

United Kingdom
**Debt
Management
Office**

BUSINESS PLAN 2010-2011



UNITED KINGDOM DEBT MANAGEMENT OFFICE

BUSINESS PLAN 2010-2011

Table of Contents

<u>INTRODUCTION</u>	3
<u>REVIEW OF 2009-10</u>	5
<u>CORPORATE GOVERNANCE</u>	7
<u>VALUES</u>	8
<u>VISION, OBJECTIVES AND RESPONSIBILITIES</u>	9
<u>KEY PLANNING THEMES – FOR THE PERIOD TO 2012-13</u>	10
<u>PLANNING UNCERTAINTIES</u>	12
<u>OPERATIONAL TARGETS 2010-11</u>	13

Introduction

- 1 This is the UK Debt Management Office's ("DMO") 13th annual business plan since it was established as an executive agency of HM Treasury ("HMT") on 1 April 1998. The DMO's main aim continues to be "to carry out the Government's debt management policy of minimising its financing cost over the long-term taking account of risk, and to minimise the cost of offsetting the Government's net cash flows over time, while operating within a risk appetite approved by Ministers". The DMO's objectives are consistent with and support HM Treasury's objectives.

Key themes for the 2010-11 business plan

- 2 The key business planning themes for 2010-11 remain consistent with previous years with a wide range of activities that reflect the DMO's responsibilities and functions. The plan is primarily focused on the continued delivery of the DMO's debt management, cash management, fund management, local authority lending and other functions to the highest standards of quality and cost-effectiveness. We fully recognise that the effective delivery of these functions and services is our overriding objective and intend to allocate our resources, skills, systems and development activities accordingly.
- 3 The DMO's business plan therefore includes the following key themes for 2010-11:
 - Delivery of the debt management remit - which comprises a gilt financing requirement of £165.0 billion which is to be achieved through 66 gilt auctions, gilt mini tenders and syndicated offerings.
 - Delivery of the cash management remit – which will require management of the cash consequences of the gilt and Treasury bill programme, along with other HMG cashflows, in as an efficient and cost-effective way as possible.
 - Continuing to consult and liaise with key stakeholders in the financial markets in which the DMO has an interest; and to consider further developments, innovations and enhancements to facilitate the effective delivery of the debt and cash management remits.
 - Continuing to minimise operational risk by ensuring the DMO's business operations are fully supported by resilient and efficient systems and processes, and are managed within the budget envelope agreed with HMT.

- Continuing to work closely with HMT and the Department of Energy and Climate Change (“DECC”) on the ongoing delivery and development of phase II of the UK’s auctions of EU Emission Trading System allowances.
- Continuing to manage the administration of the Credit Guarantee Scheme.
- Continuing to seek out operational process efficiencies with the intention of further reducing cost and operational risk
- More generally, we intend to continue to review and, where appropriate, to enhance the DMO’s risk management framework and systems.
- We also intend to continue to monitor the resource and skills required to deliver the DMO’s array of objectives and, in line with our commitment to Investors in People status, continue to develop staff to achieve their professional potential.

Review of 2009-10

4 The DMO has delivered all of its 2009-10 key objectives and details of these will be published with its Report and Accounts for 2009-10 later in the year:

- Debt management - the gilt remit for 2009-10 was delivered with total gilt sales amounting to £227.6 billion (cash) raised through 58 auctions, 13 mini-tenders and 6 syndicated offerings. The average publication times for gilt auctions reduced from 7.6 minutes in 2008-09 to 6.3 minutes in 2009-10.
- The cash management remit for 2009-10 was also delivered against the background of challenging market conditions. The DMO continues to measure and monitor the performance of its Exchequer cash management operations against a series of quantitative and qualitative indicators. A report of its performance against these key performance indicators was published in the DMO Annual Review 2008-09 in August 2009.
- The DMO successfully introduced automated bid capture for Treasury bill tenders in February 2010. Initial indications are that this initiative will reduce considerably the publication times for tender results.
- Lending to local authorities via the Public Works Loan Board (“PWLB”) amounted to approximately £5.0 billion gross and £0.4 billion net in 2009-10 with the total loan book as at end-March 2010 standing at £51.3 billion.
- The DMO continues to manage the assets of certain public funds via the Commissioners for the Reduction of the National Debt (“CRND”) function. Assets under management as at end-March 2010 stood at £53.7 billion.
- The DMO continued to support additional issues of National Savings and Investments’ (“NS&I”) Guaranteed Equity Bond (“GEB”) by hedging HMG’s consequential exposure to the equity market.
- In October 2008, HMT announced a Financial Intervention Package one of the components of which was the Credit Guarantee Scheme 2008 (“CGS”). This scheme is administered by the DMO as agent for HMT. The CGS drawdown window closed at end February 2010 although liabilities issued by participant institutions may be rolled-over according to a prescribed series of limits up until 9 April 2012. Guarantees issued under the CGS amounted to £134bn as at 4 December 2009.

