,040**

Call notice deposits are repayable on demand.

14 Treasury bills in issue

	2012	2011
Carrying value		
Due in not more than 3 months	52,865	43,768
Due in more than 3 months but not more than 1 year	23,072	19,806
	75,937	**63,574**
Fair value	**75,943**	**63,572**

15 Other liabilities

	2012 £m	2011 £m
Accrued stock lending fees	-	5
Due to counterparties	-	573
Cash collateral	13	12
	13	**590**

16 Analysis of cash flow

	2012 £m	2011 £m
Reconciliation of operating profit to net cash (outflow)/inflow from operating activities		
Operating surplus	**5,017**	**5,160**
Less: investment revenues		
Interest on investment securities classified as available-for-sale	(5,865)	(6,547)
Less: other gains and losses		
Profit on disposal of investment securities classified as available-for-sale	1	-
Less: financing costs		
Interest income on deposit at National Loans Fund	(272)	(299)
Interest expense on advance from National Loans Fund	717	1,336
	445	**1,037**
(Increase)/decrease in loans and advances to banks	(19,253)	26,863
(Increase) in securities held for trading	(2,640)	(2,389)
(Increase)/decrease in derivative assets	(20)	35
(Increase)/decrease in other assets	(5,562)	8
Increase/(decrease) in deposits by banks	9,025	(4,366)
(Decrease) in amounts due to government customers	(3,846)	(5,437)
(Decrease)/increase in derivative liabilities	(15)	26
Increase in Treasury bills in issue	12,363	600
(Decrease)/increase in other liabilities	(577)	461
Net cash (outflow)/inflow from operating activities	**(10,927)**	**15,451**

17 Fair value hierarchy

IFRS 7 defines three classifications of fair value measurement, using a fair value hierarchy. At 31 March 2012 the DMA held assets and liabilities in level 1 and level 2 of the fair value hierarchy, as defined in note 1 (v), and as shown below.

	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	Total £m
Fair value at 31 March 2012			
Assets			
Securities held for trading	781	5,172	5,953
Derivative financial instruments	-	42	42
Investment securities classified as available-for-sale	149,166	-	149,166
Liabilities			
Derivative financial instruments	-	38	38
Fair value at 31 March 2011			
Assets			
Securities held for trading	570	2,743	3,313
Derivative financial instruments	-	22	22
Investment securities classified as available-for-sale	249,976	-	249,976
Liabilities			
Derivative financial instruments	-	53	53

There were no transfers between level 1 and level 2 in the year.

18 Gilt issuance

	2012 £m	2011 £m
Nominal value of gilts issued on behalf of National Loans Fund	166,448	158,829
Proceeds paid to National Loans Fund	179,458	166,404

During the year, there were no uncovered gilt auctions (2011: none).

On 19 October 2011, £17,216 million (nominal) of gilts (2011: none) were created by the NLF and sold to the DMA for use as collateral in its cash management operations. Specific gilts issued in this way are not available to the repo market until three months after their creation. However, during this period, these gilts may be used in delivery by value (DBV) transactions.

19 Events after the end of the reporting period

There were no events that had a material effect on the accounts after the end of the reporting period.

20 Related party transactions

HM Treasury
The DMO is an executive agency of HM Treasury. As the DMO controls the DMA, HM Treasury is regarded as a related party of the DMA.

As detailed below, the DMA gave funding to the Bank of England in relation to the Bank of England's Asset Purchase Facility. The DMO and HM Treasury have agreed that, when the Asset Purchase Facility is closed, HM Treasury will reimburse the DMA for any accumulated net interest loss arising from this funding, or the DMA will transfer to HM Treasury any accumulated net interest surplus. The amount receivable or payable by the DMA over the course of the facility cannot be reliably estimated, but it is unlikely to be material to the accounts of the DMA. At 31 March 2012, the DMA recognised an amount payable to HM Treasury of less than £1 million (31 March 2011: receivable from HM Treasury less than £1 million).

