5 The Debt Management Office's financing remit for 2010-11

Objectives

5.1 The DMO, an Executive Agency of HM Treasury, has been given the following objectives in respect of Government debt management:

- to meet the annual remit set by HM Treasury Ministers for the sale of gilts, with due regard to long-term cost minimisation taking account of risk;
- to advise Ministers on setting the remit to meet the Government's debt management objectives and to report to Ministers on the DMO's performance against its remit, objectives and targets;
- to develop policy on, and promote advances in, new instruments, issuance techniques and structural changes to the debt markets that will help better to meet the debt management objective, liaising as appropriate with the Bank of England, Financial Services Authority, London Stock Exchange and other bodies and to provide policy advice to Ministers on the DMO's performance against its remit, objectives and targets;
- to conduct its market operations, liaising as necessary with regulatory and other bodies, with a view to maintaining orderly and efficient markets and promoting a liquid market for gilts;
- to provide, including in liaison with Computershare Investor Services plc and Euroclear UK and Ireland, a high quality 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;
- to contribute to HM Treasury's work on the development of the medium-term strategy for the debt portfolio; and
- to make information publicly available on the debt markets and DMO policies where that contributes through openness and predictability to efficient markets and lowers the costs of debt issuance.

Quantity of gilt sales

5.2 The DMO, on behalf of the Government, will aim to deliver gilt sales of £187.3 billion (cash)[1] in 2010-11. Auctions will remain the Government's primary method by which to issue gilts. In addition, the Government has decided to continue the use of supplementary methods to issue gilts in 2010-11.

[1] Figures in Chapter 5 are in cash terms unless otherwise stated.

5.3 It is anticipated that:

- £148.1 billion (79.1 per cent of total issuance) will be issued through pre-announced auctions;
- £29.2 billion (15.6 per cent of total issuance) will be issued by syndication; and
- £10.0 billion (5.3 per cent of total issuance) will be issued through mini-tenders.

5.4 The planned amount of issuance and maturity mix in 2010-11 is:

- £59.0 billion of short conventional gilts (31.5 per cent of total issuance);
- £45.0 billion of medium conventional gilts (24.0 per cent of total issuance);
- £45.3 billion of long conventional gilts (24.2 per cent of total issuance); and
- £38.0 billion of index-linked gilts (20.3 per cent of total issuance).

5.5 The planning assumption for gilt issuance in 2010-11 by method of issue, type and maturity is shown in Table 5.A.

Table 5.A: Planned gilt issuance split by method of issue, type and maturity 2010-11[1]

	Auction	Syndication	Mini tender	Total
Short				
£ billion	59.0	-	-	59.0
per cent				31.5
Medium				
£ billion	45.0	-	-	45.0
per cent				24.0
Long				
£ billion	26.7	12.8	5.8	45.3
per cent				24.2
Index-linked				
£ billion	17.4	16.4	4.2	38.0
per cent				20.3
Total[2]	148.1	29.2	10.0	187.3

[1]As a planning assumption the DMO will use the supplementary issuance programme to sell long-dated and index-linked gilts .

[2]Totals may not sum due to rounding

Amount and maturity of conventional gilt issuance at auction

5.6 The planned amount of issuance and maturity mix of conventional gilts in 37 auctions in 2010-11 is:

- 13 auctions in the short (1-7 years) maturity area, aiming to raise £59 billion cash;
- 12 auctions in the medium (7-15 years) maturity area, aiming to raise £45 billion cash; and
- 12 auctions in the long (15 years and over) maturity area, aiming to raise £26.7 billion cash.

Amount of index-linked gilt issuance at auction

5.7 In 2010-11, the DMO aims to sell £17.4 billion (cash) in index-linked gilts in 15 auctions. These auctions will include frequent issuance at long maturities.

Size of gilt auctions

5.8 Each outright auction of conventional gilts is planned to be between £1.5 billion and £6.0 billion (cash) on a competitive bid-price basis. Each outright auction of index-linked gilts will be between £0.5 billion and £2.0 billion (cash) on a uniform price basis.

5.9 The planned gilt sales above are specified in cash terms, but gilt auctions are sized in nominal terms, typically in £250 million increments for conventional gilts and £25 million increments for index-linked gilts. Therefore, all gilt sales plans are expressed in approximate terms.

