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United Kingdom Debt Management Office

Report and Accounts

2003 - 2004

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

Ordered by the House of Commons to be printed 21 July 2004

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

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

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

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

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

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Contents

Chief Executive's Foreword

Consolidation and expansion

2003-04 was the sixth year of the UK Debt Management Office's operations and was marked by successfully meeting both its debt and cash management remits issued by HM Treasury. In addition, the vast majority of its objectives and published targets were also met in full. In particular we successfully delivered the highest level of gilt sales for a decade.

Gilt sales have been rising steadily over the past few years from £13.7 billion in 2001-02 to £26.3 billion in 2002-03, £49.9 billion in 2003-04 and plans of £47.1 billion during 2004-05. Current forecasts indicate that these relatively high levels are set to continue.

Partly as a consequence of this, turnover in the gilts market is rising rapidly as outright issuance rises - average daily turnover has risen from £7.6 billion in 2001-02, to £8.7 billion in 2002-03 and £11.5 billion in 2003-04 - all reflecting increased liquidity in the market.

The DMO has managed the gilt issuance programme on behalf of the UK Government since 1998. The UK operates a highly predictable and transparent debt management and issuance regime with gilt auction dates published up to a year in advance - the longest period of pre-commitment internationally.

The DMO also continued to consolidate and expand its range of services throughout 2003-04 by supporting additional issues of the National Savings and Investments' (NS&I) Guaranteed Equity Bond (GEB) by hedging the Government's consequential exposure to the equity market; by continuing to make available the Deposit Facility which allows local authorities to deposit surplus funds with the Debt Management Account; and by putting in place arrangements to support the new prudential borrowing regime for local government, which came into effect on 1 April 2004 and is designed to give local authorities more autonomy over and greater accountability for borrowing.

Looking to the future, the DMO has launched a consultation paper outlining its plans to introduce electronic bidding for gilt auctions and Treasury bill tenders. The aim of this is to speed up the 'turnaround time' of auction results thereby reducing the uncertainty and/or risk in the market between the close of bidding deadline and publication of results. This should reduce any inherent risk premium in bids, thereby enhancing value-for-money for HM Government. This is part of the DMO's aim to retain our focus on improving efficiency and reducing operational risk.

This level of achievement is highly valued and I thank the staff of the DMO for their efforts over the year and the market participants for the constructive relationships that we enjoy with them.

Robert Stheeman
Chief Executive and Agency Accounting Officer
14 July 2004

Background on the DMO

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

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

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

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

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

Achievements Against Objectives and Highlights of the Year

HM Treasury Ministers set the DMO's strategic objectives, which are published in the DMO's Business Plan and its Framework Document. The objectives for 2003-04 and the DMO's performance against them are summarised in the section below.

1 To meet the annual remit set by HM Treasury Ministers for the sale of gilts, with high regard to long-term cost minimisation, taking account of risk.

- This has been successfully achieved.
- The gilt sales target has been met through the conduct of twenty-four outright gilt auctions (sixteen conventional and eight index-linked). Outright sales of £47.4 billion were planned in the Remit for 2003-04, published on 9 April 2003 – the highest level for 10-years - and the sales target was increased to £49.7 billion in the PBR on 10 December 2003.
- Gilt sales in the financial year totalled £49.9 billion – the highest level for a decade: The composition of issuance was £43.4 billion conventional and £6.5 billion index-linked.

2 To offset, through its market operations, in a cost-effective manner, the expected daily cash flow into or out of the National Loans Fund (NLF); and to manage, in accordance with objectives set by HM Treasury Ministers, any assets and liabilities held on the DMA, and on behalf of clients.

- This has been successfully achieved on a daily basis except for a period of five working days in July 2003. During this period the Bank of England was unable to report accurately to the DMO the balances of the Debt Management Account bank account and a number of central government accounts that feed into the National Loans Fund. This was caused by the failure of new banking software that the Bank of England had implemented.
- The stock of Treasury bills increased by £4.3 billion, ending the financial year at £19.3 billion. The planned end-financial year stock was increased by £1.0 billion in the Budget on 17 March 2004.
- The intra-year stock of Treasury bills peaked at £27.25 billion in mid-December 2003 to help manage seasonal cash outflows.

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

- This has been successfully achieved.
- The Public Works Loan Board continued its activities throughout the year, successfully achieving its performance targets. Lending was negative for the third year running, with receipts exceeding advances by over £2.0 billion. Modification of the Board's lending policy and operational arrangements took place in advance of the introduction of a new system of local government capital finance on 1 April 2004.
- The DMADF, launched in 2002, through which a range of Local Authorities can deposit cash with the DMO, was operated successfully throughout the period.

4 To guide and assist in the formulation of strategy on debt, cash and fund management, including the remit, and to report to Ministers on the DMO's performance against its remit, objectives and targets.

- This has been successfully achieved.

- The DMO contributed specific advice in a number of areas of the 2003-04 remit (including the provisional remit published in March 2003 ahead of the Budget forecasts):
    - The range of contingencies to be implemented in the event of changes to the Government's financing requirement.
    - The case for new short (and ultra-short) and medium maturity conventional stocks.
    - The size and timing of auctions.
    - The split between an increase in the Treasury bill stock and a run-down in the DMO's net cash position as elements of short-term debt financing.
    - The DMO also contributed substantially to preparation of the *"Debt & Reserves Management Report 2003-04"*.
    - The DMO reported performance against its remit to HM Treasury on a monthly basis, and on developments in the gilts portfolio and compliance against its published targets on a quarterly basis.