During the year, the DMA had a significant number of material transactions with the following entities, for which HM Treasury is regarded as the parent department or sponsor, and which are regarded as related parties:

Commissioners for the Reduction of the National Debt
Commissioners for the Reduction of the National Debt (CRND) is an entity within the DMO that performs a fund management service for a small number of public sector clients. CRND client mandates are kept distinct from other DMO business. CRND client mandates require the bulk of the funds to be invested in gilts or with the DMA. Surplus cash in CRND client accounts is regularly deposited with the DMA.

National Loans Fund
The DMA's principal role is to meet the financing needs of the National Loans Fund (NLF). At the end of each day, any surplus balance on the DMA (less a varying target float) is returned to the NLF as a deposit. This is the means by which the DMA balances the daily financing needs of the NLF. Under the terms of the Finance Act 1998, the NLF made a cash advance of £6 billion to the DMA at inception in order to establish the account. Subsequent cash advances and repayments have been made from time to time.

Bank of England
The Bank of England provides the DMA with banking and settlement agency services, the costs of which are borne by the DMO. The DMA lent to the Bank of England Treasury bills and gilts in relation to the Bank of England's Special Liquidity Scheme and Discount Window Facility respectively. The DMA gave funding to the Bank of England in relation to the Bank of England's Asset Purchase Facility. Interest on this loan is payable at the Bank Rate. The DMA also lent gilts to the Bank of England in delivery by value (DBV) transactions, and borrowed specific gilts of the same value.

National Savings & Investments
National Savings & Investments issues guaranteed equity bonds to retail investors on behalf of the National Loans Fund. The DMA hedges the equity index exposure resulting from the sale of these products using equity index / interest rate derivatives.

During the year, HM Government was the ultimate controlling party of a number of financial institutions. HM Government's investments are managed by UK Financial Investments Limited, which is wholly owned by HM Government. As a result, the following financial institutions are regarded as related parties:

- **Bradford and Bingley**
- **Kaupthing Singer & Friedlander Limited**
- **Lloyds Banking Group plc**
- **Northern Rock plc**
- **Royal Bank of Scotland Group plc**

In addition, the DMA has had various transactions with other government entities. Most of these transactions have been with the following entities, which are regarded as related parties:

Various departments, other central government bodies, and local authorities
Various government departments, other central government bodies, and local authorities deposit cash with the DMADF.

Ministers and DMO Managing Board
During the year, no Minister or DMO Managing Board member has undertaken any transactions with the DMA.

At 31 March 2012 amounts due to or from related parties (and others) were:

	Related parties					Others	
	Central govt £m	Local govt £m	Public corporations £m	Financial institutions £m	Govt total £m	External bodies £m	Total £m
Assets							
Cash and balances at the Bank of England	794	-	-	-	794	-	794
Loans and advances to banks	508	-	-	1,214	1,722	34,855	36,577
Securities held for trading	13	-	-		13	5,940	5,953
Derivative financial instruments	-	-	-	1	1	41	42
Investment securities classified as available-for-sale							
UK Government gilt-edged securities for use as collateral	99,712	-	-	-	99,712	-	99,712
Other UK Government gilt-edged securities	49,454	-	-	-	49,454	-	49,454
Treasury bills	-	-	-	-	-	-	-
Other assets	-	-	-	451	451	5,121	5,572
Deposit at National Loans Fund	34,067	-	-	-	34,067	-	34,067
Liabilities							
Deposits by banks	-	-	-	160	160	19,853	20,013
Due to government customers	45,182	1,182	830	-	47,194	-	47,194
Derivative financial instruments	-	-	-	5	5	33	38
Other liabilities	-	-	-	-	-	13	13
Advance from National Loans Fund	52,042	-	-	-	52,042		52,042

21 Credit risk

Credit risk is the risk that a counterparty, or security issuer, will fail to discharge a contractual obligation resulting in financial loss to the DMA. Credit risk is monitored daily by the DMO's Risk Management Unit.

Exposure is primarily to financial institutions (mainly banks), non-UK sovereign-related entities and central clearing counterparties. Intra-HM Government balances are not considered to give rise to credit exposure.

