

## DMO FINANCING REMIT 2014-15: 19 MARCH 2014

1. The DMO's financing remit for 2014-15 has been published today as part of the Budget 2014 announcements. The main points are summarised below.

### A. Debt issuance by the DMO

The DMO plans to raise £144.9<sup>1</sup> billion in 2014-15, split as follows:

- Gilt sales: £128.4 billion.
- Net Treasury bill sales (via tenders): £16.5 billion.

### B. Planned gilt sales

2. It is intended that the gilt sales plans will be met through a combination of:

- £106.4 billion of issuance in 41 auctions; and
- £22.0 billion of issuance via supplementary distribution methods, split:
  - £17.0 billion through a programme of syndicated offerings; and
  - £5.0 billion through a programme of mini-tenders.

3. The planned split of issuance by maturity and type of gilt to be sold via auctions and syndicated offerings is as follows:

#### Conventional:

Short: £32.4 billion (25.2%) in 8 auctions.

Medium: £26.9 billion (21.0%) in 8 auctions.

Long: £33.1 billion (25.8%) in 10 auctions and via syndicated offerings (aiming to raise £24.6 billion by auction and a current planning assumption of £8.5 billion by syndication).

Index-linked: £31.0 billion (24.1%) in 15 auctions and via syndicated offerings (aiming to raise £22.5 billion by auction and a current planning assumption of £8.5 billion by syndication).

4. All types and maturities of gilt will be eligible for sale via mini-tenders in 2014-15.

5. The issuance methods to achieve these targets are based on current planning assumptions. In particular, total financing achieved through supplementary

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<sup>1</sup> Sales figures in this announcement are in cash terms unless otherwise indicated.

methods (and the split by method) will be dependent on market and demand conditions at the time transactions are conducted.

### **C. The gilt auction programme**

6. The calendar of gilt sales by auction in 2014-15 is attached at Annex A.
7. The DMO will publish average auction sizes (in cash terms) by maturity and type in its quarterly issuance calendar announcement for April-June 2014 (at 3.30pm on 31 March 2014) and will re-publish planned average auction sizes after every auction on the DMO website<sup>2</sup>, in its regular auction size press releases and subsequent quarterly issuance calendar announcements.
8. The DMO may size each individual auction above or below the prevailing average required (cash) size, taking into account the maturity of the bond being sold and prevailing market conditions.

### **D. The syndication programme**

9. The DMO again envisages using the syndication programme in 2014-15 to launch new gilts and for re-openings of high duration gilts. Depending on market feedback at the quarterly consultation meetings on the choices for such gilts, the DMO envisages holding approximately four syndicated offerings (one per quarter) in 2014-15. The DMO will announce updates on the progress of the syndication programme in its quarterly operations calendar announcements. Each syndicated offering will be sized having regard to the size and quality of end-investor demand in the order book.
10. The mini-tender programme will again be used as the main method to accommodate variations in proceeds from syndicated offerings. In the event that proceeds from the syndication programme exceed the currently planned total of £17.0 billion, the size of the mini-tender programme will be reduced. In the event that the proceeds from syndications fall consistently short of those required to deliver the planned total, the mini-tender programme will be increased.
11. To maintain the operational viability of syndicated offerings at the end of each programme, the overall size of the long conventional and index-linked programmes may be increased by up to 10% (in cash terms) at the time of the final syndicated offering of each type. Any such increase would only be deployed, however, if the capacity to up-size syndications through reallocation from the mini-tender programme had been exhausted.
12. The DMO will provide updates to the planning assumptions for the split between supplementary issuance via syndications and mini-tenders in each DMO press release announcing the results of a syndicated offering and via the gilt sales versus remit table on the DMO website.

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<sup>2</sup> <http://www.dmo.gov.uk/index.aspx?page=Remit/Information>.

## **E. Interaction between the gilt auction calendar and the syndication programme**

13. In order to facilitate the scheduling of a syndicated offering, the DMO may on an exceptional basis alter the timing 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 but, if so, with a minimum of at least one week's notice. Any such changes would be announced alongside an announcement about the likely timing of a syndicated offering.