Gilt auction calendar

5.10 Auctions will constitute the primary means of issuance of all gilts (conventional and index-linked).

5.11 The expected timing of gilt sales at auction is set out in the calendar in Table 5.B below. A more detailed calendar for the first quarter of the financial year, including the gilts to be auctioned at each date, will be announced by the DMO at 3.30pm on Wednesday 31 March 2010. For the rest of 2010-11 the quarterly calendar announcements will be made at 3.30pm on 28 May, 31 August and 30 November 2010.[2] Full details of all auctions will normally be announced at 3.30pm on the Tuesday of the week preceding the auction.

5.12 As set out in paragraph 4.2, the calendar may be updated during the year and altered marginally to accommodate the optimal timing and/or sizing of a syndication by:

- rescheduling existing auctions;[3] and
- scheduling additional auctions, to the minimum extent necessary, following consultation with the market and with pre-announcement on the normal quarterly timetable.

5.13 The DMO may also alter the date of an auction:

- following confirmation of the date of a General Election; and/or
- following confirmation of the Chancellor's decisions on the timing of the Budget and the Pre-Budget Report.

5.14 After an auction, the DMO will generally refrain from issuing the same gilt for a reasonable period, unless already pre-announced, or if there is a clear market management case for doing so.

Post auction top up facility

5.15 In 2010-11, the DMO will continue to offer to successful bidders at auctions (both primary dealers and investors) an option to top up gilt purchases by up to 10 per cent of the amount allocated to them at auction, at the average accepted price at conventional auctions and the clearing (or strike) price at index-linked auctions. Further details of this facility are available in the DMO's gilt market operational notice.

5.16 Any additional amounts sold via this facility will count towards the remit sales targets and may be used to reduce the required average sizes for the remaining auctions of the maturity/type of gilt in question. If exercised consistently, the option may allow the cancellation of future auctions, but any such cancellation would be announced well in advance as part of the regular issuance calendar announcements and/or at the 2010 Pre-Budget Report.

[2] The announcement in November is subject to change depending on the date of the Pre-Budget Report.

[3] To be announced alongside an announcement about the likely timing of a syndication with a minimum of one week's notice of the rescheduled operation.

Table 5.B: Gilt auction calendar 2010-11

Date	Type
2010	
7 April	Conventional
13 April	Conventional
15 April	Index-linked
22 April	Conventional
27 April	Index-linked
5 May	Conventional
11 May	Conventional
13 May	Index-linked
20 May	Conventional
2 June	Conventional
3 June	Conventional
8 June	Index-linked
9 June	Conventional
17 June	Conventional
1 July	Index-linked
6 July	Conventional
14 July	Conventional
15 July	Index-linked
20 July	Conventional
3 August	Conventional
10 August	Conventional
12 August	Conventional
19 August	Index-linked
2 September	Conventional
7 September	Index-linked
15 September	Conventional
16 September	Conventional
5 October	Index-linked
13 October	Conventional
14 October	Conventional
19 October	Index-linked
21 October	Conventional
2 November	Conventional
9 November	Index-linked
11 November	Conventional
18 November	Conventional
2 December	Conventional
7 December	Conventional
15 December	Conventional
16 December	Index-linked
2011	
6 January	Conventional
11 January	Index-linked
19 January	Conventional
20 January	Conventional
1 February	Conventional
3 February	Conventional
8 February	Index-linked
17 February	Conventional
1 March	Conventional
3 March	Conventional
8 March	Index-linked
17 March	Conventional

[1] Auctions are subject to confirmation depending on the dates of the General Election, the 2010 Pre-Budget Report and Budget 2011.

Supplementary gilt issuance programme

5.17 The Government will continue to use supplementary methods to issue gilts in 2010-11. The planning assumption is that £39.2 billion of gilts will be issued via supplementary methods and that supplementary issuance methods will be used to sell long-dated conventional and index-linked gilts.

Syndication

5.18 The Government plans to sell £29.2 billion of gilts in up to ten syndications in 2010-11. The planning assumption is that £12.8 billion of long conventional and £16.4 billion of index-linked gilts will be issued by syndication (including new issues). The DMO will consult, with market participants, on plans for syndications in the quarterly consultation meetings throughout the year and will announce its intention to hold such operations, subject to market conditions, in its quarterly issuance announcements. Further details of any planned syndications will be announced around two weeks in advance of each operation.

