

PBR 2009: REVISION TO THE DMO'S FINANCING REMIT

1. The main changes to the DMO's financing remit for 2009-10 arising from a £5.1 billion increase in the net financing requirement announced at today's Pre-Budget Report (PBR) are:

2. Planned gilt sales will rise by £5.1 billion to £225.1 billion – split as follows:

- An increase in gilt sales at auctions of £1.1 billion, to £184.1 billion, (using proceeds already raised by the Post Auction Option Facility) split:
 - Short conventional: £0.2 billion (to £74.2 billion)
 - Medium conventional: £0.1 billion (to £70.1 billion)
 - Long conventional: £0.5 billion (to £27.5 billion)
 - Index-linked: £0.3 billion (to £12.3 billion)

No additional gilt auctions are scheduled for January-March 2010.

- A net increase in planned gilt sales (of long-dated conventional and/or index-linked gilts) via supplementary methods of £4.0 billion (to £41.0 billion). The current planning assumption is that proceeds from syndications will rise by £5.0 billion (to £30.0 billion) whilst sales via mini-tenders will fall by £1.0 billion (to £11.0 billion). However, total financing achieved via supplementary methods (and the splits between methods) by financial year-end will be dependent on market and demand conditions at the time the transactions are conducted. The DMO's current assumption is that there will be up to two syndicated offers in Q4 2009-10 and monthly mini-tenders.
- The planned increase in the Treasury bill stock remains at £21.6 billion, implying an end-March 2010 total of £65.6 billion. Given the market-led nature of proceeds from the supplementary issuance programmes, however, it is possible that the outturn of sales from syndications and mini-tenders may exceed (or fall short of) the planning assumptions above. In those circumstances the DMO plans to vary the Treasury bill stock (and/or levels of other short term debt) accordingly to meet the overall financing requirement.

3. The net financing requirement for the DMO has increased by £5.1 billion to £242.9 billion since Budget 2009 as a result of a combination of factors:

- An increase of £2.5 billion (to £223.3 billion) in the forecast Central Government Net Cash Requirement (CGNCR) for 2009-10;
- An increase of £2.0 billion (to £4.0 billion) in assumed financing for the foreign exchange reserves;
- A reduction of £0.5 billion (to -£0.5bn) in the forecast contribution to financing by National Savings & investments; and
- Secondary market purchases of gilts by the DMO of £0.1 billion.

4. The updated financing arithmetic is at Annex A and updated illustrative gross financing projections are shown at Annex B.

Changes to the auction programme – utilisation of proceeds raised from the Post Auction Option Facility (PAOF)

5. The DMO's practice in the financial year to-date has been not to factor in proceeds from the PAOF to auction sizing. Total proceeds from PAOF to-date¹ are £7.0 billion, which are being fully factored into the auction programme at PBR. Firstly, £1.1 billion of proceeds already raised from PAOF is being added to the totals in the auction programme as set out in paragraph 2 of this notice. The remaining £5.9 billion of PAOF proceeds to-date are being used to reduce the size of gilt auctions in the remainder of the financial year. See Annex C for more details about the implementation of PAOF.

Changes to the supplementary issuance programme

Syndicated offers

6. The DMO's current assumption is that up to two syndicated offers (of long-dated and/or index-linked gilts) will be held in the final quarter of the financial year. Syndicated offers will be sized according to the strength and quality of demand on the day of the operation. The implication is that sales from these transactions could exceed (or fall short of) the current planning assumptions above.

Mini-tenders

7. The DMO expects to hold four more mini-tenders (currently assumed to be of long-dated and/or index-linked gilts) before the end of the financial year, i.e. one per month. These plans include the tender of 4¼% 2032 scheduled for the week commencing 14 December.

Short-term debt sales/Treasury bills

8. There are no changes being announced today to planned Treasury bill sales. The planned stock-build remains at £21.6 billion this financial year, implying an end financial year stock of £65.6 billion. The DMO has operational flexibility, however, to vary the end-year Treasury bill stock subject to its operational requirements in 2009-10. One factor the DMO will consider in this respect is proceeds from supplementary issuance methods as well as proceeds from the PAOF in auctions to the end of the financial year. In the event that such proceeds look like deviating from current planning assumptions, the DMO intends that the end financial year Treasury bill stock (and/or other short-term debt levels) will be varied accordingly to meet the overall financing target.

¹ Up to and including the gilt auction held on 8 December 2009.

9. At Annex D is a table showing progress of gilt sales versus the revised remit published at PBR and at Annex E a summary table of the structure of the original and revised remit.