## **F. Gilt mini-tenders**

14. The DMO currently plans to raise £5.0 billion (cash) in 2014-15 via mini-tenders of any type or maturity of gilt. The scheduling of mini-tenders will take place during the year, depending on market demand and the progress of the syndication programme. Hence, the size of the mini-tender programme may be increased or reduced in accordance with any variations in the sizes of syndicated offerings during 2014-15 (see paragraph 10).
15. Mini-tenders will be added to the calendar with at least seven working days notice, after consultation with market participants. Market consultation may take place via the quarterly consultation process or at other times during the year.
16. The choice of gilt to be issued at each mini-tender will be determined on a case-by-case basis by the DMO in consultation with the market. Mini-tenders will be sized operation-by-operation and may vary in size subject to a maximum limit of approximately half the typical (cash proceeds) size of an auction of a comparable gilt by maturity or type. The DMO will announce the choice of gilt to be sold, as well as the maximum size for the operation, at least five working days before the date of each mini-tender.

## **G. Post Auction Option Facility (PAOF)**

17. The PAOF will continue to be available in 2014-15. Successful bidders at auctions will have the option to purchase up to an additional 10% of the amount of stock allocated to them at the same auction. The option to buy (at the average accepted price at conventional gilt auctions and at the strike price at index-linked gilt auctions) will be open from midday to 2pm on the day of an auction.
18. The DMO is changing the way in which it accounts for PAOF proceeds in 2014-15. Any proceeds raised through the PAOF will count towards overall remit sales targets and be factored into auction size calculations on an auction-by-auction basis throughout the financial year. All else equal, PAOF proceeds will be used progressively to reduce implied average auction sizes throughout the year. Average auction sizes will be re-stated after every auction. Further details

of the new methodology for accounting for PAOF proceeds are published at Annex E.

19. If exercised consistently the options proceeds may allow for the cancellation of future auctions. Any such cancellation would be announced well in advance as part of the regular issuance calendar announcements and/or at the Autumn Statement (AS) 2014.

#### **H. Treasury bill sales**

20. The stock of Treasury bills in market hands sold via weekly tenders at end-March 2014 is expected to be £56.5 billion. It is planned that net Treasury bill issuance via tenders in 2014-15 will be £16.5 billion, implying a stock level of £73.0 billion at end-March 2015.
21. The DMO has discretion to vary the Treasury bill stock over the end of the financial year in line with its cash management operational requirements. In 2014-15, the DMO will have the flexibility to vary the end-financial year stock of Treasury bills issued via tenders by up to £5.0 billion above or below the published planned level, to offset any anticipated net Exchequer cash surplus or deficit towards year-end. The 2013-14 outturn for the stock of Treasury bills issued via tenders will be reported in April 2014.

#### **I. Changes to the financing requirement**

22. The Debt and Reserves Management Report (DRMR) 2014-15 includes the Office for Budget Responsibility's revised forecasts for the Central Government Net Cash Requirement (excluding Bradford & Bingley (B&B) and Northern Rock (Asset Management) (NRAM) (CGNCR ex B&B and NRAM) in 2013-14 and 2014-15 of £87.5 billion and £100.7 billion respectively. These represent a reduction of £11.5 billion for 2013-14 and an increase of £1.7 billion for 2014-15 relative to the forecasts published at the AS 2013.
23. The other main changes impacting on financing in 2014-15 since the Autumn Statement 2013 are:
  - the estimated outturn of gilt sales in 2013-14, which is £153.4 billion, £0.3 billion lower than the £153.7 billion plan, primarily reflecting lower than anticipated proceeds from the PAOF in the post-AS 2013 period; and
  - a forecast net contribution to financing in 2014-15 from National Savings & Investments (NS&I) of £13.0 billion.
24. The forecast net cash position for the DMO at end-March 2014 is now £11.6 billion, relative to a planned net cash position of £0.5 billion. In line with established policy, the higher than expected cash position will be run down in 2014-15, reducing the financing requirement in the next financial year by £11.1 billion.