Activities that give rise to credit risk include:

- placing cash deposits with banks;
- providing collateral for borrowings from banks;
- exchanging cash and stock in buying and selling financial assets; and
- entering into derivative contracts.

Methods used to measure and manage credit risk in the year ended 31 March 2012 were the same as in the prior year. There was a continued focus given this year to the analysis of how developments in the eurozone might affect the DMA's risk profile.

(i) Credit risk limits and measurement

The DMO has adopted a policy of the DMA dealing only with highly creditworthy counterparties and issuers. Credit exposure is controlled by the application of limits for each counterparty and issuer that are approved by the Credit and Market Risk Committee. These limits are absolute limits and are set for both individual entities and groups of related entities. Separate limits are set for different transaction types.

Credit risk measurement takes into account both current fair value and a risk weighting based on an estimate of potential future changes in value; in measuring credit exposure, different risk weightings are applied to different transaction types. The DMO monitors the DMA's exposure against limits on a daily basis and breaches are reported to the Credit and Market Risk Committee.

The Credit and Market Risk Committee reviews the concentrations of the DMA's credit exposure to individual banking groups and countries on a monthly basis.

The DMO analyses the creditworthiness of potential counterparties and security issuers using various information sources including the information provided by three external credit assessment institutions: Standard and Poor's, Moody's Investors Service, and Fitch Ratings. Information from these sources is monitored continuously for subsequent changes.

The DMA transacts only with counterparties who meet a minimum long-term credit rating requirement, and purchases securities issued only by issuers who meet such a requirement. Each counterparty and issuer must meet this requirement for each external credit rating available at the time the transaction is entered into.

(ii) Other risk mitigation policies

In addition to the use of credit limits, exposure to credit risk is managed through other specific control and mitigation measures, as outlined below.

(a) Netting agreements

The DMO further restricts the DMA's exposure to credit losses by entering into master netting arrangements with counterparties. These arrangements do not result in an offset of statement of financial position assets and liabilities. However, if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

Netting agreements normally incorporate collateral terms, including provision for additional margin to be called in response to changes in fair values of underlying transactions.

(b) Collateral

The DMA takes stock collateral when entering reverse sale and repurchase contracts to reduce its exposure to credit losses.

Collateral is required to be in the form of securities issued or guaranteed by HM Government or certain other governments in the European Economic Area with a long-term rating equal to or above AA- (Standard and Poor's), Aa3 (Moody's), and AA- (Fitch). Other highly-rated securities may be accepted, as agreed from time to time. All collateral is held in the CREST, Euroclear and Clearstream systems.

The DMA also receives cash collateral in the form of margin calls under certain derivative contracts and repo and reverse repo contracts novated to central clearing counterparties.

(c) Settlement processes

Transactions in financial assets (gilts, Treasury bills, certificates of deposit, and commercial paper) are settled primarily through the CREST, Euroclear, and Clearstream systems, making use of settlement and custody accounts operated by the Bank of England on the DMO's behalf.

The CREST and Euroclear systems are owned by Euroclear Bank S.A., which had a Standard and Poor's credit rating of AA at 31 March 2012. The Clearstream system is owned by Clearstream Banking S.A., which had a Standard and Poor's credit rating of AA at 31 March 2012.

Wherever possible, trades are settled as delivery versus payment, with simultaneous exchange of cash and stock, or settlement whereby the DMA receives cash or stock from the counterparty before delivering stock or cash in return.

Daily settlement limits are also used to control settlement risk.

(iii) Impairment and provisioning policies

Counterparties and issuers are monitored for deterioration of credit worthiness or late settlements and collateral is valued on a daily basis.

As at 31 March 2012, DMO management assessed that there was no impairment of any financial assets and there were no assets whose terms had been renegotiated (31 March 2011: none).

No credit related losses were incurred by the DMA during the year (2011: £nil), and no provisions were considered necessary at 31 March 2012 (31 March 2011: none).