5 **To participate pro-actively in the development of strategy for managing the Government's balance sheet and accordingly to contribute to and help develop solutions for financial cost-effectiveness and risk reduction, including by developing partnerships with other parts of the public sector and by providing advice and expertise to other Government departments (and other governments), as required.**

- The DMO has launched a consultation paper outlining its plans to introduce electronic bidding for gilt auctions and Treasury bill tenders. The aim of this is to speed up the 'turnaround time' of auction results thereby reducing the uncertainty and/or risk in the market between the close of bidding deadline and publication of results. This should reduce any inherent risk premium in bids, thereby enhancing value-for-money.
- Throughout the year, the DMO has continued to work with NS&I in their programme of Guaranteed Equity Bond issuance, the former executing equity swaps with bank counterparties in order to hedge the latter's exposure to movements in the FTSE-100 index.
- The gilt portfolio cost-at-risk modelling, which aims at developing a simulation model that can be used to quantify the long-term cost-risk trade-off involved in financing the government debt portfolio, has been developed further. The first version of the model has been completed and the DMO is now working towards improving the model further.
- The DMO continues to play an active part as a member of the Organisation for Economic Co-operation and Development's Working Party on Debt Management, the EU's Economic and Financial Committee Group on Government bond markets and is frequently required to present to or play host to groups and individual officials from overseas countries.
- The DMO promotes the gilts market when speaking at bond conferences both domestically and internationally.

6 **To resource, staff and manage the DMO to deliver its objectives efficiently, cost-effectively and professionally, ensuring value for money is achieved in the office's administrative expenditure.**

- The DMO has continued to keep under review its organisational structure to ensure it most effectively supports business needs; this has included both enhancements and rationalisations to business areas. Overall, the staff headcount fell from 82 to 78 over the 2003-04 financial year.

- From March 2004 a new structure of corporate governance was introduced – with the creation of a Managing Board, supported by five Operational Committees for the key business areas.
- The DMO has continued to keep its pay, performance management and terms and conditions arrangements under review to ensure they are effective in the recruitment, retention and ongoing motivation of staff. During the year the DMO has worked towards updating and aligning the terms and conditions of all staff and has continued to develop its Staff Council as a conduit for communication and consultation with staff.
- As an accredited Investor in People the DMO has continued to support the training and development of staff to achieve organizational objectives, including support for professional qualifications and the development of a corporate training programme.
- The DMO published its policy statement on Health and Safety on 7 January 2003.

7 To develop and maintain appropriate management, information and risk control systems (including procedures to combat potential money laundering); to ensure full and accurate presentation of, and where appropriate facilitate access to, financial, accounting and other information; to ensure accuracy of all DMO publications including its websites and to manage stakeholder relationships fairly and appropriately.

- The DMO is in the implementation stage of an IT project to enhance its quantitative risk analysis capability in order to adopt risk management best practices across its business streams. This implementation commenced in early 2003 and is expected to be completed during the latter half of 2004.
- The DMO has enhanced the focus of its reporting and analysis of operational risks during the year through the use of an external software package and a programme of risk workshops for all teams.
- Anti-money laundering procedures were enhanced by the successful introduction of the 'Approved Group' for public bids at gilt auctions in September 2003.
- The DMO has completed the procurement of an electronic document and records management system expecting roll-out during 2004.
- The DMO has continued to develop systems and procedures for the full implementation of the Freedom of Information Act 2000 in January 2005.
- The 2002-03 Annual Report of the Public Works Loan Board was published on 9 June 2003.
- The audited Accounts of the DMA for 2002-03 were published on 17 July 2003.
- The DMO's Annual (administrative) Report and audited Accounts for 2002-03 were published on 28 August 2003.
- The DMO has continued to expand the content of and resources devoted to its website www.dmo.gov.uk. All the DMO's publications and an increasing amount of data on both the gilts and cash markets appear on the site. The PWLB and CRND sites www.pwlb.gov.uk and www.crnd.gov.uk which provide information on their respective activities to their clients are to be integrated within the DMO site after a redesign project has been implemented.
- The range of DMO publications has been expanded with the publication in February 2004 of a new marketing brochure on gilts. A new edition of the Wholesale Investors Guide to gilts was published in October 2003 (replacing the 1999 edition).

Performance Against Targets

1. To ensure full compliance with the Government's remit for the DMO as set out in the Debt and Reserves Management Report 2003-04, within the tolerances and subject to the review triggers notified separately to the Office and consistently with the objectives of monetary policy.

The DMO complied fully with the gilts remit 2003-04. The gilts sales target, which was increased from £47.4 billion (cash) at Budget 2003 in April 2003 to £49.7 billion (cash) at the Pre-Budget Report (PBR) in November 2003 was met through the conduct of 16 outright gilt auctions and 8 index-linked auctions, as follows:

- 16 April: £425 million (nominal) of 2½% IL 2009
- 24 April: £2,500 million (nominal) of 5% 2014
- 13 May: £3,500 million (nominal) of 4% 2009
- 28 May: £2,250 million (nominal) of 4¼% 2036
- 12 June: £2,500 million (nominal) of 5% 2014
- 24 June: £350 million (nominal) of 2½% IL 2024
- 26 June: £3,250 million (nominal) of 4% 2009
- 2 July: £2,250 million (nominal) of 4¼% 2036
- 16 July: £425 million (nominal) of 2½% IL 2013
- 29 July: £2,500 million (nominal) of 5% 2014
- 14 August: £3,250 million (nominal) of 4% 2009
- 10 September: £2,500 million (nominal) of 4¼% 2036
- 23 September: £650 million (nominal) of 2% IL 2035
- 25 September: £2,750 million (nominal) of 4¾% 2015
- 15 October: £3,250 million (nominal) of 4% 2009
- 23 October: £400 million (nominal) of 2½% IL 2011
- 29 October: £2,500 million (nominal) of 4¾% 2015
- 25 November: £2,500 million (nominal) of 4¼% 2036
- 2 December: £675 million (nominal) of 2% IL 2035
- 13 January: £400 million (nominal) of 2½% IL 2016
- 28 January: £2,500 million (nominal) of 5% 2025
- 12 February: £3,000 million (nominal) of 4½% 2007
- 24 February: £600 million (nominal) of 2% IL 2035
- 24 March: £2,750 million (nominal) of 4½% 2007

Gilt sales at the end of the financial year were £49.9 billion (cash) within permitted operational tolerances.