## **J. Supplementary Information**

25. The gilt auction calendar for 2014-15 is published at Annex A.
26. The financing arithmetic for 2013-14 and 2014-15 is published at Annex B.
27. The planned split of gilt issuance by type, maturity and method of issue is published at Annex C.
28. Revised illustrative gross financing projections to 2018-19 are published at Annex D.
29. An extract from the updated PAOF operational notice is published at Annex E.

## Annex A: Gilt auction calendar 2014-15

Date	Gilt type
02-Apr-14	Conventional
08-Apr-14	Index-linked
24-Apr-14	Conventional
29-Apr-14	Conventional
07-May-14	Index-linked
15-May-14	Conventional
28-May-14	Index-linked
03-Jun-14	Conventional
10-Jun-14	Conventional
12-Jun-14	Index-linked
01-Jul-14	Conventional
08-Jul-14	Conventional
17-Jul-14	Index-linked
22-Jul-14	Conventional
06-Aug-14	Index-linked
12-Aug-14	Conventional
21-Aug-14	Conventional
27-Aug-14	Index-linked
02-Sep-14	Conventional
09-Sep-14	Index-linked
11-Sep-14	Conventional
01-Oct-14	Conventional
07-Oct-14	Conventional
16-Oct-14	Index-linked
21-Oct-14	Conventional
04-Nov-14	Index-linked
13-Nov-14	Conventional
20-Nov-14	Index-linked
02-Dec-14	Conventional
09-Dec-14	Conventional
11-Dec-14	Index-linked
06-Jan-15	Conventional
07-Jan-15	Index-linked
15-Jan-15	Conventional
20-Jan-15	Conventional
04-Feb-15	Index-linked
12-Feb-15	Conventional
03-Mar-15	Conventional
10-Mar-15	Conventional
12-Mar-15	Index-linked
19-Mar-15	Conventional

*Auction dates are subject to confirmation depending on the timetable for Budgetary announcements by HM Treasury.*

## Annex B: Financing arithmetic 2013-14 and 2014-15

Budget 2014 (£ billion)	2013-14	2014-15
Central Government Net Cash Requirement exc. B&B and NRAM <sup>1</sup>	87.5	100.7
Gilt redemptions	51.5	62.2
Financing for the Official Reserves	6.0	6.0
Gilt secondary market purchases <sup>2</sup>	0.0	0.0
Planned short-term financing adjustment <sup>3</sup>	5.8	-11.1
<b>Gross Financing Requirement</b>	<b>150.8</b>	<b>157.9</b>
Less:		
Net contribution from National Savings & Investments	3.4	13.0
<b>Net Financing Requirement</b>	<b>147.4</b>	<b>144.9</b>
Financed by:		
<b>1. Debt issuance by the DMO</b>		
<b>a) Treasury bills (planned change in stock issued at tenders)<sup>4</sup></b>	<b>5.0</b>	<b>16.5</b>
<b>b) Gilt sales (planned outright sales)</b>	<b>153.4</b>	<b>128.4</b>
Short conventional	42.6	32.4
Medium conventional	32.5	26.9
Long conventional	34.3	33.1
Index-linked	38.4	31.0
Mini-tenders	5.6	5.0
<b>2. Other planned changes in short term debt<sup>5</sup></b>		
Ways and Means	0.0	0.0
<b>3. Change in the DMO short term cash position<sup>6</sup></b>	<b>11.1</b>	<b>0.0</b>
<b>Total financing</b>	<b>158.4</b>	<b>144.9</b>
<b>Short-term debt levels at end of financial year</b>		
Treasury bill stock via tenders (in market hands) <sup>7</sup>	56.5	73.0
Ways and Means	0.4	0.4
DMO net cash position	11.6	0.5
<i>Figures may not sum due to rounding.</i>		
1. Includes an expected £200mn contribution from Sovereign sukuk issuance in 2014-15.		
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. The £5.0bn shown for 2013-14 is the difference between the Treasury bill stock issued via tenders only at end-March 2013 (£51.5bn) and the planned Treasury bill stock issued via tenders only at end-March 2014 (£56.5bn). The equivalent numbers published at AS 2013 included Treasury-bill sales directly to counterparties that spanned the end of the financial year. Hence, at AS 2013, planned Treasury bill sales in 2013-14 were -£0.7bn, which was the difference between a Treasury bill stock at end-March 2013 of £57.2 bn and a planned end-March 2014 stock of £56.5bn.		
5. Total planned changes in 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.		
6. The change in the short-term cash position for 2014-15 (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 from Treasury bills. 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 2014-15 assumes that the DMO's planning assumption for the end-year Treasury bill stock via tenders is met. A negative (positive) number here indicates an increase (reduction) in the financing requirement for the following financial year.		
7. From 2014-15, the T-bill stock outstanding at year end-can be increased or decreased by a maximum of £5 billion relative to the planning assumption to offset any anticipated net Exchequer cash surplus or deficit towards year-end.		