(iv) Gross exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures on statement of financial position assets at 31 March were:

	Internal to government		External to government Financial institutions		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Cash and balances at the Bank of England	794	868	-	-	794	868
Loans and advances to banks						
Reverse repos	-	-	36,058	16,810	36,058	16,810
Fixed term deposits	-	-	11	6	11	6
Asset Purchase Facility (deposit at Bank of England)	508	508	-	-	508	508
Securities held for trading	13	20	5,940	3,293	5,953	3,313
Derivative financial instruments	-	-	42	22	42	22
Investment securities classified as available-for-sale						
UK Government gilt-edged securities for use as collateral	99,712	77,903	-	-	99,712	77,903
Other UK Government gilt-edged securities	49,454	49,241	-	-	49,454	49,241
Treasury bills	-	122,832	-	-	-	122,832
Other assets	-	-	5,572	10	5,572	10
Deposit at National Loans Fund	34,067	30,546	-	-	34,067	30,546
Total gross exposure	**184,548**	**281,918**	**47,623**	**20,141**	**232,171**	**302,059**

The external to government balances above represent credit risk exposure without taking into account any collateral held or other credit enhancements attached. The exposures set out above are based on the carrying value, as reported in the statement of financial position.

The DMA has not issued any financial guarantees and has no off-statement of financial position financial commitments.

(v) Collateral

(a) Sale and repurchase agreements (repos) and reverse sales and repurchase agreements (reverse repos)

Repos and reverse repos with collateral backing were as follows:

Settled transactions:

	2012 Carrying value* £m	2012 Fair value of securities collateral £m	2011 Carrying value* £m	2011 Fair value of securities collateral £m
Reverse repos (within loans and advances to banks)	36,058		16,810	
Repos (within deposits by banks)	20,013		10,988	
Net fair value of collateral		16,057		5,780
Collateral shortfall		30		36
Collateral surplus		54		34

* Carrying value per the statement of financial position

Collateral shortfall and surplus represent the total margin call expected to be made (shortfall) or received (surplus) on the first business day following 31 March 2012.

Unsettled transactions:

	2012 Unsettled value £m	2012 Weighted average days to settlement	2011 Unsettled value £m	2011 Weighted average days to settlement
Reverse repos	4,459	5	1,170	8
Repos	4,456	17	1,798	3

All repo and reverse repos are with banks (or bank subsidiaries) and central clearing counterparties. Collateral surplus and shortfall have been calculated at the level of individual counterparties. Collateral to the value of the unsettled cash amounts is taken upon settlement.

(b) Derivative financial instruments

	2012 Carrying value* £m	2012 Fair value of securities collateral £m	2011 Carrying value* £m	2011 Fair value of securities collateral £m
Assets	42		22	
Liabilities	38		53	
Collateral shortfall		3		-
Collateral surplus		3		13

* Carrying value per the statement of financial position

Derivative assets include equity index/interest rate derivatives and foreign exchange contracts transacted under bilateral netting agreements (ISDA). Collateral held may be in mitigation of both types of derivative contract. Collateral surplus and shortfall have been calculated at the level of individual counterparties.

(vi) Repos – analysis by credit rating

Repos and reverse repos, by Standard and Poor's long-term designation of the counterparty at 31 March based on rating individual contracting entities rather than ultimate parent entities, were:

	Reverse repos		Repos	
	2012 £m	2011 £m	2012 £m	2011 £m
AAA	-	-	-	-
AA- to AA+	4,404	4,467	-	187
A- to A+	31,654	12,343	20,013	10,801
	36,058	**16,810**	**20,013**	**10,988**

(vii) Cash, fixed term deposits, Asset Purchase Facility deposit and securities held for trading - analysis by credit rating

Non-HM Government deposits and debt securities, by Standard and Poor's long-term rating of the counter-party or (for trading assets) issuer at 31 March, were:

	Cash and balances at the Bank of England		Fixed term deposits		Asset Purchase Facility deposit		Securities held for trading	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
AAA	794	868	-	-	508	508	4,441	3,293
A- to A+	-	-	11	6	-	-	1,499	-
	794	**868**	**11**	**6**	**508**	**508**	**5,940**	**3,293**