The DMO complied fully with the cash management remit in 2003-04. Over the financial year, the stock of Treasury bills increased from the 2002-03 end-financial year remit target of £15.0 billion to £19.3 billion as part of the management of forecast exchequer cash in and outflows.

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

Achieved. The gilt auction result release times during the year were:

• 16 April: 2½% IL 2009	20 minutes
• 24 April: 5% 2014	25 minutes
• 13 May: 4% 2009	23 minutes
• 28 May: 4¼% 2036	33 minutes
• 12 June: 5% 2014	23 minutes
• 24 June: 2½% IL 2024	18 minutes

• 26 June: 4% 2009	21 minutes
• 02 July: $4\frac{1}{4}$% 2036	25 minutes
• 16 July: $2\frac{1}{2}$% IL 2013	18 minutes
• 29 July: 5% 2014	23 minutes
• 14 August: 4% 2009	19 minutes
• 10 September: $4\frac{1}{4}$% IL 2036	27 minutes
• 23 September: 2% IL 2035	15 minutes
• 25 September: $4\frac{3}{4}$% 2015	22 minutes
• 15 October: 4% 2009	25 minutes
• 23 October: $2\frac{1}{2}$% IL 2011	20 minutes
• 29 October: $4\frac{3}{4}$% 2015	18 minutes
• 25 November: $4\frac{1}{4}$% 2036	19 minutes
• 02 December: 2% IL 2035	20 minutes
• 13 January: $2\frac{1}{2}$% IL 2016	29 minutes
• 28 January: 5% 2025	21 minutes
• 12 February: $4\frac{1}{2}$% 2007	19 minutes
• 24 February: 2% IL 2035	24 minutes
• 24 March: $4\frac{1}{2}$% 2007	17 minutes

The average release time was 22 minutes.

The release time for the results of the 49 weekly bill tenders held during the financial year ranged from 8 to 28 minutes and averaged 11 minutes. There were no ad hoc or other tenders.

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

Achieved. All transactions going through the DMA have met the required standards. NLF balances are checked and agreed on a daily basis with the Exchequer Funds and Accounts (EFA) team at HM Treasury. DMO agency and DMA account publications were both published ahead of the 17 July 2003 deadline.

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

Achieved. 261 enquiries were received from the public by letter and email in financial year (of which 208 were emails). The average response time was 2 working day.

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

Achieved. There were no breaches of the operational market notices in the financial year.

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

Achieved. Deadlines for late lending and borrowing were met. In addition, in the event of a late shut-down the actual due time is moved, but the target remains the same.

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

   Achieved. Total turnover in the financial year was £829.1 billion. Over the financial year total fails were £1.19 billion (0.14% of annual turnover) of these £892 million were outside the DMO's control.

8. **To release all market sensitive data and announcements in a timely manner and to achieve no factual errors in material published by the DMO on its wire service pages, its websites or its printed documents (insofar as the material is under the control of the DMO and not third parties).**

   All releases were announced in a timely manner.

   16 factual errors were discovered (and quickly corrected) on the DMO website in the financial year.

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

   All loan applications were advanced within two working days of the dates of agreement.

10. **To prepare for audit accounts of the fund managed for public sector clients within 6 weeks of the end of the relevant accounting periods.**

    Achieved. CRND accounts were available for all funds within the 6-week period at the start of financial year 2003-04.

Resources

1. Staff and recruitment

During the year staff numbers fell to 78 people predominantly due to restructuring within the CRND.

In 2003-04 recruitment campaigns were held to fill the following 18 vacancies:

- Senior Business Analyst
- Junior Risk Analyst
- Cash Management Dealer
- Junior Economist
- Senior Economist
- Project Manager
- Head of Policy
- Head of Economic Research
- Senior Project Manager
- Management Accountant
- Accountant/Analyst
- Facilities Manager
- Assistant to the Fund Managers
- IT Operations Analyst
- Risk Analyst
- Settlements Administrator
- Project Manager
- Head of Portfolio Strategy

A diversity breakdown of the successful applicants is detailed below:

Gender

- female – five
- male – thirteen

Disability

- none

Ethnicity

- white – fourteen
- other categories - four

In view of the small number of vacancies further breakdown of ethnicity is not possible without compromising the confidentiality of appointees.

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

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

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

There were two occasions where the exceptions provided in part III (paragraph 3.3 (d)) of the Civil Service Commissioner's Recruitment Code were used in the respect of particular employment decisions. On both occasions the Commissioners exceptionally agreed to convert secondments to permanent appointments to retain specific skills and experience to best meet the DMO's business needs.

2. Equal opportunities

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

3. Employee relations

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

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

In addition, union arrangements for PWLB/CRND staff transferred under the Transfer of Undertakings, Protection of Employment (TUPE) principles are continuing.

Staff may also choose to join a trade union of their choice on an individual basis.

4. Corporate Governance

A number of committees and other groups support the Chief Executive in carrying out his responsibilities. A high level Managing Board advises the three senior managers of the DMO, who in turn are supported by the following operational committees:

- Debt Management Committee
- Cash Management Committee
- Fund Management Committee
- Risk Committee
- Business Planning Management Group

Two external non-Executive Directors, James Barclay and Colin Price are members of the high level Managing Board, together with Sue Owen of HM Treasury.

The DMO established an Audit Committee in 1999 as part of its development of internal risk management and control arrangements in line with best private sector practice. The two external non-executive members of the Managing Board are also members of the DMO's Audit Committee. The Committee meets quarterly and was chaired by James Barclay until January 2004, after which Colin Price took over the chairmanship and James was retained as a Committee member.

5. Improving good practice and investment in people

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

6. Service quality

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

7. Financial performance

The DMO's net operating costs were within the planned budget for 2003-04 at £8.1 million, an increase of £0.3 million on 2002-03.

During 2003-04 the DMO secured efficiency savings in its external settlement expenditure following the de-materialisation of Treasury Bills and the re-engineering of the internal structure of the Agency. However, these were offset by increases in expenditure in other areas including the first full year salary costs of new staff appointments during 2002-03. This had the effect of increasing the net operating cost by 3.9% from the previous year.

