

DMO'S FINANCING REMIT 2016-17

1. The DMO's financing remit for 2016-17 has been published today as part of Budget 2016 announcements. The main points are summarised below.

DMO's Net Financing Requirement

2. The Net Financing Requirement (NFR) for the DMO in 2016-17 is forecast to be £129.4 billion; this will be financed exclusively by outright gilt sales.

Remit changes

3. The total of planned gilt sales in 2016-17 is similar to the current financial year; however the means by which the DMO plans to sell gilts are being modified slightly. The DMO is announcing today a package of measures designed to respond to a changing market environment. These changes are summarised in Annex A.

Planned gilt sales

4. Planned gilt sales of £129.4 billion are expected to be met through a combination of:
 - £95.9 billion of gilt issuance (74.1% of total sales) in 44 auctions, with an initially planned split as follows:
 - Short conventional £30.4 billion in 11 auctions
 - Medium conventional £24.8 billion in 10 auctions
 - Long conventional £26.7 billion in 12 auctions
 - Index-linked £14.0 billion in 11 auctions

The implied initial average auction sizes in cash terms are:

- Short conventional £2.76 billion
 - Medium conventional £2.48 billion
 - Long conventional £2.23 billion
 - Index-linked £1.27 billion
- A minimum of £25.5 billion via syndications (19.7% of total sales), currently planned to raise:
 - £9.5 billion via long conventional gilts in two transactions; and
 - £16.0 billion via index-linked gilts in four transactions
 - £8.0 billion (6.2% of total sales) from an initially unallocated portion of issuance, which can be used to issue any type or maturity of gilt via any issuance method. It is expected that this additional flexibility will be accommodated through a gilt tender programme (see below) or used to increase the size of syndicated offerings.

5. The initially planned split of gilt issuance by type, maturity and method of issue is set out in Annex B. However, total financing achieved through each issuance method will be dependent on market and demand conditions. Therefore, the amount of issuance via each method by the end of the 2016-17 financial year may differ from initial planning assumptions.
6. The overall split of issuance by maturity and type of gilt may be affected by the DMO's issuance decisions in-year, taking account of market feedback including on the initially unallocated portion of financing. Consequently, the overall split of issuance at the end of the 2016-17 financial year may differ marginally from initial planning assumptions.
7. Any change in the breakdown of planned gilt issuance by type, maturity and issuance method will be reported alongside updates to the financing remit (for example at Autumn Statement (AS) 2016) and at quarterly issuance calendar announcements (see paragraph 14).

The gilt auction programme

8. The DMO intends to implement a calendar of smaller auctions in 2016-17 relative to 2015-16. The planned calendar of gilt sales by auction in 2016-17 is at Annex C.
9. The DMO will publish average auction sizes (in cash terms) by maturity and type of gilt in its quarterly issuance calendar announcement for April-June 2016 (at 3.30pm on Thursday 31 March 2016). Furthermore, it will re-publish planned average auction sizes after every auction on the DMO website¹ and in relevant press releases and subsequent quarterly issuance calendar announcements. Any consequential impact on average auction sizes resulting from a change in the amounts issued will also be reflected in these announcements.
10. The DMO may size each individual auction above or below the expected average (cash) size, taking into account the maturity of the gilt being sold and prevailing market conditions.
11. The DMO is also introducing some changes to bidding arrangements at auctions. From 2016-17 the size of the non-competitive bid allowance at gilt auctions will increase from 10% to 15% of the nominal amount on offer (as is the rate of the Post Auction Option Facility (PAOF) - see below). Details are set out in a revised Gilt Market Operational Notice being published today alongside this announcement².