(viii) Derivative financial instruments – analysis by credit rating

Derivative net assets by counterparty, by Standard and Poor's long-term rating of the counterparty at 31 March, were:

	2012 £m	2011 £m
AA- to AA+	1	9
A- to A+	18	3
	19	**12**

(ix) Other assets – analysis by credit rating

Other assets by Standard and Poor's long-term rating designation of the counterparty at 31 March, were:

	2012 £m	2011 £m
AAA	-	10
AA- to AA+	1,023	-
A- to A+	3,756	-
BBB- to BBB+	99	-
Unrated	694	-
	5,572	**10**

At 31 March 2012, other assets of £5,572m related to unsettled Treasury bill sales transacted on a delivery versus payment basis.

(x) Concentration of exposures

Credit exposures were spread across financial institutions, primarily in the United Kingdom and the rest of the European Economic Area.

Credit exposures at 31 March by geographical region, based on the country of domicile of the ultimate parent entities of the counterparty or (for trading assets) issuer were:

(a) Geographical sectors – assets excluding sale and repurchase agreements

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Cash and balances at the Bank of England	794	868	-	-	-	-	-	-	794	868
Fixed term deposits	11	6	-	-	-	-	-	-	11	6
Asset Purchase Facility deposit	508	508	-	-	-	-	-	-	508	508
Securities held for trading	-	549	5,690	2,394	-	-	250	349	5,940	3,292
Derivatives	3	-	12	9	4	3	-	-	19	12
Other assets	1,245	10	905	-	3,422	-	-	-	5,572	10
	2,561	**1,941**	**6,607**	**2,403**	**3,426**	**3**	**250**	**349**	**12,844**	**4,696**

Investment securities classified as available-for-sale have been excluded from the above table, as they are issued by HM Government.

(b) Geographical sectors – sale and repurchase agreements

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Reverse repos (within loans and advances to banks)	24,501	11,151	7,893	3,977	2,375	671	1,289	1,011	36,058	16,810
Repos (within deposits by banks)	19,971	10,683	37	129	5	176	-	-	20,013	10,988

22 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk.

The DMA's exposure is primarily to interest rate risk.

The DMO manages the DMA's exposure to market risk in three main areas:

- interest rate risk from bank loans and advances and from debt securities (comprising the cash management portfolio of trading and non-trading assets and liabilities);
- interest rate and other price risk from the derivatives hedging the Guaranteed Equity Bonds issued by National Savings & Investments; and
- interest rate risk from the retail gilts book.

The scope of market risk monitoring excludes interest rate risk arising from cash at the Bank of England, gilts and Treasury bills for use as collateral or for lending to the Bank of England, amounts due to the funds managed by CRND and all balances with the National Loans Fund.

(i) Market risk measurement

The primary sensitivity analysis techniques used to measure and monitor market risk are outlined below.

Interest rate risk derives from the DMA's activity of addressing its cash flow profile throughout the year.

Interest rate risk limits are in place, expressed in present value of a basis point (rather than value at risk) terms.

The Credit and Market Risk Committee reviews the DMA's market risk exposure on a monthly basis, with the Cash Management Committee reviewing certain aspects bi-weekly.

(a) Value at risk

Value at risk (VaR) is a method which estimates the potential mark to market loss over a target horizon given a level of confidence. The DMO uses a time horizon of one day and a confidence level of 90 per cent and anticipates no portfolio changes over the time horizon. The model reflects interdependencies and benefits of diversification between risk factors such as interest rates, currency rates and equity indices. VaR is calculated daily on the basis of exposures outstanding at the close of business. If a portfolio has a one-day 90 per cent VaR of, say, £1 million, it can be expected to lose or gain more than £1 million on only one trading day out of 10. Calculation of the worst possible loss is outside the scope of VaR. For interest rate risk, DMO uses the variance-covariance parametric VaR methodology. Assumptions as to how data will be distributed are based on historical data. Additionally, stress-testing is performed for the cash management portfolio to describe the possible scenarios falling outside the 90 per cent confidence limits.

b) Present value of a basis point

Present value of a basis point (PV01) is a standard sensitivity measure used to measure sensitivity to a 0.01 per cent parallel shift in interest rates when all other risk factors are held constant. The parallel shift in interest rates has been defined as the movement in the relevant zero coupon curve used to estimate fair value. The impact on yield curves of other factors, including extreme events, is outside the scope of PV01.

