

UNITED KINGDOM DEBT MANAGEMENT OFFICE
BUSINESS PLAN 2002-2003

EXECUTIVE SUMMARY

Introduction (paragraphs 1-9)

1. The UK Debt Management Office (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."

2. This annual business plan focuses on the DMO's targets and objectives for 2002-03, and the strategies for achieving them. A review is also presented of the DMO's achievements in 2001-02.

3. The main themes of this year's plan are: increasing service delivery; improving policy definition and developing management information; and further risk reduction and operational resilience. On 1 July 2002 the Public Works Loan Board and National Debt Office are to be integrated into the DMO; this is a major project and in due course the DMO will be reviewing the planning objectives of the expanded office.

Aims, Objectives and Long Term Targets (paragraphs 10-23)

4. The starting point for the development of the DMO's targets is the strategic objectives given to the DMO in support of its aim. Since only some of the strategic objectives can readily be translated into quantified targets for planning purposes, they have been bracketed into 6 "key objectives". These are the basis of long-term targets which, if achieved over a 3-5 year framework, would be seen as an unqualified success for the DMO. In order to formulate targets for the current budget period and beyond, the DMO has further developed these objectives into a series of characteristics which must be realised if the DMO's strategic objectives are to be achieved; they are in turn the basis of high level longer term targets.

5. In developing these targets, the DMO has drawn on its own view of what it wants to achieve and how. This means meeting its objectives to a high standard and

maintaining its core values: being professional, goal oriented, responsive and outward looking, scrupulously fair, ready to take the initiative and providing a good place to work.

6. The plan also takes into account how the environment external to the DMO might change and the risks arising. The DMO must have the capability to respond to events and manage risks as they arise. Many of these uncertainties centre around the path of the CGNCR and its implications both for gilts sales and the Government's net cash position. The main planning conclusions are a need to maintain flexibility, an open culture, high quality of staff, and wide external contacts. The DMO must also have in place strategies to mitigate the risks that could affect its internal capabilities, and the corporate governance arrangements to support them.

Targets and Resources in 2002-03 (paragraphs 24-40)

7. The DMO's targets for the year ahead are cascaded down to teams and hence to individuals. The DMO has developed this year an additional planning tool, intermediate between objectives and activities. These "key business activities" specify the DMO's main business areas and are the basis for identifying the intended business outcomes over the year ahead, in turn driving project and resource priorities and budgets. The changes made last year in the DMO's governance and functional organisation have been further developed; the DMO continues to be organised flexibly, and there is substantial working across the different areas to ensure that the relevant skills and resources are brought to bear.

8. The plan summarises the DMO's main targets under the key objectives, and also sets out its published performance targets.

9. The DMO's resource requirement is driven largely by the need to meet its responsibilities; and to secure skills and systems that are not readily elsewhere in Government. Training and development is central in ensuring that the DMO has the right skills available to a high standard. The business plan drives the identification of training and development needs at both team and individual level. The DMO intends to maintain its Investors in People (IiP) accreditation that it achieved in 2000.

UNITED KINGDOM DEBT MANAGEMENT OFFICE

BUSINESS PLAN 2002-2003

Introduction

1. The UK Debt Management Office (DMO) was established on 1 April 1998. Its main aim is “to carry out the Government’s debt management policy of minimising the financing cost over the long term taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way...”. The DMO’s aim supports the Treasury’s objective of “maintaining sound public finances in accordance with the Code for Fiscal Stability”.

2. This is the DMO’s fifth annual business plan. After a brief review of 2001-02, the plan proceeds as follows:

- a) from the DMO’s aim and strategic objectives, a set of key objectives is developed;
- b) these in turn are used to identify the DMO’s long-term targets. As part of this, the plan elaborates what the DMO wants to achieve, the behaviours and values that it should adopt, and hence the practical strategies needed, taking also into account planning uncertainties and risks;
- c) the development of short term targets follows the formulation of the DMO’s ‘key business activities’; and the breaking down of these into a number of activities which lead to the short term targets;
- d) the targets are cascaded to teams and hence to individuals, and also underpin resource and training plans.

3. The attached annexes review the DMO’s performance in 2001-02 as well as providing supporting detail. Annex A illustrates the planning process diagrammatically, and provides a guide through subsequent annexes.

4. The emphasis of the plan for 2001-02 was on maintaining and consolidating high quality policy and operational standards, risk reduction including business continuity planning, improving management information, and embedding systems and procedures.

5. The same themes continue to be important. But in the course of 2002-03, the DMO will also be developing its service and delivery capability, including its collaboration with other parts of the public sector. An important aspect of this is the decision, announced by the Economic Secretary on 25 March 2002, to integrate the Public Works Loan Board (PWLB) and National Debt Office (NDO) functions of the National Investment and Loans Office (NILO) into the DMO. This merger will take place on 1 July 2002. The implications for the DMO's strategic objectives will be announced in due course.

Review of 2001-02

6. The DMO performed strongly in 2001-02. Most of its objectives, and published targets were met in full. Details are in Annex J, which reviews performance generally, and in Annex K, showing achievement against targets.

7. As well as meeting its debt and cash management remits, the DMO took forward a number of policy initiatives in both areas. Following market consultation, the first index-linked switch auction was held in July 2001. The market was also consulted on a possible new design of index-linked gilts, although in the light of the responses, it was decided to make only modest changes to the existing design, which will affect any new issues from July 2002. The net cash position held on the debt management account following the substantial inflows from the 3G mobile phone spectrum licence auctions in 2000 was successfully managed. A substantial increase in Treasury Bill issuance in the second half of 2001-02 has been supported by a number of reforms, including the introduction of primary participants.

8. During 2001-02 the DMO extended its range of services. It has worked with National Savings and Investments (NS&I) to reduce the equity market exposure that the Government would otherwise have following the introduction of NS&I's Guaranteed Equity Bond. In February 2002, the Department of Transport, Local Government and the Regions announced that the DMO would be introducing a

Deposit Facility (as a pilot from April 2002) to allow local authorities to deposit surplus funds with the Debt Management Account.

9. Internally the DMO has improved its operational resilience in a number of areas; and successfully moved to new premises in July 2001. Its web site has been substantially expanded – a note on the web site and recent publications is at Annex L.

The DMO's aim and objectives

10. The DMO's responsibilities have developed over the last year, although the change has not been so significant as in 2000-01, which marked the assumption of cash management responsibilities by the DMO, and the development of a capability to manage effectively the Government's net short-term cash position. However, as noted above, the DMO has extended its capability in the course of 2001-02, and has also been able to offer advice and expertise to a number of public sector organisations. In the light of these developments, Treasury Ministers have amended the DMO's strategic objectives to make clear its responsibility to assist wider financial cost-effectiveness and risk reduction in partnership with others in the public sector.

11. The DMO's strategic objectives, which are published at Annex B, are likely to be further revised following the decision to integrate the relevant functions of NILO into the DMO. These functions are the NDO which has responsibility for managing the financial resources of a number of public sector and related funds; and the PWLB which is the channel through which local authorities borrow from the National Loans Fund (NLF). The merger will not only give the DMO operational responsibility for delivering the services of the NDO and PWLB in accordance with the relevant legislation, it will also bring within the perspective of a single body the management of a much larger proportion of the government's financial balance sheet with associated planning and analytical benefits.

12. The DMO's strategic objectives are the starting point for the development of the DMO's targets. However, only some of the strategic objectives can readily be translated into a series of quantified measures for planning purposes. Some have the character of means rather than ends. The DMO has therefore bracketed

together some of the strategic objectives in defining 6 “key objectives”. These are intended to be the basis of long-term targets which, if achieved over a 3-5 year framework, would be seen as an unqualified success.

13. The 6 key objectives are:

- a) consistently meets the annual gilts (and TBills) remit, showing high regard for long term cost minimisation taking account of risk;
- b) maintains a liquid, competitive and orderly gilts market, with wide investor appeal;
- c) consistently balances the NLF daily cash flow, and in a cost-effective manner, with due regard for risk;
- d) effectively and efficiently manages assets held on the DMA, taking account of risk;
- e) meets high professional and operational standards; works innovatively in partnerships with others in the public sector; and provides timely and authoritative advice or information inside or outside Government as relevant;
- f) is managed internally with high regard to efficiency, value-for-money and risk minimisation; and to the motivation and effectiveness of its staff.

14. In order to set challenging targets for the forthcoming budget period and beyond, the DMO has further developed these objectives into a series of characteristics, which must be realised if the DMO’s strategic objectives are to be achieved. These characteristics, set out in Annex C, are in turn the basis of high level longer-term targets.

15. It is relevant to note that the DMO’s aim has not been developed into an all-embracing quantitative target, for four reasons:

- a) minimising debt interest costs over a short period could encourage opportunistic behaviour with potential damage to the long run objective. (A non-opportunistic

approach to debt management reduces the long-term risk premium priced into gilt yields);

- b) it is not straightforward to decide the interest rate risk that the Exchequer should take in its liability portfolio (given that it is not being matched against a portfolio of financial assets);
- c) any benchmark is not independent of DMO's own actions and so could be altered to a degree by the DMO's decisions;
- d) the DMO and Treasury do not want to be thought to be taking short-term views on interest rate changes; to do so could compromise the separation of monetary policy decision-making and debt and cash management.