8. HM Treasury services

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

9. Health and Safety

The DMO recognises and accepts its responsibility as a good employer for ensuring, as far as is reasonably practicable, the health, safety and welfare at work of all employees; and that the health and safety of visitors, contractors and the general public is not affected as a result of the Office's activities. Regular risk assessments are undertaken, and all employees attend Health & Safety training. The DMO has a good health and safety record, and again this year there were no incidents that required reporting to the Health & Safety Executive.

10. Sustainable development

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

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

11. Auditors' detail

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

Forward Look

The DMO's strategic objectives for 2004-05

Looking to the 2004-05 financial year, the DMO has been given a revised set of strategic objectives; these are:

1. To meet the annual remit set by HM Treasury Ministers for the sale and purchase of gilts, with high regard to long-term cost minimisation, taking account of risk.

2. To offset, through its market operations, in a cost-effective manner, the expected daily cash flow into or out of the National Loans Fund (NLF); and to manage, in accordance with objectives set by HM Treasury Ministers, any assets and liabilities held on the DMA, and on behalf of clients.

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

4. To guide and assist in the formulation of strategy on debt, cash and fund management, including the remit, and to report to Ministers on the DMO's performance against its remit, objectives and targets.

5. To participate pro-actively in the development of a strategy for managing the Government's balance sheet and accordingly to contribute to and help develop solutions for financial cost-effectiveness and risk reduction, including by developing partnerships with other parts of the public sector and by providing advice and expertise to other Government departments (and other governments), as required.

6. To resource, staff and manage the DMO to deliver its objectives efficiently, cost-effectively and professionally, ensuring value for money is achieved in the office's administrative expenditure.

7. To develop and maintain appropriate management, information and risk control systems (including procedures to combat potential money laundering); to ensure full and accurate presentation of and where appropriate facilitate access to financial, accounting and other information; to ensure accuracy of all DMO publications including its websites and to manage stakeholder relationships fairly and appropriately.

The DMO's Targets for 2004-05

1. To ensure full compliance with the Government's remit for the DMO as set out in the Debt and Reserves Management Report 2004-05, within the tolerances and subject to the review triggers notified separately to the DMO and consistently with the objectives of monetary policy.

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

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

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

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

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

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

8. To release all market sensitive data and announcements in a timely manner and to aim to achieve no factual errors in material published by the DMO on its wire service pages, its websites or its printed documents (insofar as the material is under the control of the DMO and not third parties).

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

The DMO's 3-year plan

The longer-term vision of the DMO includes a shift of emphasis to reflect the DMO's aim to play a more active role and take a more proactive approach in supporting HM Treasury in developing its policies towards the central government financial balance sheet more generally. With a major interest in key government liabilities such as gilts and Treasury bills, and PWLB loans and those funds managed for clients, the DMO is keen to ensure that financial cost-effectiveness is achieved (strategic objective 5). The vision reflects what the DMO has begun to do in practice by increasingly contributing to relevant policy issues within both HM Treasury and wider government, while continuing to deliver its core objectives.

In the short term, and this year in particular, the DMO plans to retain the focus on improving efficiency and reducing operational risk. Although initiated independently of the government wide Efficiency Review led by Sir Peter Gershon this work is very much in accordance with the spirit of the Review. Tied into this is establishing improved performance measures which will allow the DMO to demonstrate aggregate savings from improvements in efficiency in a more transparent way.

From 2005-06 there will be particular emphasis on the DMO seeking to contribute to a range of issues more actively.

In 2004-05, economic conditions are expected to lead to gilt sales and gilt operations of a similar level to last year. Each operation requires detailed preparation, can be resource-intensive and is accorded the highest priority, which means that there is limited scope to absorb any significant intra-year changes that could distract from this core objective. Key priorities for next year are therefore split into the following two distinct areas:

- <u>Performance measurement</u> – this will involve broadening and improving DMO performance measures including quantifying what constitutes good performance for the DMO core business function and improving the ability to measure it. The nature of the business function makes this a particularly complex exercise.

- <u>Improving efficiency & reducing operational risk</u> – in support of the stated aims of the Efficiency Review there will be a significant emphasis on continuing to improve efficiency and to reduce operational risk. This will include changes to the way we develop and deliver the business plan including the associated portfolio of projects. The aim in this respect is for the DMO to adopt the ethos and methods instilled within the Office of Government Commerce's guidance on Centres of Excellence where appropriate and practical.

In 2005-06, continuous improvement of delivery of core objectives; providing advice and making a fuller contribution to central government balance sheet issues; co-ordinating and driving initiatives in partnership with key stakeholders; and playing a more active role in the future direction of the DMO.

In 2006-07, continuous improvement of delivery of core objectives; ensuring the vision for each core business is in place; taking more ownership of initiatives with key stakeholders.

UK Debt Management Office Annual Accounts

Year ended 31 March 2004
Presented to Parliament 21 July 2004

Contents

Foreword

Preparation of accounts

The accounts have been prepared in accordance with a direction given by HM Treasury in pursuance of section 7 (2) of the Government Resources and Accounts Act 2000. The text of the direction is reproduced on page 48. The accounts and supporting notes relating to the UK Debt Management Office's activities for the year ended 31 March 2004 have been audited by the Comptroller and Auditor General.

History and statutory background

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

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

Principal activities

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

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

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

Review of activities

2003-04 was another year of significant achievement for the DMO. It successfully met both its debt and cash management remits as directed by HM Treasury, as well as meeting most of its objectives and published targets in full. A full account of these is given on pages 6 to 11.

During the year, 24 outright gilt auctions were successfully held to meet the gilt sales target of £49.7 billion – the highest level for 10 years.

In addition, the stock of Treasury Bills increased by £4.3 billion, to stand at £19.3 billion at 31 March 2004, which helped offset the Government's daily cash flow requirements.

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

Management of the DMO

During 2003-04, Ruth Kelly had ministerial responsibility for the DMO in her role as Financial Secretary to the Treasury.