Interest rate limits set in PV01 terms were in place throughout the year and the prior year. Limits used operationally are set lower than those agreed with HM Treasury, in order to safeguard against breach of the latter should an operational error arise. Monitoring against these limits is performed daily and any breaches are reported to the Credit and Market Risk Committee.

(ii) VaR summary

VaR at 31 March:

	2012 £m	2011 £m
Interest rate risk and currency risk - cash management	1.47	0.45
Interest rate risk - retail gilts	0.09	0.05

VaR is not aggregated across activities, as different VaR methodologies are used as described in (i) (a) above.

VaR is calculated daily for both retail gilt and cash management exposures.

The range of end-of-day VaR in the year ended 31 March was:

(a) Interest rate risk and currency risk – cash management

	2012 £m	2011 £m
Highest	2.44	2.56
Average	0.97	1.01
Lowest	0.28	0.16

(b) Interest rate risk – retail gilts

	2012 £m	2011 £m
Highest	0.16	0.11
Average	0.09	0.07
Lowest	0.04	0.05

Exposures to risk from trading and non-trading activities are measured together as they arise from economic environments that are not significantly different.

(iii) Interest rate risk

The DMA enters primarily into cash and securities contracts at fixed interest or discount rates.

The exceptions to this at 31 March 2012 were: index-linked gilts, with a carrying value of £15,662 million (31 March 2011: £15,650 million); the deposit at the National Loans Fund, with a carrying value of £34,067 million (31 March 2011: £30,546 million); the advance from the National Loans Fund, with a carrying value of £52,042 million (31 March 2011: £157,100 million); call notice deposits from customers, with a carrying value of £44,891 million (31 March 2011: £49,294 million) and the Asset Purchase Facility deposit with a carrying value of £508 million (31 March 2011: £508 million). The index-linked gilts are linked to the General Index of Retail Prices in the UK (RPI).

(a) Interest rate risk profile

The DMA's interest rate risk profile based on the earliest possible repayment date at 31 March was:

	Fixed rate instruments Weighted average interest rate	Fixed rate instruments Weighted average period	Fixed rate instruments Statement of financial position carrying value	Floating rate instruments
	2012 %	2012 Years	2012 £m	2012 £m
Sterling				
Assets	4.04	11.28	175,528	50,261
Liabilities (before funding by National Loans Fund)	0.40	0.15	98,254	44,898
	2011 %	2011 Years	2011 £m	2011 £m
Sterling				
Assets	2.75	6.34	254,456	46,723
Liabilities (before funding by National Loans Fund)	0.53	0.17	76,308	49,306

The DMA is charged interest on the advance from the National Loans Fund at the Bank Rate. The benchmark rate for determining the interest payments on other floating rate borrowings is LIBOR.

The DMA held undated gilts with a carrying value of £35 million as at 31 March 2012 (31 March 2011: £27 million). These are included in the above interest rate disclosures except the weighted average period, as these gilts have no maturity date.

(b) Interest rate sensitivity – PV01 summary

PV01 at 31 March was:

	2012 £m	2011 £m
Interest rate risk - cash management	(0.29)	(0.13)
Interest rate risk - retail gilts	(0.01)	(0.01)

The range of end-of-day PV01 exposure in the year ended 31 March was:

Cash management

	2012 £m	2011 £m
Highest positive	0.00	(0.10)
Average	(0.24)	(0.48)
Highest negative	(0.59)	(0.85)

Retail gilts

	2012 £m	2011 £m
Highest positive	(0.01)	(0.01)
Average	(0.01)	(0.01)
Highest negative	(0.01)	(0.01)

A positive PV01 indicates exposure to a parallel fall in relevant yield curves while a negative PV01 indicates exposure to a rise in the curves.