Vision and Values

16. The formulation of stretching targets and their subsequent achievement requires the DMO to set high standards for itself. Specifically:

- a) capability: systems, analytical and operational skills across both debt and money markets;
- b) best practice: analytical and operational, benchmarked to independent comparators where possible;
- c) responsiveness: to changes in Government policy, to market events and other exogenous factors;
- d) innovation: an ability to be proactive and set the agenda.

17. Only through these means will the DMO be able to satisfy its main customers and stakeholders:

- a) Treasury Ministers: by exceeding objectives and showing an ability to cope with risks and events;

- b) markets and market bodies: national and international, by operating to high professional standards, and being seen as credible and innovative;
- c) other Government Departments or public sector partners; providing cost-effective operational services and delivering timely expert advice;
- d) DMO staff.

18. The DMO's core values continue to encapsulate this wider aspiration:

- a) **professional**: it values skills and expertise, and is committed to training and improvement;
- b) **goal oriented**: it gears its work to its objectives, is credible to its customers and stakeholders and meets its targets;
- c) **responsive and outward looking**: it consults and listens, is responsive to criticism and ideas, and willing to explain;
- d) **scrupulously fair** in its dealings with the market: information given in confidence is respected and no favour is given to one firm over another;
- e) **taking the initiative**: a willingness to innovate, to take responsibility and to show leadership;
- f) **a good place to work**: respecting people, with an open management culture and a common understanding of objectives and priorities.

19. This approach is also consistent with the key aims of both the Modernising Government agenda, in respect of joined-up and strategic policy-making, user-focus and high quality and efficiency; and that for reform of the Civil Service in terms of leadership, business planning, performance management, diversity, bringing on talent and a better deal for staff.

Planning Uncertainties and Risk Management

20. The business plan has to take into account how the external environment might change and the risks arising. The DMO must have the capability to respond to events and manage risks as they arise.

21. The main external events or trends, carrying business risks (and opportunities) include:

- a) fluctuations in the financing requirement: the debt market response is in terms of financing contingencies, and mechanisms (switch auctions, conversions etc) to sustain liquidity;
- b) the financing requirement also affects Government's net cash position and hence the scale and mix of resources and infrastructure needed to support this area;
- c) the impact of market developments, including for example, the development of electronic trading systems and networks in the gilt market, dematerialisation of money market instruments and related reforms;
- d) the demands from other Government Departments for the DMO's expertise, and the opportunities for partnership in the development of new services;
- e) an early decision by the Government, supported by a referendum result, that the UK should join the eurozone. Other international developments (eg changes in legislation or codes of practice) could have an impact on relevant UK market practices.

22. As well as external uncertainties, the DMO must also have in place strategies to mitigate the risks that could jeopardise achievement of its objectives. The DMO has a process for regularly reviewing its high level risks, internal procedures and controls that seek to follow best practice standards of similar operational environments in the financial services sector, and supporting governance arrangements.¹ The

¹ More detail can be found in the Statement on Internal Control published in the Annual Report and Accounts both of DMO and of the Debt Management Account.

management of risk is integral to the development of new business areas and projects.

23. The broad planning conclusions which underlie the projections of the DMO's resource requirements centre on the need for flexibility, an ability to redeploy staff without affecting day to day operational efficiency, an open innovative and professional culture, staff with necessary skills and training, wide external contacts, including with overseas debt offices, and close operational relationships with suppliers, customers and HM Treasury.

Key Business Areas and Targets for 2002-03

24. The DMO's long term targets are the basis of the targets for the year ahead which are in turn cascaded down to teams and hence to individuals. However this process is not entirely straightforward:

- a) a number of the high level targets extend across more than one area of the DMO's activity; similarly a large number of activities contribute to more than one objective;
- b) the DMO is itself organised flexibly to ensure that resources are available as necessary for the respective tasks.

25. The DMO has therefore considered it useful to develop an additional planning tool, intermediate between objectives and activities. These 'key business activities' or KBAs specify the main areas of business for the DMO. They are the basis for identifying the intended business outcomes for the DMO over the year ahead; and have in turn driven project and resource priorities and budgets. The KBAs have also proved useful in the course of 2001-02 as a monitoring technique, and in identifying and resolving project priorities and resource bottlenecks.

26. A summary of the DMO's KBAs, and the key objectives that they support, is at Annex D. The integration of NDO and PWLB into the DMO is represented as a KBA; in practice in the course of the year the services that NDO and PWLB provide to their customers will themselves become KBAs.

27. The DMO's main operational and business targets in 2002-03 are summarised in Annex E. They have been grouped broadly under the key objectives, with the sub-headings aligned with a more task-oriented breakdown, at a rather lower level than the KBAs. The interlocking nature of activities, teams and objectives is clearly apparent.

28. The DMO's published performance targets for 2002-03 are at Annex H. These mostly follow the same categories as last year, although in one case a target has been tightened somewhat.

Functional Organisation

29. The DMO has embedded the changes to its functional organisation and corporate governance arrangements that were made in 2001. There are two main business areas in the DMO: policy and markets, and operations and resources. These areas are in turn split into a number of teams. The functional organisation is illustrated in Annex M. There is substantial working across teams to ensure that both policy and operational concerns are adequately met; that the relevant skills are brought to bear on tasks or problems; and that important operations are adequately resourced. All major operational and management decisions are considered by the DMO's Managing Committee. The Committee comprises the Chief Executive, together with the heads of the two business areas and of the main functional teams.

30. The Managing Committee is guided by an Advisory Board which comprises the Chief Executive, the Deputy Chief Executive (and head of policy and markets) and the head of operations and resources, together with non-executive members from outside the DMO: James Barclay, Colin Price and, from the Treasury, Paul Mills. James Barclay is also Chairman of the DMO's audit committee.

31. Within the DMO most business issues are considered by one of three cross-cutting committees: on debt strategy; cash strategy; and investment. They are supported by a credit and risk committee, which also reports to Managing Committee and Advisory Board.

32. The DMO's functional organisation will be reviewed again in the course of 2002, to take account of the integration of the NDO and the PWLB into the DMO. There is

likely to be some administrative reorganisation of the respective organisations' settlement and infrastructure services. However, care will be taken to establish adequate segregation between those taking investment decisions on behalf of NDO's customers, and the DMO's policy function to ensure that investment decisions are taken without any inside knowledge of forthcoming official debt management activities.

Resources

33. The DMO's resource requirement is largely driven by the need to meet its responsibilities, reflecting also the strategic judgements above as well as the wider need within Government to maintain taut administrative budgets. Its budget has to reflect a need for both skills and systems that are not available elsewhere within Government.

34. The DMO's expenditure in 2001-02 was greater than that in 2000-01. However the comparison is distorted by the DMO's relocation to Eastcheap Court, and the associated one-off costs which have swollen both accommodation and capital expenditure in 2001-02. Pay and related costs have also increased, reflecting the full-year impact of recruitments in the previous year, as well as additional recruitment in 2001-02 to strengthen the DMO's capabilities in key areas. Other areas of expenditure have been broadly comparable.

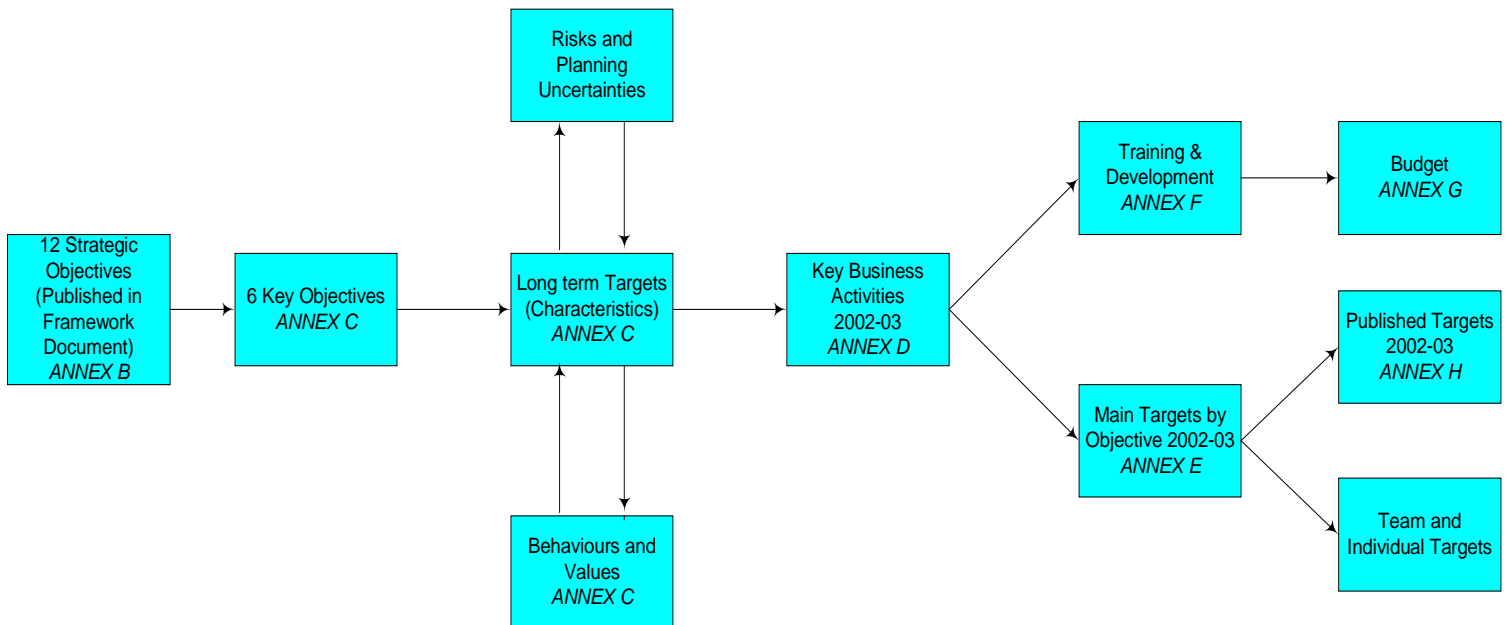
35. The DMO's budget for 2002-03 will again be affected by the full year effect of recruitments in 2001-02; and a number of key IT projects mean that capital expenditure is unlikely to return to the lower level of 2000-01. But other increases are likely to be more modest. Details of the DMO's recent budgets are at Annex G.