Robert Stheeman, the Agency's Chief Executive has been appointed through open competition by HM Treasury and commenced his role as head of the DMO on 6 January 2003.

A structure of corporate governance has been established to assist the Chief Executive, comprising of a high level Managing Board that at the 31 March 2004, in addition to the Chief Executive, comprised:

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

James Barclay was Chairman and Chief Executive of Cater Allen Holdings Ltd between 1985 and 1998. Colin Price was Finance Director of Shell Pensions Management Services Ltd between 1991 to 2001 and a member of the Board of IMRO from 1996 to 2000. Both appointments were made by the Chief Executive and are subject to regular review.

The high level Managing Board advises the three senior managers of the DMO, who in turn are supported by operational committees for each of the key business areas.

The DMO is not responsible for the remuneration of any Ministers. The Chief Executive is a member of the Senior Civil Service and HM Treasury sets his salary. The Chief Executive determines the salaries of the two non-Executive members of the Managing Board. The salaries of the remaining members of the Managing Board are set internally or by the body from whom they are seconded in line with their own pay policies. Information on the remuneration and pension costs of senior managers is given in Note 2.3 of the Accounts.

The DMO continues to maintain effective employee relations and to involve staff in decision-making. (Further detail is given on page 13).

Supplier payment policy

All the DMO's invoices are processed for payment by HM Treasury, which is committed to the CBI code on prompt payment and aims to pay all valid invoices within 30 days or less after acceptance of the relevant goods and services, or the receipt of a legitimate invoice if that is later. For 2003-04, HM Treasury achieved this payment target for 81% of invoices across the department.

Equal opportunities policy

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

Disability

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

Health and Safety

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

ROBERT STHEEMAN
Chief Executive and Agency Accounting Officer
14 July 2004

Statement of Accounting Officer's Responsibilities

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

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

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

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

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

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

ROBERT STHEEMAN
Chief Executive and Agency Accounting Officer
14 July 2004

Statement of Internal Control

Scope of responsibility

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

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

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

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

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

The purpose of the system of internal control

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

The system of internal control has been in place in the Debt Management Office for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. Not all components of the current system of internal control have been in place throughout the whole of financial year 2003-04 because the DMO has made substantial additions to the system of internal control over the course of the year. Furthermore the DMO's corporate governance structure was reviewed during the year resulting in some changes being instituted from 1 March 2004 aimed at improving its effectiveness.

Capacity to handle risk

The DMO has a formal risk management strategy and policy. This includes an outline of the DMO's capacity to handle risk. The review of the DMO's governance structure resulted in the formation of a Managing Board from 1 March 2004 which is responsible for setting strategic direction and considering operational issues. Until this time the DMO had an Advisory Board and Managing Committee fulfilling these functions.

Following this review the terms of reference of the Cash Management, Debt Management, Fund Management and Risk Committees were redefined to improve clarity of their roles and responsibilities and strengthen the organisational capability to consider issues and make relevant decisions at the appropriate level.

Presentations have been made to all staff on the DMO's risk management framework. These have covered specific issues such as anti-money laundering, whistleblowing, fraud and personal dealing in order to ensure a good level of awareness of DMO's risk policies and controls. All members of staff have job descriptions, including specific key risks to be addressed.

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

The risk and control framework

The DMO has various formal mechanisms for managing the DMO's risks but it is recognised that the most important aspect is that a strong risk management culture pervades the organisation at all levels. This should be embedded both in its regular operations and equally into the approach taken to new business initiatives. Whilst the DMO includes risk management considerations as part of normal business management, effort to further embed a strong risk management culture in every part of the organisation is being taken forward via a number of initiatives.

The DMO's risk management strategy seeks to achieve a strong risk management culture by linking organisational objectives to the business planning process. Work is underway which will bring greater focus to linking organisational objectives to team objectives, individual objectives and ultimately job descriptions. This is intended to promote a clear understanding of where the ownership of each risk resides within the organisation. Development and refinement of performance indicators and monitoring capabilities is a continuous process.

Heads of business units assess regularly whether risks to their operations are being managed effectively. Risk workshops are held with all business units each year to ensure that key operational risks have been identified, together with an assessment of the adequacy of controls in place to manage these risks. Senior managers have reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. New risks, and risks where there is an increased likelihood of occurrence, are highlighted and actions identified to ensure all risks will be effectively managed. This process is supported by the maintenance of exception logs, which identify control weaknesses and resultant actions to improve controls. Key risks and exceptions are documented in a regular report produced by the Risk Management Unit for the Managing Committee. This reporting process is currently under evaluation following the introduction of new corporate governance arrangements.

A key component of the DMO's control framework is the segregation of duties to promote independent checking and avoid concentration of key activities or related controls in individuals or small groups of staff. In particular segregation of duties takes place between front and back office activities. While further improvements have been made in this regard during the year, there are some areas of activity where further segregation will be implemented shortly or where existing controls will be reviewed.

All teams have documented procedures for their main activities. The DMO has policies on anti-fraud and whistle blowing. Seminars have been held to raise staff awareness of these issues. In establishing controls to deter money laundering the DMO has followed best practice, guidance in the Financial Services Authority's handbook and the joint money laundering steering group.

The DMO's Business Continuity Plan, including disaster recovery site and other arrangements, is subject to continual review and update. Testing of some elements of the BCP was undertaken in the year. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

A mechanism for approving and prioritising the DMO's programme of projects has been established. This has enabled tracking and regular review of the progress of projects by the Managing Committee. During the year a project management team has been established and improved reporting and controls are being introduced progressively in the DMO's management of its project programme. As part of the governance review a new group was established from 1 March 2004 specifically to advise the Managing Board on business planning and project delivery issues.

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

The DMO is currently developing its portfolio risk management capability to apply a wider range of analysis and measures. Implementation of a system to deliver daily value at risk measurement is expected to be one of these.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is a continuous process. It is informed by the work of the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, work of the internal auditors and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Managing Board, the Audit Committee, the Risk Committee and the controls team and a process to address weaknesses and ensure continuous improvement of the system is in place.

