

UNITED KINGDOM DEBT MANAGEMENT OFFICE

BUSINESS PLAN 2006-2007

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Introduction

1 This is the ninth business plan to be published annually by the UK Debt Management Office (“DMO”) since it was established as an executive agency of HM Treasury (“HMT”) on 1 April 1998. The DMO’s main aim continues to be “to carry out the Government’s debt management policy of minimising its financing cost over the long-term taking account of risk, and to minimise the cost of offsetting the Government’s net cash flows over time, while operating within a risk appetite approved by Ministers”. The DMO’s objectives are consistent with and support HMT’s objectives.

Key themes for the 2006-07 business plan

2 The key business planning themes for 2006-07, which are set out in more detail below, are similar to and consistent with previous years and contain a wide range of activities that are intended to ensure the DMO continues to add significant value in a cost-effective way to the services it delivers to its wide range of stakeholders.

The debt and cash management remit

3 The 2006-07 plan recognises, in particular, the critical importance to the DMO, HMT and our stakeholders of the effective development and delivery of the debt and cash management remit to the highest possible standards. This is at the heart of the DMO’s core objectives and we are acutely alert to its importance. The rest of the business plan is therefore built around this central theme although our other core services and a range of projects and initiatives that support these will also continue to be delivered and progressed over the period to the highest standards of quality and cost-effectiveness.

Cash management

4 We would like to continue to develop the implementation of the reforms relating to the modification of the cash management objective set out in the 2005-06 remit and also complete the preparations to be ready for the introduction in due course of the Bank of England’s new money markets regime.

Analysis & research

5 In support of our core objectives, we would like to continue to develop further – in consultation with HMT as necessary – analytical tools and techniques to help inform debt and cash management strategy.

Resilience initiatives

6 Reflecting the importance we attach to the safe and effective delivery of our operational objectives, we intend to undertake a wide range of initiatives aimed at

enhancing further the DMO's operational resilience. This will include taking forward the development of a straightforward, safe, secure and cost-effective electronic bidding system for gilts and Treasury bills, upgrading our IT infrastructure and key applications and more generally enhancing our business continuity arrangements.

Cost-effectiveness and efficiency

7 Based on current estimates, the delivery of the 2006-07 plan is affordable in terms of the DMO's administrative budget and if unanticipated costs were to emerge during the year, we would ensure that these were contained within this "envelope". As with other Government departments and agencies, the DMO's activities fall within the scope of the ongoing Comprehensive Spending Review and we have played an active part in and contributed to the work that has been generated by this initiative.

Corporate governance

8 The DMO, as an executive agency of HMT, is legally indistinguishable from the latter. The nature of its status together with other details relating to its responsibilities and remit as an executive agency is contained in its Framework Document which was last updated and issued in April 2005.

9 The DMO's Chief Executive and Accounting Officer, Robert Stheeman, reports to the Chancellor of the Exchequer and is accountable to Parliament in discharging his responsibilities.

10 The DMO has a senior management team that comprises Robert Stheeman; Jo Whelan, Deputy Chief Executive and Head of Policy & Markets; and Jim Juffs, Chief Operating Officer and Head of Operations and Resources. Together with a HMT representative, Sue Owen¹, and two non-executives, Colin Price and Brian Larkman, they make up the DMO's Managing Board - the agency's senior management team.

11 The DMO's Audit Committee is chaired by Colin Price who, along with Brian Larkman and Jim Juffs, form the membership of the Committee. Robert Stheeman, Jo Whelan, representatives from the DMO's teams, HMT's internal audit team and the National Audit Office are also attendees of the Audit Committee meetings.

12 In 2005-06, the DMO had a complement of around 80-85 staff which is similar to previous years.

Values

13 The DMO seeks to conduct itself and deliver its objectives using the highest possible standards. Its values are as follows:

- To promote and achieve professional excellence
- To be communicative, consultative and collaborative
- To be innovative, flexible and responsive
- To add value
- To be delivery focussed
- To be scrupulously fair
- To be an excellent place to work.

¹Sue Owen left the DMO's Managing Board with effect from 31.3.2006

Aim, objectives and responsibilities

14 The DMO's aim, agency objectives and responsibilities are set out below.

Aim

15 The DMO is the executive agency of HMT specialising in the delivery of treasury management services and related policy advice to central government. The DMO performs these functions with a view to contributing to HM Government's objectives of achieving sound and sustainable public finances and improving the cost effectiveness of public services.

Agency objectives

1. To develop, provide advice on and implement HMG's debt management strategy.
2. To develop, provide advice on and implement HMG's cash management requirements.
3. To advise HMT on the development and implementation of strategies for managing HMG's balance sheet, to secure sound public finances.
4. To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.
5. To provide a cost-effective lending service to local authorities through the Public Works Loan Board.
6. To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.
7. To manage, operate and develop an appropriate risk and control framework.

In the delivery of these objectives, the DMO seeks to support primarily HMT's Objective I: "Maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability". It also seeks to support Objective III "Promote efficient, stable and fair financial markets, for their users and the economy"; Objective VI: "Improve the quality and the cost-effectiveness of public services"; and Objective VII: "Achieve world-class standards of financial management in government" respectively.