Training and Development

36. 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; and to improving the skills base where developmental needs are identified. The key elements of policy are set out in Annex F.

37. Reflecting its commitment, both to the value of training and development, and to the underlying processes that secure it, the DMO achieved Investors in People (IiP) accreditation in the course of 2000-01. It continues to work towards maintaining accreditation, and will put in place a programme of work to ensure that the standard is retained against the background of the integration of NDO and PWLB.

THE BUSINESS PLANNING PROCESS (indicating also the relevant Annexes)



DMO: STRATEGIC OBJECTIVES

1. To meet the annual remit set by 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, the expected outturn cash flow into or out of the NLF, on every business day; and in a cost-effective manner, taking account of risk.
3. To manage effectively, in accordance with objectives set by Treasury Ministers, any assets held on the Debt Management Account.
4. To advise Ministers on setting the remit to meet the Government's objectives under 1-3 above; and to report to Ministers on the DMO's performance against its remit, objectives and targets.
5. To develop policy on, and promote advances in, new instruments, issuance techniques and structural changes to the debt and Treasury bill markets that may help to enhance the efficiency and lower the cost of debt and cash management, liaising as appropriate with the relevant bodies; to keep abreast of developments in debt and cash management policy and practice; and to provide policy advice to Treasury Ministers and officials accordingly.
6. To conduct its market operations, liaising as necessary with the relevant bodies, with a view to maintaining or promoting an orderly, efficient and liquid market for gilts.

ANNEX B

7. To provide, including in liaison with the Bank of England and CRESTCo, a high quality and efficient service to investors in Government debt, and to deal fairly and professionally with market participants in the gilts and money markets, consistent with achieving low cost issuance and an efficient market.
8. To contribute to the Treasury's work on the development of the strategy for managing the Government's financial assets and liabilities.
9. To make information publicly available on the debt and Treasury bill markets and DMO policies where that contributes through openness and predictability to efficient markets and lower costs of issuance.
10. To contribute to the Government's wider objectives 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.
11. To resource, staff and manage the Office to deliver its objectives effectively and efficiently and to ensure value for money in its administrative expenditure.
12. To develop appropriate management, information and control systems with high regard to risk management; and to ensure full and accurate presentation of accounting and other information.

KEY OBJECTIVES

- a) consistently meets the annual gilts (and TBills) remit, showing high regard for long- term cost minimisation taking account of risk;
- b) maintains a liquid competitive and orderly gilts market, with wide investor appeal;
- c) consistently balances the NLF daily cash flow, and in a cost- effective manner, with due regard for risk;
- d) effectively and efficiently manages assets held on the DMA, taking account of risk;
- e) meets high professional and operational standards; works innovatively in partnerships with others in the public sector; and provides timely and authoritative advice or information inside or outside Government as relevant;
- f) is managed internally with high regard to efficiency, value-for-money and risk minimisation; and to the motivation and effectiveness of its staff.

KEY OBJECTIVES AND HIGH LEVEL TARGETS

The DMO's key objectives are summarised below, with cross references to the strategic objectives set out in Annex B.

1. Consistently meets the annual gilts (and TBills) remit, showing high regard for long- term cost minimisation taking account of risk; *Strategic Objective 1*
2. Maintains a liquid competitive and orderly gilts market, with wide investor appeal; *Strategic Objective 1,4, 5, 6 & 7*
3. Consistently balances the NLF daily cash flow, and in a cost- effective manner, with due regard for risk; *Strategic Objective 2*
4. Effectively manages assets held on the DMA, taking account of risk; *Strategic Objective 3*
5. Meets high professional and operational standards; works innovatively in partnership with others in the public sector; and provides timely and authoritative advice or information inside or outside Government as relevant; *Strategic Objective 4, 8, 9,10 &11*
6. Is managed internally with high regard to efficiency, value-for-money and risk minimisation; and to the motivation and effectiveness of its staff; *Strategic Objective 11 & 12*

These objectives can be elaborated into a number of characteristics of the DMO in the longer term, which must be realised if the objectives are to be achieved. These aspirational objectives, summarised below, are the basis of more specific longer term targets.

1. DMO running HMG's financing programme, within the given policy framework; *Key Objective 1*
2. Seen as responsive and innovative by market customers, investors, counterparties, regulatory bodies and infrastructure providers, providing a high quality efficient service and dealing fairly and professionally; *Key Objectives 2 & 5*
3. The Treasury's treasury – balancing the NLF day by day, using a range of instruments, and promoting confidence in the Exchequer's cash flow forecasts; *Key Objective 3*
4. In debt and cash management responsibilities, being respected internationally, and giving high value to research, analysis and knowledge base; *Key Objective 5*
5. Managing HMG financial assets as required to high standards, and taking account of risk; *Key Objective 4*
6. The key provider of advice to Ministers across relevant financing and related asset liability management issues. Offering capability to actively manage interest rate and credit risk exposure across whole balance sheet; *Key Objective 5*
7. Authoritative source of advice on financial markets and related policy issues to Government departments, with high credibility; *Key Objective 5*
8. Ability to offer a range of financial services, including asset management, to a range of public sector customers; and a willingness to innovate and work in partnership to provide new services; *Key Objective 5*

9. Publications and information widely seen as meeting highest standards, including internationally. Making information available publicly wherever possible and ensuring accessibility by a range of user-friendly means – including electronically; *Key Objective 5*

10. A model executive agency, and seen as an excellent place to work; discharging responsibilities efficiently, cost- effectively, and innovatively; meeting its core values; and with a capability of bringing operations and activities in-house where appropriate. A market leader within HMG in areas of risk management, maintaining unqualified accounts and meeting best corporate governance practice in relation to internal control; *Key Objective 6*

Strategies

To meet these longer term objectives, a number of practical strategies have been identified for the year ahead, ie the behaviours necessary if the DMO is to validate the medium- term vision. They are summarised below:

1. Consolidating and sustaining business performance:
 - Meeting high professional standards, and achieving zero error in operations;
 - Being sensitive to market requirements;
 - Maintaining the sustainability and flexibility of cash operations, including by extending range of products and counterparties;
 - Develop capability to manage the Government's net cash position;
 - Sustaining systems, policies and procedures (embedding project management skills, investment in systems, knowledge and people);
 - Risk management, corporate governance and business continuity arrangements that are fit for purpose.

2. Enhancing performance and meeting new challenges:
 - Underpinning policy and initiatives with strong research and analysis, and analytical tools;
 - Taking forward policy design on eg auctions and new instruments;
 - Upgrading performance measurement, internal and external
 - Development the training and knowledge base.

3. Confirming corporate identity:
 - Enhancing external engagement;
 - Developing the DMO's profile in HMG and internationally;
 - Working innovatively and effectively in partnership with others.

4. Staffing and efficiency:
 - Leveraging on success and rewarding excellence;
 - Maintain an open culture; promoting flexibility & teamworking;
 - Benchmarking practices and process eg with the EFQM model; maintaining liP accreditation;
 - Improve business resilience – in the arrangements for cover, multi-skilling and succession planning;
 - Further developing the IT strategy.