- A controls team was formally established at the beginning of the financial year to assess actions to maintain and improve the DMO's system of internal control. The team has met regularly to establish weaknesses in the control environment, recommend actions to management and to lead the implementation of changes where appropriate. The controls team comprises the Head of the DMO's Risk Management Unit, the Controls and Compliance Manager, the Head of Internal Audit and the Finance Manager. The controls team has reported regularly to the Managing Committee on the current status of work to enhance the internal control system during the year.

- The Managing Committee met weekly and addressed control issues at an operational level for the majority of the year. Additionally it received quarterly reports based on the outputs of DMO teams' risk registers on actions required as a result of changes in DMO's risk profile. In addition key issues were also reported to the Advisory Board. From 1 March 2004 the Managing Board and its sub-committee will address these issues with additional input from the Risk Committee.

- The DMO's Audit Committee reviews the adequacy and effectiveness of the DMO's management of risk and internal controls.

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

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

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

Significant internal control problems

Bank of England C21 software implementation:

In July 2003, for a period of five working days, the Bank of England was unable to report accurately to the Debt Management Office the balances of the DMA bank account and a number of central government accounts that feed into the National Loans Fund. This was caused by the failure of new banking software that the Bank of England had implemented. As a result I could not meet all of my responsibilities as Accounting Officer of the DMA with regard to the cash management objectives of the DMO during this period. Specifically I was unable to confirm that the DMA borrowed effectively to meet daily shortfalls in the National Loans Fund or that daily cash surpluses were used to best advantage. Additionally, because of the unique position of the DMA in the Exchequer pyramid of central government accounts, I was unable to be certain that the balances were correct until all other linked government accounts had been reconciled. Once accurate daily balance reporting had been re-established by the Bank of England it undertook a project to ensure that all accounts were fully reconciled and that all corrections were posted. This was completed on 31 October 2003. The corrections made by the Bank of England were reviewed and confirmed by the DMO as accurate. For the re-introduction of the software, the DMO is working closely with the Bank of England and an incrementally staged approach to implementation will be employed. I am satisfied that the DMA has suffered no material loss as a result for which it has not been compensated.

ROBERT STHEEMAN
Chief Executive and Agency Accounting Officer
14 July 2004

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

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

Respective responsibilities of the Agency, Chief Executive and Auditor

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

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

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

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

Basis of audit opinion

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

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Debt Management Office as at 31 March 2004 and of the net operating cost, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and

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

I have no observations to make on these financial statements.

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

John Bourn
Comptroller and Auditor General
15 July 2004

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

OPERATING COST STATEMENT FOR THE YEAR ENDED 31 MARCH 2004

	Note	2003-04	2002-03
		£000	£000
Administration costs			
Staff costs	2	4,202	3,752
Other administration costs	3	5,583	5,325
Gross administration costs		**9,785**	**9,077**
Operations related costs	4.1	2,015	2,019
Gross Administration and Operations-Related Costs		**11,800**	**11,096**
Operating income	5	(3,710)	(3,306)
CFER income	6	(2)	(2)
Net Operating Cost		**8,088**	**7,788**

STATEMENT OF RECOGNISED GAINS AND LOSSES

	2003-04	2002-03
	£000	£000
Net gain on revaluation of tangible fixed assets	-	1

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

BALANCE SHEET AS AT 31 MARCH 2004

	Note	31 March 2004 £000	31 March 2004 £000	31 March 2003 £000
Fixed assets				
Tangible assets	7.1	773		1,159
Intangible assets	7.2	723		670
			1,496	1,829
Current assets				
Debtors	8	1,303		1,405
Cash at bank and in hand	9	359		352
		1,662		1,757
Creditors (amounts falling due within one year)	10	(939)		(2,233)
Net current assets / (liabilities)			**723**	**(476)**
Total assets less current liabilities			**2,219**	**1,353**
Creditors (amounts falling due after more than one year)	10		(268)	(268)
Provisions for liabilities and charges	11		(466)	(42)
			1,485	**1,043**
Represented by:				
Taxpayers' equity				
General Fund	12		(1,485)	(1,043)
			(1,485)	**(1,043)**

ROBERT STHEEMAN
Chief Executive and Agency Accounting Officer
14 July 2004

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2004

	Note	2003-04	2002-03
		£000	£000
Net cash outflow from operating activities	13	(7,313)	(5,825)
Capital expenditure and financial investment		(584)	(1,252)
Net cash outflow before financing		**(7,897)**	**(7,077)**
Financing			
Net cash requirement		7,904	7,118
Increase/(decrease) in cash in the period		**7**	**41**

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

NOTES TO THE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

1.1 Basis of preparation
The financial statements have been prepared in accordance with the 2003–04 *Resource Accounting Manual* (*RAM*) issued by HM Treasury. The accounting policies contained in the *RAM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the *RAM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving a true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

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

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

Prior to 2002-03, the threshold for the capitalisation of expenditure by DMO on tangible and intangible fixed assets was £500 per item (exclusive of VAT). From 1 April 2002, this capitalisation threshold was raised to £5,000. Assets that had a net book value in the Fixed Asset Register less than this limit were depreciated to zero in year.

Fixed assets are revalued each year to the net current replacement cost by reference to appropriate indices included within *Price Index Numbers for Current Cost Accounting*, published by the Government Statistics Service. Revaluation surpluses arising from temporary changes in value are credited to the revaluation reserve. Permanent diminutions in value are charged to the operating cost statement, except to the extent that a revaluation surplus exists in respect of the same asset.