Review of 2005-06

16 The DMO has delivered most of its 2005-06 key objectives and details of these will be published in due course with the DMO's Reports and Accounts for 2005-06:

- The gilt remit for 2005-06 was successfully delivered, with an estimated outturn from gilt sales of £52.3 billion (cash).
- The DMO launched for the first time in over 40 years, following consultation with the public and stakeholders, conventional and index-linked gilts with original maturities of approximately 50 years.
- The DMO prepared the strategic and operational capability to deliver the new cash management objective introduced as part of the 2005-06 cash management remit in April 2005².
- The DMO continued to support additional issues of National Savings and Investments' (NS&I) Guaranteed Equity Bond (GEB) product by hedging HMG's consequential exposure to the equity market.
- The DMO continued to manage the gilt registration contract with Computershare Investor Services PLC ("Computershare") on behalf of HMT following the transfer of the registration function from the Bank of England in December 2004. It also continued to offer the gilt purchase and sale service for retail investors which is carried out in association with Computershare as the DMO's agent.
- The DMO was reaccredited as an "Investor in people" until September 2008.

²"To minimise the cost of offsetting the Government's net cash flows over time, while operating within a risk appetite approved by Ministers."

Key Planning Themes – for the period to 2008-09

17 As indicated above, the key planning themes reflect the need for the DMO to continue to deliver its core operational objectives to the highest standards; to develop further initiatives that advance the effectiveness of HMG's financial management; to continue to be efficient in the stewardship of the agency; and also to recognise the key contribution the DMO makes in the support of HMT's objectives.

18 The objectives within each key planning theme are set out below.

To continue to deliver the DMO's core operations and activities to the excellent standard required.

This will include the following:

- Managing the debt and cash management operations successfully to deliver the financing programmes incorporated within the 2006-07 remit.
- Developing in due course the debt and cash management remit for 2007-08.
- Delivering the PWLB lending objectives for local authorities and developing, where appropriate and feasible, enhancements to the service.
- Managing the CRND funds in accordance with their respective mandates from clients.
- Delivering the gilt purchase and sale service for retail investors efficiently and effectively.
- Managing the registration contract with Computershare, on behalf of HMT, in an effective and efficient way.
- Continuing to manage hedging transactions as required to meet NS&I's requirements in respect of its financing programme.
- Ensuring that the DMO's website, publications and information are managed effectively and are available to stakeholders when required.

To further the development of debt and cash management strategy in particular where this identifies initiatives that may provide cost and risk minimisation benefits for HMG.

This will include the following:

- Developing further our understanding of the composition of, drivers for and issues relating to the investor base for gilts and Treasury bills.
- Developing further analytical tools and techniques – in consultation with HMT as necessary - that help inform debt and cash management strategy.

- Assisting HMT with the development of a consolidated profile of public finances and considering any associated asset/liability-related issues.
- Continuing to work with the National Audit Office on the study on debt management.
- Developing enhancements to the delivery and measurement of the effectiveness of cash management operations.

To improve efficiency and to reduce operational risk where possible

This will include the following:

- Taking forward the preparations for the introduction of electronic bidding at gilt auctions and Treasury bill tenders.
- Reviewing further the DMO's banking and settlement arrangements with the intention of identifying efficiencies and where possible advances in operational effectiveness.
- Developing and enhancing the DMO's business delivery capability to improve the operational efficiency of the agency.
- Enhancing the DMO's risk management analytical and reporting framework and capability.
- Continuing to enhance business continuity arrangements to develop further the DMO's operational resilience.
- Implementing a programme of strategic IT work to enhance the DMO's core infrastructure and applications.
- Developing further the management information produced to support the DMO's business and agency functions.
- Implementing efficiencies in the management of information taking due account of the Freedom of Information Act requirements.
- Continuing to deliver the programme of savings identified as part of the Efficiency Review
- To continue to contribute to the workstreams underpinning the ongoing Comprehensive Spending Review.

To ensure the core values of the DMO continue to make it an excellent place to work.

This will include the following:

- Continuing to integrate and embed the DMO's core values into all aspects of the DMO's operations ensuring these activities are consistent with and build upon its "Investor in People" status.
- Identifying and implementing where appropriate more effective ways of working.

Planning Uncertainties

19 In view of the scale and diversity of the plan, there are a wide range of risks and constraints to its delivery. The DMO must therefore retain the capability to re-order priorities if required to do so. The main categories of planning uncertainty are as follows:

- Change in stakeholder requirements - where the DMO may be required, for example by HMT, to give priority to particular initiatives that may or may not be in the business plan at present.
- Market infrastructure issues – such as emerged in respect of the long end of the gilts market in the latter part of 2005-06, which might require issues or initiatives to be re-prioritised.

20 Mitigation measures have been developed as far as is possible to help alleviate the impact of changes to the business plan but inevitably these will not be able to eliminate the risk or impact entirely.

Operational targets 2006-07

1. To ensure full compliance with HMG's remit for the DMO (which is primarily set out in the Debt and Reserves Management Report 2006-07 but, in some areas, is subject to confidential parameters notified separately to the DMO).
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 required 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 4 working days and for at least 95 per cent to be sent a substantive reply within 2 weeks. Furthermore, the DMO will respond to enquiries under the Freedom of Information Act within the statutory timeframe.
5. To achieve less than 5 breaches of operational market notices (excluding any breaches which HMT accept were beyond the control of the DMO).
6. To ensure that, where there is a late change in the cash management forecast, any necessary use of end of day borrowing or lending facilities is notified by the due time, where applicable; and to ensure that target weekly balances and expected daily variations are notified according to the agreed schedule.
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 web sites 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).
10. To ensure that the gilts purchase and sales service is operated according to its published terms and conditions.