KEY BUSINESS ACTIVITIES (KBAs) in 2002-03

| <u>KEY BUSINESS ACTIVITY</u> | <u>DESCRIPTION</u> | <u>DMO OBJECTIVE (Cross Reference to Key Objective)</u> |
|--|---|--|
| 1. Merger with NDO & PWLB | Major project to integrate NDO and PWLB into DMO with effect from July 2002. Will require review of DMO objectives, and of KBA priorities. | Development of range of services; efficiency gains where appropriate. [Key Obj 5] |
| 2. Business Continuity Planning | Further development of BCP arrangements, including Disaster Recovery Site. Raise profile and spread ownership of BCP throughout the DMO | Retain operational capability in all circumstances [Key Obj 6] |
| 3. Remit delivery | Setting, delivering, and reporting on the remit for debt, cash and asset management | High quality service [Key Obj 1,3 & 4] |
| 4. Portfolio Objectives and Indicators | Development of high level performance objectives and indicators, including portfolio benchmarks. | Improved balance sheet management [Key Obj 5] |
| 5. Management Information Systems | Expansion of current work programme of developing management information as well as internal and external indicators, in particular following IT upgrades. | Ensure full set of information is available to support management [Key Obj 5] |
| 6. Market risk capability | Upgrade of analytical and monitoring capability following systems investment | Improved control framework; and service delivery [Key Obj 5] |
| 7. Settlement Strategy | Implementation of Bank's C21 Project at the DMO, upgrade to SWIFT 2002 and development of settlement strategy. | Efficiency, reduced risk, value for money [Key Obj 6] |
| 8. IT Strategy Implementation | Key projects in database and data sharing, information security, and operational procedures. Also includes further development of the Debt Portfolio System (DPS) (relevant to 4 & 5 above) | Systems that provide flexible, cost-effective and secure business support. [Key Obj 6] |

| <u>KEY BUSINESS ACTIVITY</u> | <u>DESCRIPTION</u> | <u>DMO OBJECTIVE (Cross Reference to Key Objective)</u> |
|--|--|---|
| 9. DMA Deposit Facility | A pilot scheme planned to start in April 2002. Data collection and review, with potential development of wider service. | Future business and service expansion [Key Obj 5] |
| 10. Mandatory Quote Obligations | Monitoring introduction of mandatory quote obligations in inter-GEMM market | Promote liquidity and efficiency of gilts market [Key Obj 2] |
| 11. NS Guaranteed Equity Bond ("GEB") | Maintain and execute associated swaps | Providing expertise and functionality to another department [Key Obj 5] |
| 12. Euro preparation | Work programme to ensure both market and DMO would be ready for entry if so decided | To ensure capability in place [Key Obj 1-5] |
| 13. Auction Structure and Electronic Bidding | Review of auction system; and possible consultation with market on electronic bidding. | Improve efficiency & liquidity; reduce risk [Key Obj 2 & 6] |
| 14. Financial Market Infrastructure | Re-engineering of Registrar's Department; dematerialisation of MMI instruments and related issues | Market and administrative efficiency [Key Obj 3,5 & 6] |
| 15. Preparation for 5-year review of the DMO. | In accordance with policy applying to all executive agencies (led by HM Treasury). | Underpinning of long term strategy. [Key Obj 5 & 6] |
| 16. Reaccreditation for IiP, and related initiatives | Reviewing and upgrading internal planning and HR processes | Internal management benefits [Key Obj 6] |
| 17. New Product Development | Extent uncertain. | Widen options for customers [Key Obj 5] |
| 18. Information Infrastructure | Compliance with Freedom of Information Act 2000 and Data Protection Act 1998. Roll out of electronic document management system. | Improved knowledge management and sharing [Key Obj 6] |
| 19. Financial Planning Processes | Improve accuracy of cash flow forecasts, working with HM Treasury | Improve control over and confidence in forecast [Key Obj 3] |

MAIN TARGETS BY OBJECTIVE: 2002–03

Key Objective Number 1

“Consistently meets the annual gilts (and TBills) remit, showing high regard for long term cost minimisation taking account of risk”.

| Activity | Target |
|---|---|
| Remit | <p>Meet annual published and confidential remits (published target).</p> <p>Maintain ability and flexibility to identify and manage changes to the remit.</p> <p>To provide regular reports to HMT on progress against remits.</p> |
| Portfolio Objective & Issuance Performance | <p>Development of high level objectives and indicators, including portfolio benchmarks.</p> <p>Develop design tools (simulation, CaR, cost/risk trade off), and measures to monitor performance.</p> |
| Treasury Bill Programme | <p>Maintain reliable, consistent and strong support of T Bill tenders.</p> |
| Financial Market Infrastructure | <p>Facilitate/encourage dematerialised issuance of MMIs from CREST.</p> <p>Ensure that prospective re-engineering of Registrar’s Dept enhances efficiency of debt operations.</p> |
| Timescale of operations | <p>Gilt auction results to be published (without error) within 40 mins of the close of offer, structured TBill tenders within 30 mins, and ad hoc tenders within 15 mins (published target).</p> |
| Auction structure | <p>Continue to use and develop auction structures that secure lowest cost financing.</p> <p>Structured review in course of 2002-03 (potentially) leading to consultation paper.</p> |
| Accuracy of operations | <p>Ensure fewer than 6 breaches of the debt and cash management operational notices (published target).</p> <p>Prepare legal documents, press advertisements, press notices and other relevant documentation for debt management operational announcements in a timely manner, with zero error.</p> <p>Ensure that the processing of all auction bids is made accurately, results of auctions are published within the set timescale and the correct amounts of stock are allocated to the correct counterparties in 100% of cases.</p> |

ANNEX E

Key Objective Number 2

“Maintains a liquid competitive and orderly gilts market, with wide investor appeal”.

| Activity | Target |
|---|---|
| <u>Standing repo and other secondary market operations</u> | Ensure facilities aimed at promoting gilt market liquidity are effective and achieve value for money. |
| <u>Maintain and encourage liquidity, competitiveness, orderliness.</u> | Provide good quality reference prices to market and CREST in a timely manner and in accordance with CREST SLA. Monitor market liquidity and GEMM performance so as to inform policy review and development |
| Mandatory Quoting in inter-GEMM market | Monitor impact of mandatory quote obligations on the inter-GEMM market. Review by mid 2003. |
| Electronic Bidding | Conduct review and consult with a view to possible subsequent implementation (probably 2003-04). |

Key Objective Number 3

“Consistently balances the NLF daily cash flow, and in a cost effective manner, with due regard for risk”.

| Activity | Target |
|---|--|
| Remit | Meet annual published cash management remit (published target). |
| Daily cash management (CM) Objective | Implement agreed CM strategies, taking account of cost, VFM and risk / reward and with minimal market impact, to ensure NLF is forecast to be in balance by close of business. Notify any end of day requirement by due time (published target). |
| Performance review | Review CM with a view to identifying optimal strategy for subsequent years. Continue to develop suite of relevant performance indicators. |
| Counterparty relationships | Manage on a consolidated basis counterparty relationships across money market area. |
| Development of DMA Deposit Facility | Operation of pilot. Review by end 2002 with a view to full development. |
| Settlement | Settle the DMO's business in a timely and efficient manner, with the minimum of error. Ensure 99% of trades by value settle on the required day (published target). Complete daily reconciliation with NLF accurately and in a timely manner (published target). Prepare for SWIFT upgrade; and implement Bank's C21 Project. |
| <u>Cashflow capture</u> | Ensure NLF daily forecast is managed effectively in data capture and reconciliation. With HMT improve accuracy of forecasts. |

Key Objective Number 4

“Effectively and efficiently manages assets held on the DMA, taking account of risk”.

| Activity | Target |
|-----------------------------------|--|
| VFM management of assets | Make effective use of assets held on the DMA seeking out cost effective application, within policy and risk parameters. Meet benchmark target. |
| Counterparty relationships | Manage on a consolidated basis counterparty relationships across money market area – see also Obj 3. |
| Settlement | Settle the DMO’s business in a timely and efficient manner, with the minimum of error. Ensure 99% of trades by value settle on the required day (published target) – see also Obj 3. |
| Collateral Management | Ensure that the DMO has adequate collateral to meet forecast liquidity requirements. |
| Management reporting | Ensure the accurate and timely presentation of relevant financial and performance statements prepared for DMO and HMT use. |

Key Objective Number 5

“Meets high professional and operational standards; works innovatively in partnerships with others in the public sector; and provides timely and authoritative advice, support or information inside or outside Government as relevant”.

| Activity | Target |
|---|---|
| Public Reporting on DMO's activities | Produce relevant publications to a high standard. Ensure no more than 10 factual errors in (DMO's) published material. (published target). |
| Representation at external bodies | Represent the DMO's interests (and those of the TBill and gilts markets) in relevant market organisations and committees including cross government committees. Maintain effective networking internationally through participation in OECD and EU meetings. |
| Support requests from other govt departments | Within budgetary constraints, sustain capability to respond to requests for advice or to develop services. |
| Equity swaps | Execute and maintain GEB-related swaps. |
| Risk Management | Further develop and procure analytical tools to support portfolio modelling and risk measurement needs, including Value-at-Risk measurements for the DMO's key positions. |
| MIS development | Deliver the DMO's management information capability (internal and external requirements) in accordance with the agreed prioritisation contained within the DMO work programme. |
| Euro preparations | Secure capability to join EMU if so decided (with due notice) in relation to both DMO's and market's business requirements. |
| Public enquiries | Ensure there is a professional and timely service to public enquiries that also meets the published target. |

Key Objective Number 6

“Is managed internally with high regard to efficiency, value for money and risk minimisation; and to the motivation and effectiveness of its staff”.