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

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

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

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

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

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

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

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

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

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

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

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

2. STAFF NUMBERS AND COSTS

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

	2003-04 Number					2002-03 Number
	TOTAL	Senior Management	Officials	Staff on inward secondment	Agency, temporary and contract staff	Total
Maintaining sound public finances in accordance with the Code for Fiscal Stability	**83**	2	75	1	5	78
Staff engaged on capital projects	**3**	-	2	-	1	3
TOTAL	**86**	2	77	1	6	81

2.2. Aggregate staff payroll costs were:

	2003-04	**2002-03**
	£000	£000
Wages and salaries	3,602	2,900
Social security costs	317	232
Other pension costs	491	414
Sub Total	**4,410**	**3,546**
Inward secondees	118	206
Total	**4,528**	**3,752**
Less recoveries in respect of outward secondment	(21)	-
Total Net Costs *	**4,507**	**3,752**

* Of the total £241,757 has been charged to capital.

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

For 2003–04, normal employer contributions of £467,563 were payable to the PCSPS (2002–03 £414,000) at rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands, but will increase from 2005-06. Employer contribution rates are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred; and they reflect past experience of the scheme.

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

2.3. Salary and pension entitlements

The salary and pension entitlements of the senior managers of the DMO were as follows:

	Robert Stheeman Chief Executive	Jo Whelan Deputy Chief Executive	Jim Juffs Chief Operating Officer
Salary received in year (£k)	110 - 115	65 - 70	95 - 100
Real increase in pension entitlement at age 60 (£k)	0 - 2.5	*	0 - 2.5
Real increase in lump sum at age 60 (£k)	-	*	2.5 - 5.0
Total accrued pension at age 60 at 31 March 2004 (£k)	0 - 2.5	*	2.5 - 5.0
Accrued pension related lump sum at age 60 at 31 March 2004 (£k)	-	*	10 - 15
Cash Equivalent Transfer Value (CETV) at 31 March 2003 (nearest £k)	4	*	38
CETV at 31 March 2004 (nearest £k)	24	*	55
Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £k)	15	*	14

* Consent to disclose withheld.

Jo Whelan formally joined the DMO on 1 January 2004. For the earlier part of the year, she was an inward secondee from the Bank of England and, therefore, part of her salary received in the year was paid by the Bank.

The other members of the Managing Board are the Non-Executive directors, Colin Price and James Barclay, who both received salaries and allowances of £13,000 in the period, and Sue Owen, who is an employee of HM Treasury and not remunerated by the DMO.

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

2.3.2 **Pension**

Pension benefits are provided through the Civil Service Pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

- **Classic Scheme** – Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on the length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

- **Premium Scheme** – Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths of the members pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the members ill health is such that it permanently prevents them undertaking gainful employment, service is enhanced to what they would have accrued at age 60.

- **Classic Plus Scheme** – This is essentially a variation of ***premium***, but with benefits in respect of service before 1 October 2002 calculated broadly as per ***classic***.

  Pensions payable under ***classic, premium*** and ***classic plus*** are increased in line with the Retail Prices Index.

- **Partnership Pension Account** – this is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service cover and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

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

Rows 6 and 7 of the table above show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Row 8 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end period.

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

Staff that were on loan from the Bank of England during 2003-04 were members of the Bank's pension scheme for the period that they were inward secondees to the DMO. Contributions to the relevant pension scheme are recharged to the DMO and included within Note 2.2.

3. OTHER ADMINISTRATION COSTS

	2003-04	2002-03
	£000	£000
Rentals under operating leases:		
Other operating leases	1,128	1,149
Non-cash items (Note a):		
Depreciation and amortisation of fixed assets	806	1,484
Cost of capital charge	44	78
HM Treasury Notional Costs	42	40
Auditors Fee	21	20
Provision for early-departure costs:		
Provided in year	520	4
Unwinding of discount on provisions	(1)	(2)
Other expenditure (Note b)	3,023	2,552
	5,583	**5,325**
Notes:		
a		
Other administration costs - non-cash items (as above)	1,432	1,624
b		
Accommodation related costs	513	503
Consultants & Professionals	525	560
IT & Telecommunications	1,348	1,106
Travel, Subsistence & Hospitality	84	38
Legal Services	81	70
Training	133	94
Printing & Stationery	75	43
Interest Payable and similar charges	8	8
Other Costs	146	131
Deficit / (Gain) on Revaluation	110	(1)
	3,023	**2,552**

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

The auditors fee relates entirely to audit work.

4. OPERATIONS-RELATED COSTS AND NOTIONAL INTEREST ON CAPITAL

4.1. Operations-Related Costs

	2003-04	2002-03
	£000	£000
Settlement and Custodial Charges	832	1,288
Stock Exchange Listing Fees	762	397
Auction Advertising Costs	421	334
	2,015	**2,019**

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

4.2. Notional Interest on Capital

A charge reflecting the cost of capital utilised by the agency is included within the operating cost statement. The charge is calculated at the government's standard rate of 3.5% in real terms on all assets less liabilities.

5. OPERATING INCOME

	2003-04	2002-03
	£000	£000
Recharges to the National Loans Fund (stock listing and other fees)	1,180	731
Recharges to GEMMs (regarding trading system costs)	112	91
Rentals receivable in respect of operating leases	275	254
Fees and charges to CRND clients	771	765
Fees and charges to PWLB customers	1,278	1,361
Other income	94	104
	3,710	**3,306**

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

6. ANALYSIS OF INCOME PAYABLE TO THE CONSOLIDATED FUND

In addition to appropriations-in-aid, the following income relates to the DMO and is payable to the Consolidated Fund (cash receipts being shown in italics):

	Forecast 2003-04		Outturn 2003-04	
	Income	***Receipts***	**Income**	***Receipts***
	£000	£000	£000	£000
Other operating income and receipts not classified as AinA	-	-	2	*2*

CFER income in the period comprises Bank of England interest received during the year.

7. FIXED ASSETS

7.1. Tangible Fixed Assets

	Leasehold Improvements	**IT**	**Telecoms**	**Office Equipment**	**Total**
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2003	1,123	2,165	125	-	3,413
Additions	-	129	38	23	190
Disposals	-	-	-	-	-
Deficit on revaluation	(24)	(59)	(2)	-	(85)
At 31 March 2004	**1,099**	**2,235**	**161**	**23**	**3,518**
Depreciation					
At 1 April 2003	(511)	(1,642)	(101)	-	(2,254)
Charged in year	(69)	(395)	(22)	(5)	(491)
At 31 March 2004	**(580)**	**(2,037)**	**(123)**	**(5)**	**(2,745)**
Net book value					
At 31 March 2004	**519**	**198**	**38**	**18**	**773**
At 31 March 2003	**612**	**523**	**24**	**-**	**1,159**

Capitalised staff development costs of £94,101 (2002-03 £82,354) are included in the tangible assets figure.

