AUTUMN STATEMENT 2012: REVISION TO THE DMO FINANCING REMIT 2012-13 AND RESPONSE TO THE CONSULTATION ON SUPER LONG/PERPETUAL GILTS

1. Planned gilt sales in 2012-13 are being reduced by £0.2 billion[1] to £164.2 billion and planned sales of Treasury bills are being reduced by £15.0 billion, taking the forecast level of the Treasury bill stock at end-March 2013 to £53.5 billion, as a result of the publication of the new fiscal aggregates announced in the Office for Budget Responsibility's (OBR's) December 2012 *Economic and Fiscal Outlook*.

2. Separately, the DMO is also announcing today that the Government will remove the current maturity cap on issuance of gilts set at around 50 years and that in 2013-14 the DMO will look to launch new issuance in the 50-60 year area, subject to demand and market conditions. The Government will not introduce new perpetual gilts at the current time (see paragraphs 15-16).

Gilt sales

3. The £0.2 billion reduction to the gilt sales programme is being delivered through a reduction in the mini-tender programme, reducing planned sales via mini-tenders to £6.3 billion and the balance of sales required in Q4 2012-13 to meet the plan to £1.3 billion.

4. The main change to the gilt financing remit for the remainder of the financial year is the reduction in required auction sizes as a result of the application of proceeds from the Post Auction Option Facility (PAOF) in 2012-13 to the calculation of required average auction sizes[2]. Changes to required average auction sizes are shown below. The gilt auction calendar remains unchanged.

Average Required Auction Sizes			
(£ billion cash)	April revision	Pre-AS 2012	Post-AS 2012
Short	4.58	4.66	3.89
Medium	3.45	3.42	2.44
Long	2.16	2.07	1.80
Index-linked	1.36	1.35	1.13

5. A modification is, however, being made to the structure of long conventional gilt sales, with £0.75 billion of planned sales via syndications being switched to the auction programme. Without such a switch the average required size of long conventional auctions would have been only £1.45 billion (cash).

6. As a consequence, the cash amount remaining to meet the long syndication target falls to £3.5 billion. If necessary, however, to maintain operational viability, the remit provides the DMO with the flexibility to increase the size of the final syndicated offer (of each programme), either via switching funding from the mini-tender

[1] Figures in this announcement are in cash terms unless otherwise indicated.
[2] Both proceeds which have accrued in the financial year to date, and projected sums for the remainder of the financial year (based on the rate of take-up in the financial year to-date) are factored into the auction size calculations at the Autumn Statement. See Annex A.

programme, or via a top-up of up to 10% of the size of the relevant syndication programme (i.e. in this case for the long conventional programme, up to £1.3 billion cash).

7. The summary of gilt sales relative to the remit targets is at Annex A. The breakdown of gilt sales by type/maturity and method of issuance is at Annex B.

Treasury bill sales

8. The planned end-March 2013 stock of Treasury bills is being reduced by £16.9 billion in 2012-13, compared to a planned reduction of £1.9 billion announced in April 2012. The planned stock of Treasury bills at end-March 2013 on this basis will be £53.5 billion. The revised target will be achieved by not implementing the increases in the sizes of the weekly one- and three-month Treasury bill tenders in Q4 2012-13, which would have been required to hit the previously planned target for the stock of £68.5 billion.

9. The total amount of Treasury bills in issue at end-March 2013 will, however, also reflect the sale by the DMO of Treasury bills on a bilateral basis, which mature in 2013-14; the total amount of Treasury bills sold bilaterally to-date in 2012-13 is £1.9 billion (an update will be provided at Budget 2013).

Changes to the financing requirement at the Autumn Statement 2012

10. The OBR's forecast for the Central Government Net Cash Requirement (CGNCR) in 2012-13 has fallen by £14.9 billion to £106.1 billion. This principally reflects the expected receipt of £11.5 billion of coupon income expected during Q4 2012-13 from the Bank of England's Asset Purchase Facility, expected receipts of £3.5 billion from the sales of the 4G Spectrum licences, a faster sale of Royal Mail Pension Plan assets than had been expected at Budget 2012, as well as other policy measures.

11. The financing requirement in 2012-13 has been further reduced by £2.6 billion arising from the reclassification of Northern Rock (Asset Management) (NRAM) and Bradford and Bingley plc (B&B) to the central government; this reflects the repayment of loans by NRAM and B&B to the Exchequer, which, while not included in the CGNCR, reduce the Exchequer's need to raise cash.

12. Offsetting these reductions are:

   a. a revised assumption for the net contribution to financing in 2012-13 by National Savings & Investments (NS&I) from £ zero to a de-fund of £2.0 billion;

   b. the need to adjust for an upward revision of £0.2 billion to the 2011-12 CGNCR, which took place after the publication of the remit revision on 24 April 2012; and

   c. the marginal impact of DMO secondary market purchases of gilts in 2012-13.

13. The updated financing arithmetic table is shown at Annex C.

Future illustrative gross financing requirements

14. The OBR's December 2012 *Economic and Fiscal Outlook* includes updated projections for the CGNCR from 2013-14 to 2017-18. Revised illustrative gross financing requirements are shown below. These financing requirements use the new CGNCR projections together with the adjustments arising from the reclassification of NRAM and B&B, gilt redemptions in these years (NB the redemption totals make no assumptions about future gilt issuance) and financing for the Official Reserves. These projections are not gilt sales forecasts, they make no assumptions about any contribution to financing either from NS&I or via Treasury bill sales.