| Activity | Target |
|---|--|
| Risk management | <p>Maintain, develop and update the DMO's risk policies. Ensure that senior management review and report on all key risks on a timely basis and that the main findings in internal audit and compliance reports are addressed within agreed timescales.</p> <p>Operate risk management effectively so that no default related losses are incurred on the DMA.</p> <p>Ensure that key control processes are carried out with a sufficient degree of job segregation.</p> <p>Follow best practice in anti-money laundering procedures, including new initiatives as necessary.</p> |
| Legals | <p>Ensure effective legal agreements put in place and maintained with all counterparties and that new business is supported through timely and accurate completion of documentation.</p> |
| IT applications & operations | <p>Use business driven developments to move towards a systems platform that can evolve to meet expectations of the business more cost-effectively. Includes further development of DPS.</p> <p>Set performance targets for support items.</p> <p>Ensure adequate availability of DMO's IT infrastructure throughout year to meet business requirements.</p> |
| Project and programme management | <p>Ensure that planned projects produce deliverables on time by further developing appropriate project management procedures, implementing them for all projects, ensure that DMO project workload is manageable and achievable, and developing DMO's team skills in project management.</p> |
| HR function | <p>Ensure recruitment is carried out in timely and effective manner and in accordance with the requirements of the Civil Service Commissioners' Recruitment Code; and that exits are managed without creating operational risks.</p> <p>Ensure that HR manages effectively any business and operational requirements arising to meet existing and changes to the DMO's objectives.</p> <p>Ensure that the HR work programme agreed with the CEO and MC – including any issues arising from the HR consultant's report – is completed.</p> |
| Training and development | <p>Develop an office training plan for 2002-03 and carry out an evaluation of training for 2001-02.</p> <p>Maintain liP accreditation by ensuring that progress is made towards meeting any action points identified as part of the process of retaining accreditation.</p> |

| | |
|--|---|
| Business continuity (and disaster recovery) | <p>Put in place a revised & tested Business Continuity Plan and arrangements to meet the current business requirements of the DMO.</p> <p>Maintain credible and proven disaster recovery processes capable of restoring minimum services required to support operations that need urgent recovery.</p> |
| Information management | <p>Policies supporting and compliance with FOIA and DPA.</p> <p>Successful implementation and bedding in of an electronic records management system within agreed timescales.</p> <p>Establish and maintain a Vital Records Programme.</p> |
| Develop short term pricing tools | <p>Short term yield curve. Supports asset and cash management function, and ability to provide services to others.</p> |
| Financial reporting | <p>Prepare and publish DMO agency and DMA accounts efficiently and effectively.</p> <p>Administrative Accounts laid before Parliament within required timescale; and DMA Accounts to National Audit Office by the statutory deadline.</p> <p>Annual accounts meet requirements of National Audit Office and are passed with true and fair view statements.</p> <p>Ensure that there is no breach of the DMA “cap” (published target).</p> <p>Ensure that the DMO’s management and stakeholders receive the necessary financial information they require in a timely, effective and accurate manner.</p> <p>Contribute as required to Whole of Government Accounts exercise.</p> |
| Audit | <p>Production and delivery of an annual audit work plan that is derived from a risk assessment of the DMO’s activities.</p> <p>IA Dept endorsed by peer review.</p> <p>Implement agreed audit recommendations effectively and in a timely manner.</p> |
| Procedures and controls | <p>Ensure all key operational and BCP procedures and controls are fully documented and maintained.</p> <p>Ensure that the DMO complies with all relevant money laundering legislation and more generally remains alert to trends and developments in this field, liaising where appropriate with relevant authorities.</p> <p>Operate full year in a Turnbull compliant manner achieving a statement on internal control for 2002-03 with fewer qualifications than that for 2001-02.</p> |

TRAINING AND DEVELOPMENT

1. The key areas of the DMO's training and development policy are that:
 - a) all staff should have the necessary training to ensure their professional effectiveness; this includes their ability to contribute across teams and to cover for others;
 - b) training and development should be part of an internal culture that is open to new ideas and is able to assimilate them;
 - c) staff should have access to training and development opportunities to further their careers, as part of making the DMO an attractive place to work.

2. The business plan drives the identification of training and development needs at both team and individual level, and the preparation of a training and development plan. This is a process that operates across the office:
 - a) senior management is committed to the value of effective training and development, to evaluating its impact on knowledge, skills, attitudes, performance and achievement of objectives, and to making sure that resources are available to allow everyone to acquire the necessary skills;
 - b) DMO's HR function provides routes to training advisers or providers, as well as co-ordinating the planning, monitoring and evaluation processes;
 - c) team leaders have a key role in helping individuals identify the skills and attributes needed for their specific responsibilities, and in ensuring that time is available for internal or external training;
 - d) individuals take personal responsibility to look for training and development opportunities, and to make sure that identified training requirements are met.

ANNEX F

3. Every member of the Office prepares individual objectives and a personal development plan that flow from the targets and objectives identified in the plan. The individual performance review process, both during the year and in the annual review, coupled with feedback on training opportunities, provides the means of monitoring and evaluation.

4. A full, costed office-wide training and development plan will be derived from the Business Plan. That work is done in the middle of the calendar year, following the business planning process and in parallel to the annual performance appraisal process.

DMO BUDGET AND RESOURCES

Budget

The DMO's budget profile is set out below.

| | <u>2000-01</u> | <u>2001-02</u> | <u>Notes</u> |
|----------------------|----------------|----------------|--------------|
| | | | £000s |
| Pay | 1,948 | 2,765 | 1 |
| Accommodation | 272 | 1,364 | |
| IT Current | 605 | 683 | |
| Other running costs | <u>1,567</u> | <u>1,144</u> | 2 |
| Total running costs | 4,392 | 5,956 | |
| Operational services | 1,309 | 1,300 | 3 |
| Capital | <u>1,083</u> | <u>1,829</u> | |
| Total | 6,784 | 9,085 | |
| Other current | 700 | 500 | 4 |

Notes:

Figures for 2000-01 are outturns; and those for 2001-02 are the revised accrual budget for that financial year.

1. Includes Bank of England secondees.
2. Includes consultancy, legal, publishing and miscellaneous other costs.
3. Primarily Bank of England settlement, banking and associated services.
4. Auction advertising and Stock Exchange listing fees, both of which are reimbursed from the National Loans Fund. This reimbursement and other miscellaneous receipts are not shown in the table.

Resources

1. Staff

At the end of March 2002 the DMO had 53 staff (excluding contractors, but including those on loan or secondment from the Bank of England or HM Treasury).

2. Premises

The DMO currently has 18,074 sq. ft. of modern office accommodation in the City of London, of which 4,187 sq ft is sublet.

DMO's PUBLISHED TARGETS 2002-03

1. To ensure full compliance with the Government's remit for the DMO as set out in the Debt and Reserves Management Report 2002-03, within the tolerances and subject to the review triggers notified separately to the Office and consistent 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 structured Treasury Bill tenders does not exceed 30 minutes, and that for ad hoc Treasury Bill or other tenders does not exceed 15 minutes, while achieving complete accuracy.
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 publication or submission for audit of the annual accounts of the DMO Agency and DMA.
4. To acknowledge all letters and e-mail enquiries from the public within 5 working days and for at least 95% to be sent a substantive reply within 2 weeks.
5. To achieve less than 6 breaches of the operational market notices (excluding any breaches that the Treasury accept were beyond control of the Office).
6. To ensure that the statutory constraint on DMO market borrowing (not to exceed its deposits with the NLF and Bank of England) is always met.
7. To ensure that, when there is a late change in the EFA forecast, any necessary use of end-of-day borrowing or lending facilities is notified to the Bank of England by the due time.
8. To ensure that instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through to settlement is effective, so that the DMO achieves at least 99% (by value) successful settlement of agreed trades on the due date.

9. To release all market sensitive data and announcements in a timely manner and achieve no more than 10 factual errors in material published by the DMO, including on the web site (insofar as the material is under the control of the DMO and not third parties).

A REVIEW OF THE DMO'S PERFORMANCE IN 2001-02

This annex summarises the DMO's main achievements in 2001-02. They are grouped under the broad headings of the strategic objectives that applied in 2001-02. More detailed information on the outturn against published targets can be found in Annex K.

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

- This has been successfully achieved.
- Gilt sales targets have been met through the conduct of eight outright auctions (four conventional and four index linked). Outright gilt sales were £13.7 billion (cash) split between £10.1 billion conventional and £3.6 billion index-linked gilts. For the first time since the DMO came into existence the level of planned gilt sales was increased (from £13.5 to £14.0 billion). The final outturn for gilt sales of £13.7 billion was slightly below the revised plan but within the operational tolerances allowed in the remit.
- The DMO met its buy-back target for 2001-02 (which was reduced from £1.0 billion to £0.5 billion in the PBR (Pre-Budget Report)) by early December 2001. Buy-backs at the end of the 2001-02 financial year totalled £0.6 billion.

2. To offset, through its market operations, the expected outturn cash flow into or out of the NLF, on every business day; and in a cost-effective manner with due regard for credit risk management.