(iv) Currency risk

The DMA enters transactions in instruments denominated in euros, for diversification purposes, with currency exposure hedged via foreign exchange swaps.

A foreign exchange risk limit constrains the extent to which the DMO may incur a net exposure to foreign currency movements when it purchases or sells foreign currency assets. The policy in force during the year (and during the prior year) was to match all currency cash flows. This hedging is monitored daily and any breaches are reported to the Credit and Market Risk Committee.

Forward foreign currency contracts outstanding are disclosed in note 9 and 23(iii).

The DMA has no foreign operations and hence no structural foreign exchange exposures.

(v) Other price risk

The DMA is exposed to risk arising from derivative transactions (equity index swaps) entered into to hedge the risk arising to National Savings & Investments from Guaranteed Equity Bonds in issue (see note 9). Returns on these Bonds are linked to the performance of the FTSE 100 UK equity index (FTSE 100). The net risk exposure of the hedging derivatives comprises exposure to the FTSE 100 market value and implied volatility as well as to LIBOR interest rates. There is a limit on the amount of National Savings & Investments' exposure from Guaranteed Equity Bonds that may remain unhedged by the DMA. Monitoring against this limit is performed daily and any breaches are reported to the Credit and Market Risk Committee.

23 Liquidity risk

Liquidity risk is the risk that the DMA will encounter difficulty in meeting obligations associated with financial liabilities.

The DMO manages the DMA's liquidity primarily by:

- monitoring cash flows to ensure that daily cash requirements are met;
- holding sufficient financial assets for which there is an active market and which can readily be sold or used as collateral against cash borrowings; and
- arranging the issue of Treasury bills and gilts to raise funds.

Management does not expect customers to call amounts repayable on demand simultaneously or without notice.

The DMA and the NLF are under common influence. It is not expected that liabilities of the DMA to the NLF would be required to be paid without warning.

(i) Maximum cumulative flow

A daily liquidity risk limit constrains the extent to which the DMO may leave an expected cash flow to be dealt with on the day it occurs.

The liquidity risk limit is measured by the Maximum Cumulative Flow over one day, which is the maximum permitted amount of any net expected cash inflow or outflow for the following day, assuming normal operating conditions.

A limit was in place throughout the year and acted as a liquidity risk trigger. Limits used operationally are set lower than those agreed with HM Treasury, in order to safeguard against breach of the latter should an operational error arise. These limits are monitored daily and any breaches are reported to the Credit and Market Risk Committee.

(ii) Non-derivative cash flows

The contractual undiscounted cash flows of the DMA's liabilities, other than the cash flows under derivative contracts, including interest that will accrue to these liabilities, were:

At 31 March 2012	On demand £m	0-6 months £m	7-12 months £m	Total flows (not dis-counted) £m	Adjustment for discount £m	Carrying value* £m
Deposits by banks	-	19,617	400	**20,017**	(4)	**20,013**
Due to government customers	44,891	2,303	-	**47,194**	-	**47,194**
Treasury bills in issue	-	74,494	1,500	**75,994**	(57)	**75,937**
Other liabilities	13	-	-	**13**	-	**13**
Total non-derivative liabilities before funding by National Loans Fund	**44,904**	**96,414**	**1,900**	**143,218**	**(61)**	**143,157**

* Carrying value per the statement of financial position

At 31 March 2011	On demand £m	0-6 months £m	7-12 months £m	Total flows (not dis-counted) £m	Adjustment for discount £m	Carrying value* £m
Deposits by banks	-	10,990	-	**10,990**	(2)	**10,988**
Due to government customers	49,294	1,746	-	**51,040**	-	**51,040**
Treasury bills in issue	-	63,647	-	**63,647**	(73)	**63,574**
Other liabilities	204	386	-	**590**	-	**590**
Total non-derivative liabilities before funding by National Loans Fund	**49,498**	**76,769**	**-**	**126,267**	**(75)**	**126,192**

* Carrying value per the statement of financial position

At 31 March 2012 there were no liabilities that the DMA intended to repay before maturity (31 March 2011: nil).