Mini-tenders

5.19 The Government plans to issue £10.0 billion (cash) of gilts via a series of mini-tenders in 2010-11. The planning assumption is that this issuance will be split between long conventional and index-linked gilts. The DMO envisages holding at least one mini-tender per month and will announce the weeks in which tenders are planned in its quarterly issuance calendar announcements. The DMO may subsequently add mini-tenders to the calendar with at least four weeks' notice or remove mini-tenders from the calendar with a minimum of one week's notice. Mini-tenders will generally be around half the size of outright auctions of the same maturity/type.

5.20 The use of syndications and mini-tenders in 2009-10 is discussed in Box 5.A.

Tap sales of gilts

5.21 The above programme of conventional and index-linked gilt auctions (and any others that may be added during the year) and mini-tenders and syndicated offerings may be supplemented by official sales of gilts by the DMO "on tap". Taps of gilts will be used only as a market management instrument in exceptional circumstances.

The Standing Repo Facility

5.22 For the purposes of market management, the DMO may create and repo out gilts in accordance with the provisions of its Standing Repo Facility launched on 1 June 2000 and most recently revised on 6 August 2009.[4] Any gilts so created will not be sold outright to the market and will be cancelled on return.

Reverse auctions

5.23 The DMO has no current plans for a programme of reverse auctions in 2010-11.

Conversions and switch auctions

5.24 The DMO has no current plans for a programme of conversion or switch auctions in 2010-11.

Coupons

5.25 As far as possible, coupons on new issues will be set to price the gilt close to par at the time of issue.

Buy-ins of short-maturity debt

5.26 The DMO will have responsibility for buying in gilts close to maturity to help manage Exchequer cash flows.

New gilt instruments and issuance techniques

5.27 There are no plans to introduce new types of gilt instrument or issuance techniques. Before introducing any new instruments or issuance techniques, the DMO would consult market participants and seek HM Treasury's approval prior to their introduction.

Revisions to the remit

5.28 Any aspect of this remit may be revised during the year, in the light of exceptional circumstances and/or substantial changes in the following:

- the Government's forecast of the gilt sales requirement;
- the level and shape of the gilt yield curve;
- market expectations of future interest and inflation rates; and
- market volatility.

5.29 Any revisions to the remit will be announced.

[4] The announcement of 6 August 2009 is available on the DMO website at: http://www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/RepoTC060809B.pdf&page=operational_rules/Document

6 The Debt Management Office's Exchequer cash management remit for 2010-11

Exchequer cash management objective

6.1 The Government's cash management objective is to ensure that sufficient funds are always available to meet any net daily central government cash shortfall and, on any day when there is a net cash surplus, to ensure that this is used to best advantage. HM Treasury and the DMO work together to achieve this.

6.2 HM Treasury's role in this regard is to make arrangements for a forecast of the daily net flows into or out of the National Loans Fund (NLF); and its objective in so doing is to provide the DMO with timely and accurate forecasts of the expected net cash position over time.

6.3 The DMO's role is to make arrangements for funding and for placing the net cash positions, primarily by carrying out market transactions in the light of the forecast; and its objective in so doing is to minimise the costs of cash management while operating within the risk appetite approved by Ministers.

6.4 The Government's preferences in relation to the different types of risk taking inherent in cash management are defined by a set of explicit limits covering four types of risk which, taken together, represent the Government's overall risk appetite.[1] The risk appetite defines objectively the bounds of appropriate Government cash management in accordance with the Government's ethos for cash management as a cost minimising, rather than profit maximising, activity and playing no role in the determination of interest rates. The DMO may not exceed this boundary, but, within it, the DMO will have discretion to take the actions it judges will best achieve the cost minimisation objective.

The DMO's cash management objective

6.5 The DMO's cash management objective is to minimise the cost of offsetting the Government's net cash flows over time, while operating to a risk appetite approved by Ministers. In so doing, the DMO will seek to avoid actions or arrangements that would:

- undermine the efficient functioning of the sterling money markets; or
- conflict with the operational requirements of the Bank of England for monetary policy implementation.