- The DMO continued to manage the gilt registration contract with Computershare Investor Services PLC on behalf of HMT. It also continued to manage the gilt purchase and sale service for retail investors which is carried out in association with Computershare as the DMO's agent.
- The DMO continues to conduct, on behalf of DECC, auctions of EU Emissions Trading System Allowances ("EUA"). During 2009-10, the DMO carried out 8 EUA auctions with a total of 34.8mn EUAs on offer.

Corporate governance

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

Chief Executive

- 6 The DMO's Chief Executive and Accounting Officer for the Debt Management Account ("DMA") and the agency, Robert Stheeman, reports to the Chancellor of the Exchequer and is accountable to Parliament in discharging his responsibilities.

Managing Board

- 7 The DMO has a senior management team that comprises Robert Stheeman; Jo Whelan, Deputy Chief Executive and Joint Head of Policy & Markets; Joanne Perez Joint Head of Policy & Markets and Jim Juffs, Chief Operating Officer and Head of Operations and Resources. Together with a representative from HMT, Sam Beckett, Director of Fiscal Policy, and non-executives Brian Duffin¹ and Brian Larkman, they make up the DMO's Managing Board - the agency's senior management team. A sub-committee of the Managing Board, together with the DMO's senior managers, usually meets weekly.

DMO Audit Committee

- 8 As part of a reorganisation to the audit committee arrangements across the HMT group at end December 2009, the DMO re-established its own audit committee with effect from 1 January 2010. The DMO's audit committee covers the same areas of risk, internal control, governance and associated assurance in respect of the Debt Management Account and other DMO managed "Exchequer Funds"² and also now covers the DMO Agency account. The DMO Audit Committee comprises two independent members: Brian Larkman, who is the Committee's chair and Brian Duffin. Mike Davidge – the Head of the Exchequer Funds Internal Audit function – is secretary to the Committee. Those who are eligible to attend DMO audit committee meetings, as necessary, include Robert Stheeman, Jo Whelan, Joanne Perez, Jim Juffs, representatives from the DMO's teams, HMT's internal audit team and the National Audit Office.

¹ Brian Duffin was appointed by a fair and open recruitment process to succeed Colin Price, whose term of office as a Non-Executive of the DMO and as Chair of the Exchequer Funds Audit Committee was completed at end December 2009.

² PWLB and CRND.

Staffing complement

9 In 2009-10, the DMO had a complement of around 112 full time equivalent members of staff (including short-term contract staff).

Values

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

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

Vision, objectives and responsibilities

11 The DMO's vision, agency objectives and responsibilities are set out below.

Vision statement

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

Agency objectives

1. To develop, provide advice on and implement HMG's debt management strategy.
 2. To develop, provide advice on and implement HMG's cash management requirements.
 3. To provide advice and operational services to HMT on issues relating to the management of HMG's balance sheet.
 4. To provide advice and operational services to HMG departments on wholesale markets-related issues and activities
 5. To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.
 6. To provide a cost-effective lending service to local authorities through the Public Works Loan Board.
 7. To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.
 8. To manage, operate and develop an appropriate risk and control framework.
- 12 As indicated above, in the delivery of these objectives, the DMO seeks to support primarily HMT's objective to "maintain sound public finances".

Key Planning Themes – for the period to 2012-13

The key planning themes reflect the need for the DMO to continue to deliver its core operations and activities to the excellent standard required; to further the development of debt and cash management strategy and contribute to initiatives that support the objectives of HMT and HMG; to improve efficiency and to reduce operational risk where possible; and to ensure the core values of the DMO continue to make it an excellent place to work. The objectives within each key planning theme are set out below.