(£ billion)	2013-14	2014-15	2015-16	2016-17	2017-18
CGNCR projections	105	102	86	72	51
Adjustment for NRAM & B&B	-3	-3	-2	-1	-3
Gilt redemptions	52	62	68	69	76
Financing for the Official Reserves	6	6	0	0	0
Illustrative gross financing requirement	**161**	**167**	**151**	**139**	**124**

Figures may not sum due to rounding

Consultation on the potential issuance of super-long and/or perpetual gilts

15. The DMO is today publishing the Government's response to its consultation on the potential issuance of super-long and/or perpetual gilts. The DMO press release is available at:

http://www.dmo.gov.uk/documentview.aspx?docName=/gilts/press/pr051212.pdf

16. The Government's formal response document, including a summary of the feedback received in response to the consultation, is available at:

http://www.dmo.gov.uk/documentview.aspx?docName=publications/giltsmarket/consultationpapers/cons20121205.pdf

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Annex A. Gilt sales relative to remit plans in the period after AS 2012

	Conventional Gilts			Index-linked gilts	Total
	Short	Medium	Long		
Auction sales in the financial year to-date	36,434	24,243	19,567	10,916	91,161
PAOF sales in the financial year to-date	1,733	2,253	1,077	616	5,679
Auction and PAOF sales in the financial year to date	**38,167**	**26,496**	**20,644**	**11,532**	**96,839**
PAOF sales since the Autumn Statement	*0*	*0*	*0*	*0*	*0*
Syndication sales in the financial year to-date			9,278	15,651	24,930
Mini-tender sales in the financial year to-date	4,998	0	0	0	4,998
Total gilt sales in the financial year to-date	**43,165**	**26,496**	**29,922**	**27,183**	**126,767**
Required auction sales to meet plans					
Sales required	12,233	8,004	3,806	4,768	28,811
Less assumed PAOF proceeds to end-financial year	556	680	198	255	1,690
Auction sales currently required to meet plans	**11,677**	**7,323**	**3,607**	**4,513**	**27,121**
Number of auctions remaining	3	3	2	4	12
Currently required average auction sizes	**3,892**	**2,441**	**1,804**	**1,128**	
Syndication sales required to meet plan			3,472	3,849	7,320
Mini-tender sales required to meet plan					1,302
Total planned gilt sales					**164,200**

Annex B. Planned split of gilt issuance by type, maturity and method of issuance

(£ billion)	Auction	Syndication	Mini-tender	Total
Short conventional				
£ billion	**50.4**			**50.4**
Per cent				30.7%
Medium conventional				
£ billion	**34.5**			**34.5**
Per cent				21.0%
Long conventional				
£ billion	**24.5**	**12.8**		**37.2**
Per cent				22.7%
Index-linked				
£ billion	**16.3**	**19.5**		**35.8**
Per cent				21.8%
Total	**125.7**	**32.3**	**6.3**	**164.2**
	76.5%	**19.6%**	**3.8%**	

Figures may not sum due to rounding.

Annex C. Updated financing arithmetic

Financing arithmetic 2012-13 (£ billion)	April-2012	Autumn Statement
Central Government Net Cash Requirement	121.0	106.1
Adjustment for NRAM and B&B[1]	0.0	-2.6
Gilt redemptions	52.9	52.9
Financing for the Official Reserves	6.0	6.0
Gilt secondary market purchases[2]	0.0	0.0
Planned short-term financing adjustment[3]	-17.4	-17.2
Gross Financing Requirement	162.5	145.3
Less:		
Contribution from National Savings & Investments	0.0	-2.0
Net Financing Requirement	**162.5**	**147.3**
Financed by:		
1. Debt issuance by the DMO		
a) Treasury bills (net stock change in financial year)	**-1.9**	**-16.9**
b) Gilt sales (planned outright sales)	**164.4**	**164.2**
Short conventional	50.4	50.4
Medium conventional	34.5	34.5
Long conventional	37.2	37.2
Index-linked	35.3	35.8
Mini-tenders	7.0	6.3
2. Other planned changes in short term debt[4]		
Ways and Means	0.0	0.0
3. Change in the DMO short term cash position[5]	0.0	0.0
Total financing	**162.5**	**147.3**
Short-term debt levels at end of financial year		
Treasury bill stock (in market hands)	68.5	53.5
Ways and Means	0.4	0.4
DMO net cash position	0.5	0.5

Figures may not sum due to rounding.

1. Reflecting the reclassification of NRAM and B&B as part of Central Government.

2. Purchases of "rump gilts", with a small nominal outstanding, in which Gilt-edged Market Makers (GEMMs) are not required to make two-way markets. The Government will not sell further amounts of such gilts to the market but the DMO is prepared, when asked by a GEMM, to make a price to purchase such gilts.

3. To accommodate changes to the stated year's financing requirement resulting from: (i) publication of the previous year's CGNCR outturn, (ii) an increase in the DMO's cash position at the Bank of England, and/or (iii) carry over of unanticipated changes to the cash position from the previous year.

4. Total planned changes to short-term debt are the sum of: (i) the planned short-term financing adjustment, (ii) net Treasury bill sales, and (iii) changes to the level of the Ways and Means Advance.

5. The change in the short-term cash position for 2012-13 (and the level of the net short term cash position at the end of the financial year) reflects changes to the public finance forecasts, any changes to financing from NS&I and Treasury bills (including those sold direct to counterparties separately from weekly tenders). It will also reflect any variances between the gilt sales outturn and plans. In addition, the change will include any impact on financing arising from other activities carried out within Government (e.g. issuance of tax instruments, transfers between central government and other sectors, and foreign exchange transactions). The zero change for the short-term cash position in 2012-13 assumes that the DMO's planning assumption for the end-year Treasury bill stock is met. A negative (positive) number here indicates an increase in (reduction in) the financing requirement for the following financial year.