## Annex C: Planned split of gilt issuance by type, maturity and method of issue

	Auction	Syndication	Mini-tender	Total
<b>Short conventional</b>				
£ billion	<b>32.4</b>			<b>32.4</b>
Per cent				25.2%
<b>Medium conventional</b>				
£ billion	<b>26.9</b>			<b>26.9</b>
Per cent				21.0%
<b>Long conventional</b>				
£ billion	<b>24.6</b>	<b>8.5</b>		<b>33.1</b>
Per cent				25.8%
<b>Index-linked</b>				
£ billion	<b>22.5</b>	<b>8.5</b>		<b>31.0</b>
Per cent				24.1%
<b>Total</b>	<b>106.4</b>	<b>17.0</b>	<b>5.0</b>	<b>128.4</b>
	<b>82.9%</b>	<b>13.2%</b>	<b>3.9%</b>	
<i>Figures may not sum due to rounding.</i>				

## Annex D: Illustrative gross financing projections

The table below shows annual illustrative gross financing projections from 2015-16 to 2018-19 using updated projections of the CGNCR (ex B&B and NRAM) 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 neutral assumption that the Treasury bill stock is unchanged and NS&I makes a zero net contribution to financing. Although a zero net contribution from NS&I is considered neutral, measures announced in Budget 2014 are likely to have implications for NS&I inflows in 2015-16. These measures are detailed in the Budget 2014 document.

(£ billion)	2015-16	2016-17	2017-18	2018-19
CGNCR exc. B&B & NRAM	81	67	38	10
Gilt redemptions	70	69	79	67
Financing for the Official Reserves	0	0	0	0
<b>Illustrative gross financing requirement</b>	<b>151</b>	<b>135</b>	<b>118</b>	<b>77</b>
<i>Figures may not sum due to rounding.</i>				

## **Annex E: Extract from the revised PAOF Operational Notice**

### **The new procedure for accounting for PAOF proceeds**

1. Starting at the gilt auction on 2 April 2014, any proceeds from the exercise of the PAOF after a gilt auction will count towards the relevant remit sales target on an auction by auction basis throughout the financial year.
2. All else equal, any such proceeds will be used progressively to reduce the implied average sizes for the remaining auctions of the maturity/type of gilt in question throughout the financial year. Prevailing average auction sizes will continue to be re-stated after each auction in the gilt sales versus remit table on the DMO's website and in DMO press notices announcing individual auction details.
3. If exercised consistently, the options proceeds 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 Autumn Statement (AS).
4. From 2014-15, there will be no adjustment to average auction sizes at AS as a result of PAOF proceeds and as a consequence, no PAOF related step changes to average auction sizes at AS. The only adjustments to average auction sizes at AS will reflect changes to either the gilt sales targets themselves or to the number of auctions scheduled.
5. The PAOF operational note is available on the DMO website at: [http://www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/opnot190314.pdf&page=operational\\_rules/Document](http://www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/opnot190314.pdf&page=operational_rules/Document)