9 December 2009

Annex A: Revised financing arithmetic 2009-10

(£bn)	Budget	PBR
Central Government Net Cash Requirement	220.8	223.3
Gilt redemptions	16.6	16.6
Financing for Phase 1 of the Bank's Asset Purchase Facility	-1.0	-1.0
Financing for reserves	2.0	4.0
Buy-backs	0.0	0.1
Planned short-term financing adjustment ¹	-0.6	-0.6
Financing requirement	237.8	242.4
Less		
Contribution to financing from NS&I	0.0	-0.5
Net financing requirement	237.8	242.9
Financed by		
1. Debt issuance by the DMO		
a) Treasury bills²	21.6	21.6
b) Gilt sales	220.0	225.1
i) via auctions		
Short-dated conventionals	74.0	74.2
Medium-dated conventionals	70.0	70.1
Long-dated conventionals	27.0	27.5
Index-linked gilts	12.0	12.3
	183.0	184.1
ii) via supplementary methods (long and index-linked)³		
Syndications	25.0	30.0
Mini-tenders	12.0	11.0
	37.0	41.0
2. Other planned change in short-term debt		
Ways and Means	-3.8	-3.8
3. Change in short-term cash position⁴	0.0	0.0
Total financing	237.8	242.9
Short-term debt levels at end of financial year		
Assumed Treasury bill stock (in market hands)	65.6	65.6
Ways and Means	0.4	0.4
DMO net cash position	0.5	0.5
<p>1. To accommodate changes to the current year's financing requirement resulting from (i) publication of the previous year's outturn CGNCR and/or (ii) carry over of unanticipated changes to the cash position from the previous year.</p>		
<p>2. The stock change shown here is a planning assumption. The DMO may finish the financial year with a higher or lower Treasury bill stock than assumed above, depending on the extent to which the DMO uses other short-term cash instruments to raise finance and the extent to which there is a deviation from plan on proceeds from supplementary methods of issuance and the PAOF.</p>		
<p>3. The structure of the supplementary programme shown here is a current planning assumption which may be varied in line with market conditions and demand.</p>		
<p>4. The zero change for the short-term cash position assumes that the DMO's planning assumption for the end-year Treasury bill stock is met. To the extent that the DMO uses alternative short-term cash instruments to raise finance within year, this will be reflected (as a negative number) in this line in this table. A negative (positive) number here indicates an increase in (reduction in) the financing requirement for the following financial year.</p>		

Annex B: Illustrative gross financing projections

The table below shows annual illustrative gross financing requirements from 2010-11 to 2014-15 using updated projections of the CGNCR plus the latest estimate of gilt redemptions in these years. These are not gilt sales forecasts and, in particular, make no assumption about the contribution to financing from National Savings & Investments and the sale of Treasury bills.

Illustrative financing projections (£bn)					
	2010-11	2011-12	2012-13	2013-14	2014-15
CGNCR projections	174	146	118	101	81
Gilt redemptions	39	49	44	47	34
Financing requirement**	213	195	162	148	115
**Illustrative gross financing requirements.					
CGNCR change since Budget 09	-5	-2	-2	-3	na
Redemption change since Budget 09	0	0	10	26	5

Annex C: The Post Auction Option Facility (PAOF)

The DMO's financing remit 2009-10 (paragraph 5.9) states that PAOF proceeds may be used to reduce average auction sizes or, if exercised consistently, cancel auctions. The DMO's practice to-date has been not to take into account PAOF proceeds in sizing auctions with the result that auction proceeds are higher than they would otherwise have been. Given an increase in planned financing via auctions of £1.1 billion at PBR, approximately 16% of PAOF proceeds to-date are being used to finance the increase and the remainder (£5.9 billion) are being used to reduce the required average size of gilt auctions over the remainder of the financial year.

Additional financing raised by PAOF in auctions after PBR may be used to adjust auction sizes close to the end of the financial year, or to supplement any shortfalls in proceeds from syndications and/or mini-tenders, or to reduce the planned end-financial year Treasury bill stock.

Annex D: Progress against the revised remit

Gilt sales v remit 9 December 2009 (£ millions)					
	Conventional Gilts			Index-linked gilts	Total
	Short	Medium	Long		
Total gilt sales to-date	62,410	54,343	38,850	21,707	177,310
Planned sales at auctions	74,200	70,100	27,500	12,300	184,100
1. Sales at auctions	62,410	54,343	21,309	9,333	147,395
Remaining auction sales	11,790	15,757	6,191	2,967	36,705
Auctions remaining	3	5	3	3	14
2. Sales by syndication	0	0	13,558	9,531	23,089
3. Sales by tender	0	0	3,984	2,843	6,827
Remaining supplementary sales					11,085
Total planned sales					225,100
Total remaining sales					47,790

Annex E: Remit structure: Budget 2009 and PBR 2009

Auctions	Budget	PBR
Short	74.0	74.2
Medium	70.0	70.1
Long	27.0	27.5
Index-linked	12.0	12.3
	183.0	184.1
Supplementary issuance		
	37.0	41.0
Total Gilts	220.0	225.1
Issuance split*		
Short	34%	33%
Medium	32%	31%
Long and index-linked	35%	36%
<i>* Assumes all supplementary issuance is long and index-linked</i>		