¹ <http://www.dmo.gov.uk/documentview.aspx?docname=Remit/CurrentRemit.pdf&page=>

² http://www.dmo.gov.uk/index.aspx?page=Gilts/Operational_Rules

Changes to the planned gilt auction calendar

12. The planned gilt auction calendar may be altered to accommodate the Chancellor's decisions on the Budgetary timetable and any significant data releases or market sensitive events announced subsequently to the publication of the calendar. The DMO will provide the market with prior notice of any such alteration.
13. In order to facilitate the scheduling of a syndicated offering, the DMO may alter the scheduling of an existing gilt auction. An auction may be moved to another day in the week in which it was originally scheduled, to the previous week or to the following week. Any such changes may occur after the publication of the relevant quarterly issuance calendar with a minimum of at least one week's notice. Such changes would be announced alongside notification of the likely timing of a syndication.
14. The planned gilt auction calendar may also be changed on a quarterly basis, if deemed necessary, following consultation with the market. Any change(s) to the planned auction calendar for the forthcoming quarter would be set out as part of the quarterly issuance announcement. The reasons for any change(s) to the auction calendar may include an alteration to the assumed mix of issuance methods to deliver the planned financing requirement by gilt type and maturity in the relevant quarter.

The syndication programme

15. Any type and maturity of gilt can be sold through syndication. However, the DMO's current planning assumption is that the syndication programme in 2016-17 will largely be used to launch new long conventional and index-linked gilts and/or for re-openings of high duration gilts; however, the DMO is increasing its flexibility to alter this assumption depending on market demand.
16. The DMO envisages holding six syndicated offerings (four of index-linked and two of long conventional gilts) in 2016-17. Progress on the syndication programme will be announced in press notices, alongside the result of each transaction, and in the DMO's quarterly issuance calendar announcements. The size of each syndicated offering will be determined by the volume and quality of end-investor demand in the order book.
17. The DMO will provide updates on the planning assumptions for the size of the syndication programme in each press release announcing the results of a syndicated offering and via the gilt sales versus remit table on the DMO website.
18. In order to maintain the operational viability of syndicated offerings at the end of each programme, the overall size of the syndications (conventional and/or index-linked) may be increased by up to 10% (in cash terms) at the time of the final syndicated offering of each type. Scope to up-size the programmes in this way would only be deployed if, at the time of the final operations for either or both types of gilt, the initially unallocated portion had been exhausted. The

depletion of the unallocated portion might have occurred as a consequence of allocation to previous syndications, to other issuance methods or as a part of the sizing decision at the final operation.

Gilt tenders

19. Gilt tenders are being introduced in order to provide a degree of responsiveness at the margins in the delivery of the financing remit and to allow the programme to respond to evolving market and demand conditions during the year. Gilt tenders may also be used for market management purposes, replacing the DMO's 'tap' function, which is being discontinued³.
20. Gilt tenders may be used to issue any type and maturity of gilt, typically for those already in existence. The DMO will seek market views on demand for issuance via tenders including maturity/maturities and type(s) of gilt(s) for the period ahead at each quarterly consultation meeting.
21. However, market participants may also approach the DMO at any time to advocate the scheduling of a tender in any maturity/type of gilt, in which case the DMO will seek wider views from the market at the time.
22. The choice of gilt to be issued at any tender will be determined on a case-by-case basis by the DMO, taking into account market demand. Gilt tenders will be sized by the DMO on an operation-by-operation basis, but will generally be smaller than an auction of a comparable gilt.
23. In scheduling gilt tenders, the DMO will aim to avoid weeks in which a pre-announced auction of the same maturity/type has already been scheduled.
24. Gilt tenders will usually be added to the operations calendar with at least seven business days' notice, but can be scheduled at shorter notice as required.

Post Auction Option Facility (PAOF)

25. In 2016-17 the DMO will continue to offer successful bidders (both primary dealers and investors) an option to purchase additional stock via the PAOF. In 2016-17, the option will be for 15%⁴ of the nominal amount allocated to them at the average accepted price at conventional gilt auctions and at the clearing (or strike) price at index-linked gilt auctions. The PAOF will be available between midday and 2.00pm on the day of an auction.
26. Any amounts sold via the PAOF in 2016-17 will count towards the auction sales targets in the Remit on an auction-by-auction basis and will, other things equal, be used progressively to reduce the average sizes for the remaining auctions of the maturity/type of gilt in question throughout the financial year. Average auction sizes will be re-stated after each auction.