Management expects actual undiscounted cash flows in relation to liabilities to be the same as contractual undiscounted cash flows, except in the case of amounts repayable on demand.

The DMA holds deposits at the Bank of England and other financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs.

(iii) Derivative cash flows

The contractual undiscounted cash flows of the DMA's assets and liabilities under derivative contracts were:

(a) Derivatives settled on a gross basis

At 31 March 2012

	0-6 months £m	Total undiscounted flows £m
Sterling		
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	4,641	**4,641**
Inflow	17,353	**17,353**

	€m	€m
Euro		
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	15,474	**15,474**
Inflow	915	**915**

At 31 March 2011

	0-6 months £m	Total undiscounted flows £m
Sterling		
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	1,170	**1,170**
Inflow	4,800	**4,800**

	€m	€m
Euro		
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	3,441	**3,441**
Inflow	-	**-**

Carrying values are shown in note 9.

(b) Derivatives settled on a net basis

At 31 March 2012	0-6 months £m	6-12 months £m	1-5 years £m	Total undis-counted flows £m	Adjustment for discount £m	Carrying value* £m
Sterling						
Equity index derivatives						
Outflow	5	-	2	**7**	-	**7**
Inflow	-	-	25	**25**	(1)	**24**

At 31 March 2011	0-6 months £m	6-12 months £m	1-5 years £m	Total undis-counted flows £m	Adjustment for discount £m	Carrying value* £m
Sterling						
Equity index derivatives						
Outflow	6	-	6	**12**	-	**12**
Inflow	-	-	21	**21**	(1)	**20**

* Carrying value per the statement of financial position

There were no derivative contracts that the DMA intended to terminate before maturity at 31 March 2012 (or 31 March 2011). Management expects actual undiscounted cash flows in relation to derivatives to be the same as contractual undiscounted cash flows.

24 Preparation of accounts

The accounts were authorised for issue on 6 July 2012.

Accounts Direction given by HM Treasury under the National Loans Act 1968

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

2. The United Kingdom Debt Management Office shall prepare accounts for the Debt Management Account (the Account) for the year ending 31 March 2012 and each subsequent financial year, which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.

3. The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.

4. The accounts shall present an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows, and a statement of changes in net funding by National Loans Fund. The statement of financial position shall present assets and liabilities in order of liquidity.

5. The notes to the accounts shall include disclosure of assets and liabilities, and of income and expense, relating to other central government funds including the National Loans Fund.

6. The report shall include:

(i) a brief history of the Account, and its statutory background;
(ii) an outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management arrangements;
(iii) information on targets set by HM Treasury and their achievement;
(iv) a management commentary, including information on financial performance and financial position, which reflects the relationship between the Account and other central funds; and
(v) a governance statement.

7. This accounts direction shall be reproduced as an appendix to the accounts.

8. This accounts direction supersedes all previous Directions issued by HM Treasury.

Chris Wobschall
Deputy Director, Assurance and Financial Reporting Policy, HM Treasury
23 March 2012

This publication is available in electronic form on the United Kingdom Debt Management Office (DMO) website www.dmo.gov.uk.

All the DMO's publications and a wide range of data are available on its website including:

- the Annual Review, which covers the main developments for the financial year;
- the Quarterly Review, which highlights more recent developments in the DMO's gilt and cash market activities;
- the DMO's Annual Report and Accounts for its administrative expenditure and for the operation of the Debt Management Account;
- current and historical gilt prices and yields;
- press releases, gilt auction announcements and gilt auction results;
- detailed Treasury bill tender results; and
- current and historical interest rates for loans from the Public Works Loan Board.

Alternatively, publications can be obtained from the DMO by telephoning 0845 357 6501.

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