- This has been successfully achieved.
- The planned level of Treasury bill sales increased in 2001-02. A £5.0 billion increase in the Treasury bill stock to £8.3 billion by end-March 2002 was forecast in the March 2001 Budget. These numbers were increased in the PBR to £6.4

- billion and £9.7 billion respectively. This trend was in sharp contrast to 2000-01 when a planned £7.2 billion increase in the Treasury bill stock from £2.8 to £10.0 billion had been progressively reduced during the year (with the stock ending the financial year just £0.5 billion up at £3.3 billion).
- On 21 September 2001, as part of the preparations for increasing the level of Treasury bill issuance from October 2001 onwards, the DMO announced new arrangements for Treasury bill issuance. The main operational changes which came into effect on 5 October 2001 involved moving the close of bidding time from 12.30 pm to 11.00 am, halving the minimum size of bids at tenders to £500,000 (nominal) and increasing the minimum issuance denomination of Treasury bills to £25,000 (from £5,000).

3. To manage effectively, in accordance with objectives set by Treasury Ministers, any assets held on the Debt Management Account.

- Successfully achieved. The DMO continued to manage a short term, net cash position as an extension of its cash management operations. The cash position ended the financial year at £11 billion.

4. To advise Ministers on setting the remit to meet the Government's objectives under 1-3 above; and to report to Ministers on the DMO's performance against its remit, objectives and targets.

- The DMO contributed specific advice in a number of areas of the 2001-02 remit:
 - i) The extent to which gilt issuance should be split between conventional and index-linked gilts; the case for a new medium maturity conventional gilt and the split between medium and long conventional issuance (and the maturity of new stock); and the range of contingencies in the event of changes in the Government's financing requirement (which were implemented as a result of the increased financing requirement in the PBR);

- ii) The size and timing of auctions;
 - iii) Switch auction and conversion offer candidates;
 - iv) The split between an increase in the Treasury bill stock and a run-down in the DMO's net cash position as elements of net short-term debt financing.
- The DMO also contributed substantially to the preparation of the "*Debt and Reserves Management Report 2002-03*", including the DMO's remit for 2002-03. Particular issues that were addressed included:
 - i) Planning ahead for the conventional gilt market including the need for new short, medium and possibly long maturity conventional gilts;
 - ii) The split of conventional gilt issuance between short, medium and long maturities, the split between conventional and index-linked issuance, and the possible need for a new (longer maturity) index-linked gilt;
 - iii) the balance between the volume of planned gilt issuance and the level of net short term debt sales: in particular the size of the desired increase in the stock of Treasury bills; and the rate at which the DMO's net short term cash position should be wound down.
- The DMO reported performance against the remit to the Treasury on a monthly basis, and on developments in the gilt portfolio and compliance against individual published targets on a quarterly basis. (The annual summary of performance against these targets is published in Annex K of this plan).

5. To develop policy on and promote advances in new instruments, issuance techniques and structural changes to the debt and Treasury bill markets that may help to enhance the efficiency and lower the cost of debt and cash management, liaising as appropriate with the relevant bodies; to keep abreast of developments in debt and cash management policy and practice; and to provide policy advice to Treasury Ministers and officials accordingly.

- On 10 May 2001 the DMO published a response to its consultation document of 12 March 2001 on the conduct of index-linked switch auctions. Reactions had been supportive of the concept of such operations to switch stock out of a gilt as it falls out of a relevant maturity range in a FTSE index (to facilitate index-tracking). Accordingly, the first (and to-date only) index-linked switch auction was held on 19 July 2001 from 2% Index-linked Treasury Stock 2006 into 2½% Index-linked Treasury Stock 2016.
- The DMO published a consultation document on the possible re-design of index-linked gilts on 7 September 2001 with a deadline for comments to be received by 31 October 2001. The main issue for consultation was whether the UK should move from the current eight-month indexation lag to a three-month lag (in common with most other sovereign issuers). The DMO published its conclusions on 15 January 2002. It decided not to introduce a new design in respect of the main issue but did make three changes to:
 - i) the prospectus indexation clause, putting the onus on an independent institution to propose a satisfactory replacement index should the RPI cease to exist;
 - ii) calculation of coupon and redemption amounts on new stocks, to be taken over by the DMO (the Bank of England is to retain this function for existing stocks); and
 - iii) cash flows on new stocks, which will be calculated to six decimal places per £100 nominal.

- The DMO has continued to work with market participants on the introduction of mandatory quote obligations in the inter-GEMM market in a selected number of stocks. The price equivalent of the yield spreads for the quotes on the designated stocks were agreed in December 2001 and testing of new obligations began on 4 February 2002. Full imposition of the quote obligations is scheduled to start at the beginning of the 2002-03 financial year.

6. To conduct its market operations, liaising as necessary with the relevant bodies, with a view to maintaining or promoting an orderly, efficient and liquid market for gilts.

- The DMO was able to issue a new medium maturity conventional gilt, 5% Treasury Stock 2012, in the current year. (Plans for such issuance in 2000-01 had been cancelled as a result of the rising cash surplus). £2.5 billion (nominal) of 5% Treasury Stock 2012 was auctioned on 24 May 2001 and this was swiftly built up to benchmark size as a result of a switch auction from 8½% Treasury Stock 2007 on 21 June 2001 and a conversion offer from 9% Treasury Stock 2012 which was completed on 23 July 2001. These took 5% Treasury Stock 2012 up to £11 billion in issue. Other conventional issuance was exclusively of long maturity stock (5% Treasury Stock 2025).
- Until the issuance of 5% Treasury Stock 2012, all strippable stocks had coupon dates of 7 June and 7 September. One consequence has been the very substantial coupon (and redemption) payments now due on those dates each year. Following consultation with the market, the DMO introduced a second pair of coupon dates for strippable stock (7 March and 7 September) with the issuance of 5% Treasury Stock 2012.
- The DMO issued a new gilt market Operational Notice on 22 November 2001. The main changes were the withdrawal of the facility whereby the DMO would bid for short dated index-linked stocks and non-rump double-dated stocks. The DMO later confirmed that it would be prepared to bid for near maturity strips.

- The DMO operated its standing repo facility fifteen times, in response to requests from market participants.

7. To provide, including in liaison with the Bank of England and CRESTCo, a high quality and efficient service to investors in Government debt, and to deal fairly and professionally with market participants in the gilt and money markets, consistent with achieving low cost issuance and an efficient market.

- The DMO held the regular quarterly consultation meetings with GEMMs and gilt market investors to discuss their views on gilt issuance in the succeeding quarter; additional meetings were held in January 2002 chaired by the Economic Secretary to the Treasury to discuss the views of market participants on the shape of the DMO remit for 2002-03.
- On 21 September 2001 the DMO announced that a group of nine banks had agreed to act as primary participants in connection with the issuance of Treasury bills. Primary participants, as well as bidding on behalf of other investors at tenders, also agree to provide secondary dealing levels for Treasury bills for their customers.

8. To contribute to the Treasury's work on the development of the strategy for managing the Government's financial assets and liabilities.

- The first stage of a multi-simulation approach to testing the long-term risk/return trade-off characteristics of different issuance strategies has been undertaken by the DMO and is being discussed with the Treasury in the context of the development of the DMO remit for 2002-03.
- This work will be advanced later in the year in light of these discussions.

9. To make information publicly available on the debt and Treasury bill markets and DMO policies where that contributes through openness and predictability to efficient markets and lower costs of issuance.

- The DMO has expanded the range of both its publications and its web site (www.dmo.gov.uk). All DMO publications and an increasing amount of data on both the gilts and cash markets are available on the web site. For details of the DMO's provision of information, see annex L.

10. To provide advice and expertise to other Government departments (and other governments) as required, and consistently with meeting the objectives 1-3 above.

- The DMO has taken forward a number of projects with other Government departments utilising the specialist financial market knowledge it has acquired in carrying out its debt and Exchequer cash management responsibilities;
- On 13 February 2002 the Department for Transport, Local Government and the Regions (DTLR) announced that the DMO was to provide a facility through the Debt Management Account (DMA), through which Local Authorities can deposit cash. The scheme is known as the DMA Deposit Facility (DMADF). A pilot scheme involving a limited number of Local Authorities is expected to start in April 2002, to run for 3-6 months, during which time the demand for and feasibility of an expanded scheme will be assessed. The DMO will offer to pay a market related return for deposits as part of its existing cash management operations.
- On 7 March 2002 National Savings & Investments (NS&I) announced the launch of a new retail investment product, aimed at allowing its holders to receive a return on an equity index over a particular period – the Guaranteed Equity Bond (GEB). The GEB requires NS&I to pay a return on an equity index. This commitment needs to be hedged by means of an equity index swap. NS&I does not have the vires to execute such transactions but the DMO does, using the DMA.

- The DMO acted as an advisor on corporate bond markets to DTLR during the selection process of Lead Managers for the second stage of funding for the Channel Tunnel Rail Link, an appointment made jointly by DTLR and London & Continental Railways (LCR).

11. To resource, staff and manage the Office to deliver its objectives effectively and efficiently and to ensure value for money in its administrative expenditure.

- The DMO has continued to grow, reflecting the expansion of its responsibilities and employed 53 people by the end of the 2001-02 financial year. Also reflecting the expansion, the DMO moved to new premises on 30 July 2001.
- The DMO's annual report and audited accounts for 2000-01 were published on 18 July 2001.
- The first audited accounts of the Debt Management Account for the period 15 November 1999 to 31 March 2001 were published on 19 December 2001.