7.2. Intangible Fixed Assets

	Software
	£000
Cost or valuation	
At 1 April 2003	1,395
Additions	394
Disposals	-
Deficit on revaluation	(26)
At 31 March 2004	**1,763**
Depreciation	
At 1 April 2003	(725)
Charged in year	(315)
At 31 March 2004	**(1,040)**
Net book value	
At 31 March 2004	**723**
At 31 March 2003	**670**

8. DEBTORS

	31 March 2004	31 March 2003
	£000	£000
Amounts falling due within one year:		
Prepayments and accrued income	718	792
Amounts receivable from NLF	304	363
Other Debtors	266	250
	1,288	**1,405**
Amounts falling due after more than one year:		
Prepayments and accrued income	15	-
	1,303	**1,405**

9. CASH AT BANK AND IN HAND

	31 March 2004	31 March 2003
	£000	£000
Balances with the Bank of England and in hand	359	352

10. CREDITORS

	31 March 2004	31 March 2003
	£000	£000
Amounts falling due within one year		
Trade creditors	114	355
Taxation and Social Security Creditors	162	-
Other creditors	-	50
Accruals and deferred income	642	586
Creditor bond interest	19	11
Payable to the Consolidated Fund:		
Excess appropriations-in-aid	-	853
Other payments due to be paid to the Consolidated Fund	2	378
	939	**2,233**
Amounts falling due after more than one year		
Deposit advance held as creditor bond	268	268
	1,207	**2,501**

11. PROVISIONS FOR LIABILITIES AND CHARGES

	2003-04 Early departure costs	2002-03 Early departure costs
	£000	£000
Balance at 1 April 2003	42	90
Provided in the year	520	4
Provisions utilised in the year	(95)	(50)
Unwinding of discount	(1)	(2)
Balance at 31 March 2004	**466**	**42**

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The department provides for this in full when the early retirement programme becomes binding on the department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 3.5 per cent in real terms. In past years the department paid in advance some of its liability for early retirement by making a payment to the Paymaster General's Account at the Bank of England for the credit of the Civil Service Superannuation Vote. The balance remaining is treated as a prepayment.

12. TAXPAYERS' EQUITY

Reconciliation of Net Operating Cost to Changes in General Fund

	2003-04	2002-03
	£000	£000
Net operating cost	(8,088)	(7,788)
CFER Expense	-	-
Net Cash Requirement	7,904	7,118
Add: Non-Cash Charges		
Notional Interest on Capital	44	78
Auditors Fee	21	20
Provisions for early-departure costs	519	2
HM Treasury Notional Costs	42	40
	626	**140**
Net increase / (decrease) in General Fund	442	(530)
General Fund at 1 April 2003	1,043	1,573
General Fund at 31 March 2004	1,485	1,043

13. ANALYSIS OF CASH FLOW

Reconciliation of Operating Costs to Operating Cash Flows

	2003-04		2002-03
	£000	£000	£000
Net operating cost		(8,088)	(7,788)
Adjust for non-cash transactions:			
Depreciation & Revaluation	917		1,484
Notional Interest on Capital	44		78
HM Treasury Notional Costs	42		40
Auditors Remuneration	21		20
Provision for early-departure costs	519		2
Adjustment on revaluation reserve	-		(1)
		1,543	1,623
Adjust for movements in working capital other than cash:			
Decrease/(Increase) in debtors	102		(305)
(Decrease)/Increase in current creditors	(870)		645
		(768)	340
Net Cash outflow from operating activities		**(7,313)**	**(5,825)**

14. OPERATING LEASES

14.1 At 31 March 2004 commitments under operating leases were as follows:

	2003-04			2002-03
	Land and Buildings	**Other**	**Total**	**Total**
	£000	£000	£000	£000
Operating leases which expire within one year	-	11	11	37
Operating leases which expire beyond one year but not more than five years: premises lease	1,116	-	1,116	1,139
	1,116	**11**	**1,127**	**1,176**

14.2 At 31 March 2004 receivables under operating leases were as follows:

	2003-04 Land and Buildings	2002-03 Total
	£000	£000
Operating leases which expire beyond one year but not more than five years: premises lease	**275**	**254**

15. CAPITAL COMMITMENTS

	2003-04	2002-03
	£000	£000
Contracted capital commitments at 31 March 2004 for which no provision has been made	-	**270**

16. CONTINGENT LIABILITIES

The DMO has no contingent liabilities at 31 March 2004.

17. RELATED THIRD PARTY TRANSACTIONS

The DMO is an executive agency of HM Treasury, which is therefore regarded as a related party. During the year the DMO has had various transactions with HM Treasury for which notional charges of £42,000 are made.

Other related parties with whom DMO has undertaken various transactions are the Bank of England, and National Savings & Investments.

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

18. KEY FINANCIAL PERFORMANCE TARGETS

There are no key financial targets; the DMO has a number of key targets, but these are intentionally not focused on financial accounting indicators in order to avoid undue risk to its longer-term objectives.

19. FRS13 DISCLOSURES

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

ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 7(2) OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000

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

2. These executive agencies shall prepare accounts for the year ended 31 March 2004 in compliance with the accounting principles and disclosure requirements of the edition of the Resource Accounting Manual issued by H M Treasury which is in force for 2003-04.

3. The accounts shall be prepared so as to:

   give a true and fair view of the income and expenditure (or as appropriate, net resource outturn), total recognised gains and losses (or, as appropriate, recognised gains and losses), and cash flows of the agency for the financial year, and of the state of affairs as at 31 March 2004; and

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

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

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

30 January 2004

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