³ The DMO has only held one tap operation for market management reasons (£400mn (nominal) of 6% 2028 in August 1999).

⁴ Since the introduction of the facility in June 2010 the option has been for 10% of the amount allocated.

27. If exercised consistently, proceeds from the PAOF may allow for the cancellation of future auctions. Any such cancellation(s) would be announced well in advance as part of the regular issuance calendar announcements and/or at AS 2016.

Treasury bill sales

- **Debt management**

28. It is currently anticipated that net Treasury bill sales will contribute £1.0 billion to financing the NFR in 2015-16, implying a stock of Treasury bills for debt management purposes at end-March 2016 of £66.0 billion. The outturn amount that net Treasury bill issuance has contributed to debt financing in 2015-16 will be reported by the DMO in April 2016.
29. It is currently anticipated that net Treasury bill sales will not contribute to financing the NFR in 2016-17. Any changes to this assumption would be announced as part of any future remit revision (e.g. at AS 2016) and the outturn net contribution of Treasury bills to debt financing in 2016-17 will be reported by the DMO in April 2017.

- **Exchequer cash management**

30. In 2015-16 the DMO has operational flexibility to vary the end-financial year Treasury bill stock for cash management purposes by a maximum of £10 billion relative to the planning assumption of a stock of £66.0 billion at end-March 2016.
31. The arrangements in paragraph 30 will be replaced from 2016-17 onwards when the DMO will have greater operational flexibility to vary the stock of Treasury bills for cash management purposes during the financial year and across financial year-end. Treasury bills issued for cash management purposes will not contribute to the stock of Treasury bills issued to meet the financing requirement. Outturn information on the total stock of outstanding Treasury bills will continue to be published on the DMO's website, alongside information about the outturn stock of Treasury bills for debt financing purposes.

Changes to the financing requirement

32. The Debt Management Report (DMR) 2016-17 includes the Office for Budget Responsibility's revised forecasts for the Central Government Net Cash Requirement (excluding Northern Rock (Asset Management) (NRAM), Bradford & Bingley (B&B) and Network Rail (NR)) in 2015-16 and 2016-17 of £75.5 billion and £62.1 billion respectively. The forecast for 2015-16 is virtually unchanged relative to the forecast published at AS 2015; the forecast for 2016-17 is around £2 billion lower.
33. The other main changes impacting on financing in 2015-16 since AS 2015 are:

- a forecast £2.2 billion higher net contribution to financing from National Savings & Investments (taking their contribution to £11.5 billion); and
- an estimated outturn of gilt sales in 2015-16 of £127.7 billion, which is £0.3 billion higher than forecast at AS 2015.

34. The projected level of the DMO's net cash balance at 31 March 2016 is £3.0 billion, £2.5 billion higher than projected at AS 2015. The level will be reduced to £0.5 billion as shown by the financing adjustment carried forward from previous years in the financing arithmetic and this will reduce the NFR in 2016-17 accordingly.

Supplementary information

35. The package of measures introduced for the 2016-17 Remit is summarised at Annex A.
36. The initially planned split of gilt issuance by type, maturity and method of issue is at Annex B.
37. The planned gilt auction calendar for 2016-17 is at Annex C.
38. The financing arithmetic for 2015-16 and 2016-17 is at Annex D.
39. Illustrative gross financing requirement projections from 2017-18 to 2020-21 are at Annex E.
40. The redemption total of £69.9 billion for 2016-17 does not include the full value of the inflation uplift on 2½% Index-linked Treasury Stock 2016. Details are at Annex F.