12. To develop appropriate management, information and control systems with high regard to risk minimisation; and to ensure full and accurate presentation of accounting and other information.

- Internal reporting arrangements exist and have continued to be developed to help the Chief Executive to meet his internal control responsibilities as required under the Turnbull Guidelines.
- The DMO's internal audit function has completed operational audits and provided controls related advice in accordance with the annual audit programme.
- A peer review confirmed the DMO's internal audit function was compliant with the standards defined in the Government Internal Audit Manual.

- An Electronic Records Management Systems (ERMS) Project group is reviewing and suggesting improvements to the Records Management Programme. This is designed to help enable the DMO to meet the requirements of the Freedom of Information Act, Data Protection Act, the ERM target of 2004 as well as bring the DMO into line with currently accepted best practice - the International Standard in Records Management (ISO15489), and the British Standard BS-ISO15489.

DMO PERFORMANCE AGAINST PUBLISHED TARGETS

1. To ensure full compliance with the Government's remit for the DMO as set out in the Debt and Reserves Management Report 2001-02, within the tolerances and subject to the review triggers notified separately to the Office and consistently with the objectives of monetary policy.

The DMO has complied fully with the gilts remit. Eight outright auctions were held:

- £400 million (nominal) of 2½% Index-linked Treasury Stock 2011 on 25 April 2001,
- £2,500 million (nominal) of a new stock 5% Treasury Stock 2012 on 24 May 2001,
- £500 million (nominal) of 2½% Index-linked Treasury Stock 2024 on 25 July 2001,
- £2,500 million (nominal) of a new stock 5% Treasury Stock 2025 on 26 September 2001
- £425 million (nominal) of 2½% Index-linked Treasury Stock 2016 on 24 October 2001
- £2,750 million (nominal) of 5% Treasury Stock 2025 on 6 December 2001
- £500 million (nominal) of 4 1/8% Index-linked Treasury Stock 2030 on 24 January 2002;
- £2,250 million (nominal) of 5% Treasury Stock 2012 on 27 March 2002.

Together, these raised £13.66 billion (cash) toward the £14.0 billion (cash) annual target. (This target was increased from £13.5 billion in the PBR on 27 November 2001).

In addition, a switch auction of £1,400 million (nominal) of 8½% Treasury Stock 2007 into 5% Treasury Stock 2012 was held on 21 June 2001 – increasing the size of the new stock by £1,694 million (nominal). To build up further the size of the new 2012 stock a conversion offer into it from 9% Treasury Stock 2012 was held in July.

| | |
|---|------------|
| • 25 July, 2½% Index-linked Treasury Stock 2024 | 28 minutes |
| • 26 September, 5% Treasury Stock 2025 | 34 minutes |
| • 24 October, 2½% Index-linked Treasury Stock 2016 | 21 minutes |
| • 6 December, 5% Treasury Stock 2025 | 36 minutes |
| • 24 January, 4 1/8% Index-linked Treasury Stock 2030 | 28 minutes |
| • 27 March, 5% Treasury Stock 2012 | 34 minutes |

The release times for the results of the 52 weekly Treasury bill tenders held during the financial year ranged from 6 to 35 minutes and averaged 11 minutes. There were no ad hoc tenders. The result of the tender for 4 1/8% Index-linked Treasury Stock 2030 on 19 June was announced after 13 minutes.

The one tender to exceed the 30 minute target – the announcement of the 14 September tender after 35 minutes – was delayed due to circumstances beyond the DMO's control (a fire alarm necessitating evacuation of the DMO's offices as the tender was closing). Excluding the 14 September tender the average announcement time for tenders in the financial year was 10 minutes.

3. *To achieve complete accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the Debt Management Account and in delivering money (and reconciling payments) to the NLF.*

Achieved. All transactions going through the DMA have met the required standards. NLF balances are checked and agreed with them on a daily basis.

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

Achieved. 209 inquiries have been received from the public by letter and e-mail in the financial year (of which 180 were e-mails). The average response time was 1.4 business days.

5. To achieve less than 8 breaches of operational market notices (excluding any breaches which the Treasury accept were beyond the control of the Office).

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

6. To ensure that the qualifications that the National Audit office (NAO) have made in respect of the Gilt-Edged Official Operations Account are satisfactorily addressed in the running and presentation of the DMA; and that the 1999-2001 DMA accounts are presented to the NAO by the statutory deadline.

See response to target 3 above. The first account for the DMA for the period November 1999 to March 2001 was audited by the NAO and published on 19 December 2001.

7. To ensure that the statutory constraint on DMO market borrowing (not to exceed its deposits with the NLF and Bank of England) is always met.

Achieved. The DMO's outstanding borrowing with the market was always below its deposits with the NLF and the Bank of England.

8. 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.

10. 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 settlements turnover in the financial year 2001-02 was £576.0 billion. No trades failed as a result of circumstances within the DMO's control.

If trades which failed as a result of circumstances outside the DMO's control are included, the total of fails was £1.2 billion (or 0.21% of total turnover).

10. To achieve 100% accuracy in material published on the DMO web site (insofar as the material is under the control of the DMO and not third parties).

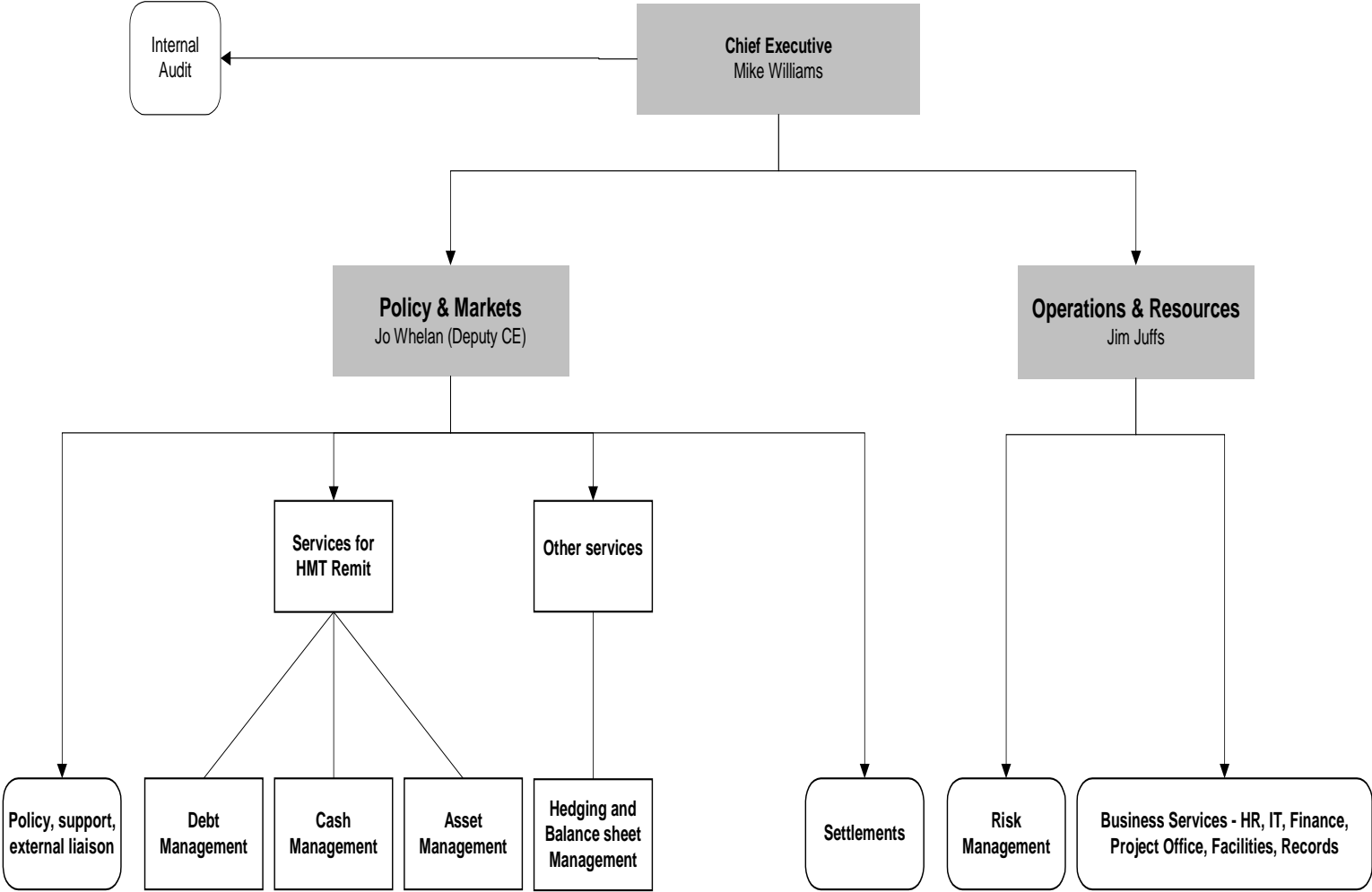
Twelve errors were discovered and corrected on the web site in the financial year. Of these errors one, on 14 March, was the premature release of market sensitive information on the breakdown of planned gilt sales in 2002-03.