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

This will include the following:

- Delivering the debt and cash management remits for 2010-11 adapting as necessary to changes in market and other conditions.
- Developing in due course the debt and cash management remits for 2011-12.
- Continuing to lend to local authorities through the PWLB; improving the service while minimising cost and risk to the Exchequer.
- Managing the funds of the CRND in accordance with the mandates from clients.
- Delivering the gilt purchase and sale service for retail investors efficiently and effectively.
- Managing the registration contract with Computershare, on behalf of HMT, in an effective and efficient way.
- Continuing to manage hedging transactions to meet NS&I's requirements in respect of its financing programme.
- Delivering the ongoing capability to execute and develop Emissions Trading System auctions on behalf of the Department of Energy & Climate Change ("DECC").
- Managing the administration of the Credit Guarantee Scheme on behalf of HMT, in an effective and efficient way.
- Producing the report and accounts for the DMO as an agency, the Debt Management Account, the PWLB and CRND funds to the highest standards of quality and timeliness.
- Ensuring that the DMO's website, publications and information are managed effectively and are available to stakeholders when required.

To further the development of debt and cash management strategy and contribute to initiatives that support the objectives of HMT and HMG.

This will include the following:

- Developing further our understanding of key issues relating to the financial markets in which the DMO operates by liaising directly with domestic and international stakeholders – including primary dealers and end-investors .
- When requested, working with HMT on the development of pragmatic solutions relating to HMG schemes and initiatives.
- Developing further analytical expertise, tools and techniques that help inform and contribute to the delivery of the debt and cash management remits.
- Developing enhancements to the delivery and measurement of the effectiveness of cash management operations.

To improve efficiency and to reduce operational risk where possible.

This will include the following:

- Delivering the DMO's operations within the budget "envelope" as agreed with HMT.
- Reviewing further the DMO's banking and settlement arrangements with the intention of identifying efficiencies and where possible advances in operational effectiveness.
- Reviewing and implementing any necessary changes to banking and operational arrangements.
- Continuing to develop and enhance the DMO's business delivery capability to enhance the operational resilience of the agency.
- Continuing to enhance the DMO's risk management analytical and reporting framework and capability.
- Continuing to implement a programme of strategic Information Technology work to enhance the DMO's core infrastructure and applications.
- Developing further the structure and production of business knowledge and information to support the DMO's business and agency functions.
- Continuing to manage information requests effectively and efficiently and in line with statutory and other requirements.

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

This will include the following:

- As accredited Investors in People, continuing to develop the DMO staff's skills to meet the DMO's business needs and to maximise their professional potential.
- Continuing to integrate and embed the DMO's core values into all aspects of the DMO's operations.
- Developing further the use of the DMO's Staff Council as a means of enhancing communication with DMO staff.
- Identifying and implementing where appropriate more effective ways of working.

Planning Uncertainties

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

Operational targets 2010-11

1. To ensure full compliance with HMG's remit for the DMO (which is set out in the Debt and Reserves Management Report 2010-11).
2. To ensure that the maximum time taken to issue the results of auctions and mini-tenders of gilts, and Emissions Trading System auctions does not exceed 15 minutes – although the DMO will aim to publish the results of these operations within 10 minutes of the close of offer - whilst achieving complete accuracy. Furthermore, as a result of the introduction of electronic bid capture for Treasury bill tenders in February 2010, the maximum time taken to issue the results will also be reduced from 20 minutes to 15 minutes. In addition, as for other operations, the DMO will aim to reduce the publication time for the results of Treasury bill tenders to within 10 rather than within 15 minutes of the close of offer – again, whilst achieving complete accuracy.
3. To achieve accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and in delivering money (and reconciling payments) to the NLF and to meet the required deadlines for the publication and submission for audit of the annual reports of the DMO, DMA, the PWLB and the CRND.
4. To ensure that the DMO responds to enquiries under the Freedom of Information Act within the statutory timeframe.
5. To avoid breaches of the DMO's operational market notices.
6. To ensure that, for cash management purposes, target weekly balances and expected daily variations are notified according to the agreed schedule.
7. To ensure that settlement instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through settlement is effective, so that the DMO successfully settles at least 99% (by value) of agreed trades on the due date.
8. To avoid factual errors in the publication of all market sensitive data and to make announcements in a timely manner.

9. To process all loan and early settlement applications from local authorities within two working days (between the date of the agreement and the completion of the transaction).
10. To ensure that the gilts purchase and sales service is operated according to its published terms and conditions.
11. To administer the Credit Guarantee Scheme on behalf of HMT in accordance with the relevant Scheme's published rules.