[1] The four types of risk are: liquidity risk, interest rate risk, foreign exchange risk and credit risk. An explanation of these risks and the Government's cash management operations more generally is set out in Chapter 5 of the DMO's *Annual Review* 2004-05, which is available on the DMO's website: http://www.dmo.gov.uk/documentview.aspx?docname=publications/annualreviews/gar0405.pdf&page=Annual_Review

Instruments and operations used in Exchequer cash management

6.6 The range of instruments and operations that the DMO may use for cash management purposes is set out in its Operational Notice.[2] The arrangements for the issuance of Treasury bills, and the management of the Treasury bill stock in market hands, is set out in, and operated according to, the DMO's Operational Notice.

6.7 One component of the debt sales planned to meet the Government's annual financing requirement is the year-on-year change in the outstanding stock of Treasury bills (excluding bills issued solely for collateral purposes).

6.8 During the financial year, the DMO will manage the level of the Treasury bill stock and may increase or reduce the stock *vis à vis* the end year target level, in order to support the implementation of Government cash management. The DMO will announce the dates of Treasury bill tenders on a quarterly basis. The precise details of the maturity and the amount of the Treasury bills on offer at specific tenders will be announced one week in advance. In addition to the bills issued at weekly and ad hoc tenders, the DMO is able to reopen, on request from its counterparties, existing issues of Treasury bills on a bilateral basis to raise funds for cash management.

6.9 As a contingency measure, the DMO may issue Treasury bills to the market at the request of the Bank of England and, in agreement with HM Treasury, to assist the Bank of England's operations in the sterling money market for the purpose of implementing monetary policy while meeting the liquidity needs of the banking sector as a whole. In response to such a request, the DMO may add a specified amount to the size(s) of the next bill tender(s) and deposit the proceeds with the Bank, remunerated at the weighted average yield(s) of the respective tenders. The amount being offered to accommodate the Bank's request will be identified in the DMO's weekly Treasury bill tender announcement. Treasury bill issues made at the request of the Bank will be identical in all respects to Treasury bills issued in the normal course of DMO business. The DMO may also raise funds to finance advances to the Bank of England and would, in conjunction with HM Treasury, determine the appropriate instruments through which to raise those funds.

DMO Collateral Pool

6.10 To assist the DMO in the efficient execution of its cash management operations an amount of gilts, which shall be chosen to have a negligible effect on relevant indices, may be issued to the DMO on the third Wednesday of April, July and October 2010 and January 2011. Any such issues to the DMO will only be used as collateral in the DMO's cash management operations and will not be available for outright sale. The precise details of any such issues to the DMO will be announced in advance. If no issue is to take place in a particular quarter, the DMO will announce that this is the case in advance.

6.11 In the event that the DMO requires collateral to manage short-term requirements, the DMO may create additional Treasury bill collateral. Any such issues to the DMO will only be used as collateral and will not be available for outright sale.

6.12 The DMO's collateral pool may also be used to support HM Treasury's agreement to provide gilt collateral for the purpose of the Bank of England's Discount Window Facility (DWF).[3] The gilt collateral will be held by the DMO and lent to the Bank of England on an 'as needed' basis; gilts created for this purpose will not be sold or issued outright into the market.

[2] The current edition of Exchequer Cash Management Operational Notice and Treasury Bill Information Memorandum is available on the DMO's website at: http://www.dmo.gov.uk/documentview.aspx?docname=publications/moneymarkets/cmopnot180210.pdf&page=money_markets/publication

[3] More information about the Discount Window Facility can be found on the Bank of England's website at: http://www.bankofengland.co.uk/markets/money/discount/index.htm

Active cash management

6.13 The combination of HM Treasury's cash flow forecasts and the DMO's market operations characterises the active approach to Exchequer cash management. In 2007-08, a new performance measurement framework for active cash management – in which discretionary decisions, that are informed by forecast cash flows, are evaluated against a range of indicators – was introduced. These include quantifying excess returns to active management by measuring the net cost of cash management, after deducting an interest charge, equivalent to the Government's marginal cost of funds. Performance against key indicators, including quantitative and qualitative measures, is reported in the DMO's *Annual Review*.[4]

[4] See Appendix D of the DMO Annual Review 2008-09, which can be found on the DMO's website at: http://dmo.gov.uk/documentview.aspx?docname=publications/annualreviews/gar0809.pdf&page=Annual_Review