PUBLICATION OF INFORMATION BY THE DMO

1. The DMO Annual Review 2000-01 which reviewed the DMO's activities in its debt and Exchequer cash management responsibilities, and which included for the first time a chapter on performance indicators, was published on 7 September 2001.
2. The DMO's quarterly reviews of developments in the gilts and sterling money markets were published in April, July, October 2001 and January 2002.
3. The DMO published a new cash management Operational Notice on 21 September (including a new Treasury bill Information Memorandum describing the new arrangements for Treasury bill issuance (see target 2 above)).
4. On 20 February 2002 the DMO published a cash management handbook describing the DMO's approach to cash management and its operations in the recent past, including all documentation (including the cash management Operational Notice) relevant to its Exchequer cash management activities. It was designed to be useful to practitioners for reference, and also to a wider interested audience. It also fulfilled the undertaking the DMO gave to the Treasury Sub-committee to produce such a document following a recommendation in the Treasury Sub-committee's report into the Government's Cash and Debt Management in 2000.
5. The DMO has liaised with the Bank of England Registrar's Department to produce an updated third edition of "*Investing in Gilts: The Private Investors Guide to British Government Stock*", the booklet designed for retail investors in gilts. The third edition was published in March 2002.
6. The DMO web site (www.dmo.gov.uk) has been expanded to make it more user-friendly and a better reflection of the DMO's business activities. The following list gives an indication of some of the new material added to the site over the past year:

- A dedicated remit section has been created which includes the cash and gilt remits and details of the financing arithmetic. A table updating the progress of gilt sales relative to the remit is updated monthly;
 - A significant amount of historic data have been added to the site. This includes details on how the size of the gilts market has changed over time, as well as data on gilt market turnover, gilt holding period returns, net gilt issuance and levels of Treasury bill stocks;
 - The web site now features a calendar detailing all the DMO's scheduled gilt announcements and events for the quarter;
 - The section containing links to other sites now offers connections to an expanded range of organisations, including the London Stock Exchange, LIFFE, the Bank of England and all gilt-edged market makers;
 - An expanded Question and Answer section providing answers to the most frequently asked questions about gilts and gilt issuance;
 - Daily GEMMA reference prices (and the corresponding yields) are available on the site from 2 April 2001 and are split into separate files for conventional gilts, index-linked gilts and strips.
7. A Freedom of Information Act (FOIA) project group has been established to evaluate all types of information held by the DMO and currently made available, and to examine what other information is held which we can release proactively.

DMO: FUNCTIONAL ORGANISATION



GLOSSARY AND ACRONYMS

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| Auction | The standard method by which the DMO issues gilts. Conventional gilts (qv) are issued through multiple price auctions. Index-linked gilts (qv) are auctioned on a uniform price basis. |
| Basis point (bp) | One hundredth of 1%. |
| Benchmarks | Informal term for liquid stocks, usually with a large outstanding amount and a coupon in line with the prevailing level of interest rates, which are used by participants in other markets to price other instruments of corresponding maturity, such as corporate bonds and swaps. |
| CGO | Central Gilts Office, which used to settle gilts transactions. Now merged into CREST. Accessed by CSG (qv) within the Bank of England. |
| CGNCR | Central Government Net Cash Requirement – the financial aggregate financed by the DMO. |
| CMO | Central Moneymarkets Office which settles transactions in Treasury Bills and other money markets instruments, and provides a depository. Managed by CRESTCo. Accessed by CSG (qv) within the Bank of England. |
| Coupon | Annual interest paid on gilt holdings, usually in two, semi-annual instalments. Expressed as a percentage of £100 nominal. |
| CREST | Electronic settlement system for shares and other corporate securities in the UK, owned by CRESTCo. |
| CRND | Commissioners for the Reduction of the National Debt, formally responsible for investment of funds held within the public sector e.g. National Insurance Fund. |
| CSG | Custodial Services Group, the Bank of England office which provides settlement and banking services to the DMO and other customers of the Bank. |
| DMA | Debt Management Account, through which the DMO's debt and cash transactions flow. |
| DMADF | Debt Management Account Deposit Facility: a pilot facility launched on 2 April 2002 through which selected Local Authorities can deposit surplus funds with the DMO. |

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| Double-dated gilts | Gilts with a range of possible redemption dates. The Government has an option to redeem such gilts on or between two specified dates. Typically the Government has to give at least three months notice of its intention to redeem such stocks. |
| DRM | Debt and Reserves Management team in the Treasury |
| DPS | Debt Portfolio System. |
| EFA | Exchequer Funds and Accounts team in the Treasury. |
| EMU | Economic and Monetary Union. |
| Estimates | Proposals presented to Parliament of annual departmental expenditure. |
| Framework Document | Sets out the DMO's responsibility, objectives and targets, its relationship with the rest of the Treasury and its accountability. |
| FSA | Financial Services Authority. |
| GEB | Guaranteed Equity Bond, a new retail product from NS&I (qv) (its first to be linked to an equity index) introduced in March 2002. |
| GEMMs | Gilt-edged Market Makers, primary gilts dealers. |
| (IGGEMMs) | (A subset of the GEMMs, who also make markets in index-linked gilts). |
| Gilt | A UK Government liability in sterling, listed on the London Stock Exchange, and issued by HM Treasury with an initial maturity of over 365 days when issued. The term "gilt" (or gilt-edged) is a reference to the primary characteristic of gilts as an investment: their security. |
| GILTSWAN | Gilts Wide Area Network - the IT system used by the DMO to collect market information, including closing reference prices, from the GEMMs. |
| GSI | The Government Secure Intranet. |
| HMTCABLIS | HM Treasury and Cabinet Office Library and Information Services. |
| IDBs | Inter Dealer Brokers, in this context brokers that provide facilities for dealing in gilts between the GEMMs. |
| IGs | Index-Linked Gilts. Gilts on which the coupons and the final |

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| | redemption payment are adjusted in line with inflation (as measured by the Retail Price Index). |
| Investors in People, (IiP) | A national standard which sets a level of good practice for the training and development of people to achieve organisational goals. |
| LIFFE | London International Financial Futures and Options Exchange. |
| LSE | London Stock Exchange. |
| MOU | Memorandum of Understanding – in this context between DRM (qv) and the DMO. |
| NAO | National Audit Office. |
| NDO | National Debt Office, currently part of NILO (qv) which invests funds on behalf of other Government departments and public sector bodies, mostly in government stock. It will be integrated within the DMO on 1 July 2002 |
| NILO | National Investment and Loans Office, a non-ministerial government department currently comprising the NDO (qv), the PWLB (qv) and the Office of the Paymaster General (OPG). NILO will cease to exist on 1 July 2002 when DMO and PWLB will be integrated in the DMO. (OPG will be merged with HM Treasury). |
| NLF | National Loans Fund, the account which brings together all Government lending and borrowing. |
| Nominal amount/ value | The face value or amount of a gilt, ie the amount the holder receives when the gilt redeems. |
| Nominal amount/ value (uplifted) | Applicable to index-linked gilts: This is the nominal amount uplifted by inflation since the gilt was issued. |
| NS&I | National Savings & Investments, a non-ministerial government department responsible for retailing government securities to the public. |
| Operational Market Notice | Sets out the DMO's operations and procedures, whether for the gilts or cash markets. |
| PWLB | Public Works Loans Board, currently part of NILO (qv), makes loans to Local Authorities and other prescribed bodies. It will be integrated into the DMO on 1 July 2002. |

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| Redemption Yield | The rate of interest at which all future payments (coupons and redemption) on a bond are discounted so that their total equals the current price of the bond (inversely related to price.) |
| Redenomination | A change in the currency unit in which the nominal value of a security is expressed (in context, from sterling to euro). |
| Remit | The annual financing plan given by HM Treasury to the DMO each March (and often updated in November). This includes the total amount of gilts sales planned, broken down by type of instrument and maturity. The cash remit specifies any planned changes to the level of Treasury bill stocks. |
| Repo | Sale and Repurchase Agreement, a combined transaction providing for the sale and subsequent repurchase of a financial instrument. (A form of secured borrowing). |
| Reverse repo | As repo but providing for the purchase and subsequent resale of a financial instrument. (A form of secured lending). |
| Rump stocks | Small gilts (with currently less than £410 million (nominal) in issue). GEMMs (qv) are not obliged to make markets in these stocks. The DMO will not sell further amounts of these stocks to the market but is prepared to buy these stocks from the GEMMs. |
| SLA | Service Level Agreement, in this context between the DMO and service suppliers in the Bank and HM Treasury. |
| STRIPS | Separate Trading Registered Interest and Principal Securities; for some ("strippable") gilts, the coupon and principal can be traded separately. |
| Tapping | The issue of stock for market management purposes and not on a pre-announced schedule. |
| Treasury Bill | A sterling denominated instrument of up to 12 months' maturity when issued, but normally less, issued by HM Treasury at a discount and redeemed at par, with no interest payable. |
| Treasury FAMIS | Financial and Management Information System, the Treasury's internal management accounting system. |
| Treasury Vote | The Parliamentary authority for Treasury's annual expenditure. |
| Undated gilts | Gilts for which there is no final date on which the gilt must be redeemed. |
| Yield Curve | The mathematical relationship computed across all gilts between yield and maturity. |