Annex A: Package of measures introduced for the 2016-17 Remit

1. **Smaller auctions:** The DMO is expecting to hold smaller auctions in 2016-17 compared to 2015-16, particularly in short and medium conventional gilts.
2. **Larger unallocated portion of issuance:** The remit sets out an initially unallocated portion of issuance of £8.0 billion, which may be allocated during the year to any maturity or type of gilt and sold via any issuance method. The primary intention is to support a more active programme of gilt tenders (see below), as well as potentially increasing the syndication programme. The unallocated portion of issuance is intended to permit more responsiveness to changing market and demand conditions during the year. Depending on the allocation of this portion during the year, the outturn split of gilt issuance may differ at the margin from initial planning assumptions.
3. **Introduction of gilt tenders:** Gilt tenders will replace mini-tenders and will also encompass the role of the tap facility for market management purposes. In their role as replacement for mini-tenders, gilt tenders will be used for issuance alongside the auction programme, although they will be scheduled with less notice than auctions. Gilt tenders may be for any maturity and type of gilt and will generally be smaller than auctions of comparable gilts; they may also be issued for market management purposes. Full terms are set out in the Gilt Market Operational Notice⁵.
4. **More flexible syndication programme:** The initial planning assumption for the 2016-17 syndication programme is that it will be used to issue long conventional and index-linked gilts. However, should the DMO judge that market and demand conditions so warrant, it may schedule syndications of short and/or medium conventional gilts.
5. **More responsive auction calendar:** The planned gilt auction calendar may also be changed on a quarterly basis, if deemed necessary, following consultation with the market. Any change(s) to the planned auction calendar for the forthcoming quarter would be set out as part of the quarterly issuance announcement. The reasons for any change(s) to the auction calendar may include an alteration to the assumed mix of issuance methods to deliver the planned financing in the relevant quarter.
6. **Post Auction Option Facility (PAOF) rate increased from 10% to 15%:** All successful direct bidders are offered the right to purchase up to 15% of the nominal amount of gilts they were allotted at the relevant auction at the published average accepted price in multiple price format auctions, or, in auctions of uniform price format, at the published strike price.
7. **Gilt-edged Market Maker (GEMM) non-competitive bid allowance increased from 10% to 15%:** GEMMs are entitled to a share of a non-

⁵ http://www.dmo.gov.uk/index.aspx?page=Gilts/Operational_Rules

competitive allowance of 15% of the total nominal amount of the gilts on offer at auctions.

Annex B: Initially planned split of gilt issuance by type, maturity and method of issue

	Auction	Syndication	Gilt tender	Unallocated	Total
Short conventional					
£ billion	30.4				30.4
Per cent					23.5%
Medium conventional					
£ billion	24.8				24.8
Per cent					19.2%
Long conventional					
£ billion	26.7	9.5			36.2
Per cent					28.0%
Index-linked					
£ billion	14.0	16.0			30.0
Per cent					23.2%
Unallocated					
£ billion				8.0	8.0
Per cent					6.2%
Total £ billion	95.9	25.5	-	8.0	129.4
Total per cent	74.1%	19.7%	-	6.2%	
<i>Figures may not sum due to rounding</i>					

Annex C: Planned gilt auction calendar 2016-17

Date	Type
05 April 2016	Conventional
07 April 2016	Conventional
13 April 2016	Conventional
20 April 2016	Index-linked
04 May 2016	Conventional
05 May 2016	Conventional
10 May 2016	Index-linked
18 May 2016	Conventional
01 June 2016	Conventional
07 June 2016	Conventional
09 June 2016	Index-linked
05 July 2016	Conventional
07 July 2016	Conventional
13 July 2016	Index-linked
20 July 2016	Conventional
02 August 2016	Conventional
11 August 2016	Index-linked
17 August 2016	Conventional
01 September 2016	Conventional
06 September 2016	Conventional
14 September 2016	Index-linked
20 September 2016	Conventional
04 October 2016	Conventional
06 October 2016	Conventional
12 October 2016	Index-linked
19 October 2016	Conventional
01 November 2016	Conventional
08 November 2016	Conventional
17 November 2016	Index-linked
22 November 2016	Conventional
06 December 2016	Conventional
07 December 2016	Conventional
14 December 2016	Conventional
05 January 2017	Conventional
10 January 2017	Index-linked
18 January 2017	Conventional
07 February 2017	Conventional
09 February 2017	Conventional
15 February 2017	Index-linked
21 February 2017	Conventional
02 March 2017	Conventional
07 March 2017	Conventional
09 March 2017	Index-linked
14 March 2017	Conventional

Annex D: Financing arithmetic 2015-16 and 2016-17

£ billion	2015-16	2016-17
CGNCR (ex NRAM, B&B and NR)	75.5	62.1
Gilt redemptions	70.2	69.9
Planned financing for the reserves	5.3	6.0
Financing adjustment carried forward from previous financial years	-13.1	-2.5
Gross Financing Requirement	138.0	135.6
<i>Less:</i>		
Contribution from National Savings & Investments	11.5	6.0
Other financing*	0.2	0.2
Net Financing Requirement (NFR) for the DMO	126.2	129.4
Financed by debt issuance:		
a) Gilt sales	127.7	129.4
<i>of which:</i>		
- Short conventional	32.6	30.4
- Medium conventional	25.0	24.8
- Long conventional	37.2	36.2
- Index-linked	32.2	30.0
- Unallocated supplementary sales	0.6	8.0
b) Planned net contribution to financing from Treasury bills	1.0	0.0
Total financing	128.7	129.4
DMO net cash position	3.0	0.5
<i>Figures may not sum due to rounding.</i>		
*Prior to publication of the end-year outturn in April each year, this financing item will only comprise estimated revenue from coinage.		

Annex E: Illustrative gross financing requirement projections

£ billion	2017-18	2018-19	2019-20	2020-21
CGNCR (ex NRAM, B&B and NR)	41.0	32.3	3.0	17.0
Gilt redemptions	79.5	67.3	93.2	85.2
Planned financing for the reserves	6.0	6.0	6.0	0.0
Illustrative gross financing requirement	126.5	105.5	102.2	102.3
<i>Figures may not sum due to rounding</i>				

The table above shows annual illustrative gross financing projections from 2017-18 to 2020-21 using updated projections of the CGNCR (ex NRAM, B&B and NR) plus the latest estimate of gilt redemptions in these years. These are not forecasts of future gilt sales. Rather, they are a broad indication of future gilt sales on the assumption that Treasury bills and NS&I both make a zero net contribution to financing.

Annex F: Index-linked uplift and the redemption of 2½% Index-linked Treasury Stock 2016

The redemption total for 2016-17 of £69.9 billion does not include the full value of the index-linked uplift on 2½% Index-linked Treasury Stock 2016. The reasons include the rules governing the Central Government Net Cash Requirement (CGNCR). These rules state that part of the accrued inflation uplift on any redeeming gilt that represents the return to investors should be included in the CGNCR in the redemption year, and the remainder should be included in the redemption total for the year in which the relevant gilt redeems.

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

Since all cash flows on 2½% Index-linked Treasury Stock 2016 are now known, it is possible to calculate the final breakdown between those cash flows that count towards redemptions and those that count towards the CGNCR forecast for 2016-17. The nominal amount of this gilt in issue is £7.899 billion, and the total uplifted amount by the time of redemption will be £25.143 billion, so the total uplift is £17.244 billion.

The nominal amount in issue (less Government holdings - see below) will count toward redemptions⁶. Of the £17.244 billion of total uplift, £6.623 billion is included in redemptions and £10.621 billion is included in the CGNCR forecast for 2016-17.

⁶ The value of the uplift on Government holdings (£2.014 billion at end-January 2016) is not, however, included in either the 2016-17 redemption total or the CGNCR forecast. This reduces both the amount of uplift that counts towards redemptions (to £5.850 billion) and the amount included in the CGNCR (to £9.380 billion).