DMO FINANCING REMIT 2012-13: 21 MARCH 2012

1. The DMO's financing remit for 2012-13 has been published today as part of the Budget 2012 announcements. The main points are summarised below.

A. Debt issuance by the DMO

The DMO plans to raise £166.4[1] billion in 2012-13, split as follows:

Gilt sales:	£167.7 billion
Net Treasury bill sales:	-£1.3 billion

B. Planned gilt sales

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

- £126.7 billion of issuance in 45 auctions; and
- £41.0 billion of issuance via supplementary distribution methods, split:
    - £33.5 billion through a programme of up to eight syndicated offerings; and
    - £7.5 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:	£51.6 billion (30.8%) in 12 auctions
Medium:	£34.9 billion (20.8%) in 10 auctions
Long:	£37.6 billion (22.4%) in 11 auctions and up to three syndicated offerings (aiming to raise £23.6 billion by auction and £14.0 billion by syndication)
Index-linked:	£36.1 billion (21.5%) in 12 auctions and up to five syndicated offerings (aiming to raise £16.6 billion by auction and £19.5 billion by syndication)

4. The use of mini-tenders is being extended to include the sale of short- and medium-dated conventional gilts, such that all types and maturities of gilt will be eligible for sale via mini-tender in 2012-13.

5. The issuance methods to achieve these targets are based on current planning assumptions. In particular, total financing achieved through supplementary methods (and the split by method) will be dependent on market and demand conditions at the time transactions are conducted.

[1] Sales figures in this announcement are in cash terms unless otherwise indicated.

C. The gilt auction programme

6. The calendar of gilt sales by auction in 2012-13 is attached in Annex A.

7. The DMO will publish planned average auction sizes (in cash terms) by maturity and type in its quarterly issuance calendar announcement for April-June 2012 (on 30 March 2012) and will publish updated planned average auction sizes in its regular auction size press releases and subsequent quarterly issuance calendar announcements thereafter.

D. The syndication programme

8. The DMO intends to finance through the programme of syndicated offerings in 2012-13 on a broadly even flow basis throughout the year, in a similar way to 2011-12. The planning assumption of up to eight syndicated offerings implies a frequency of two such operations per quarter.

9. The DMO may continue to vary the (cash) size of each syndicated offering to take account of market and demand conditions at the time of each transaction. In order to maintain predictability about issuance via syndication, such discretion will be limited to around £1.0 billion (cash) above or below the prevailing average required operation size.

10. The mini-tender programme will be used as the main method to accommodate variations in proceeds from syndicated offerings. In the event that the proceeds from syndcations fall consistently short of target the mini-tender programme will be increased. In the event that the proceeds from syndications are consistently above target the mini-tender programme will be reduced.

11. In the event that a number of syndications are increased above the prevailing average required operation size, it is possible that the remaining balance of sales to meet the planned syndication sales targets could be too small to hold viable offerings towards year-end despite offsetting adjustments (i.e. reductions) to the mini-tender programme earlier in the year. In this case, and to maintain predictability about the number of syndications to be held in the year, the DMO may increase the syndication sales targets for long conventional and index-linked gilts in total by up to 10% of the size of the syndication programme, (i.e. £3.5 billion) to ensure that the final syndications of long conventional and/or index-linked gilts remain viable.

12. The DMO will provide updates to the planning assumptions for the split between supplementary issuance via syndication and mini-tenders in each DMO press release announcing the results of a syndicated offering.

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 plans to raise £7.5 billion (cash) through a programme of mini-tenders. The DMO also intends to enhance the extent to which the mini-tender programme is responsive to market demand in-year relative to 2011-12. Hence, all maturities and types of gilt will be eligible for sale.

15. 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 programme may be increased or reduced in accordance with any variations in the sizes of syndicated offerings during 2012-13 (see paragraphs 9 and 10).

16. Mini-tenders will be added to the calendar with at least seven working days notice, after market consultation. Market consultation may take place via the quarterly consultation process or at other times during the year.

17. 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 half the 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, five working days before the date of each operation.

G. Post Auction Option Facility (PAOF)

18. The PAOF will continue to be available in 2012-13. 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.

19. The proceeds raised through the PAOF will count towards overall remit sales targets, but will be separately identified from amounts raised at auctions themselves. In the period before any restatement of the public finances forecast and the financing remit (currently expected at the Autumn Statement 2012) sums raised through the PAOF will not be taken into account in the calculation of required average auction sizes.

20. At a re-statement of the financing requirement (e.g. at the Autumn Statement) the proceeds from the PAOF to that date will be added to the auction proceeds totals, reducing the respective amounts to be raised by sector/type of gilt in the period following the re-statement, other things equal. These proceeds will also

be taken into account in the calculation of required average auction sizes for the remainder of the financial year. All other factors constant, therefore, the proceeds may be used to reduce auction sizes or to reduce the number of required operations in the period following the re-statement. Any use of the PAOF in these ways would be communicated to the market as part of an announcement of any update to the DMO's financing remit at the time of the re-statement.

21. In addition, following the re-statement of the financing requirement, the DMO will assume that proceeds from the PAOF up to that point will continue to accrue for the remainder of the financial year at the same rate per type and maturity of gilt. These assumed future PAOF proceeds will be subtracted from the balance of sales remaining in the period following the re-statement and average auction sizes will be calculated on the basis of the adjusted (lower) sales balances.

22. The extent to which proceeds raised through the PAOF after the re-statement are different from assumed proceeds (where this difference is not accommodated in the supplementary issuance programme) this will be reflected in changes to the DMO's end-year net cash position.

H. Treasury bill sales

23. The stock of Treasury bills in market hands at end-March 2012 is forecast to be £69.8 billion, reflecting a contribution from Treasury bills sold bilaterally of £6.8 billion. It is planned that net Treasury bill issuance via tenders in 2012-13 should be -£1.3 billion, implying a stock level of £68.5 billion at end-March 2013.

24. 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. Any difference between the outturn and planned target stock for 2012-13 will be reported in April 2013, along with any wider implications for the DMO's financing remit in 2013-14 arising from the publication of the outturn for the 2012-13 Central Government Net Cash Requirement (CGNCR).

I. Changes to the financing requirement

25. The Debt and Reserves Management Report (DRMR) 2012-13 includes revised forecasts for the CGNCR for 2011-12 and 2012-13 of £129.9 billion and £121.0 billion respectively. These represent reductions of £5.1 billion for 2011-12 and £8.9 billion for 2012-13 since Autumn Statement 2011.

26. The other main changes impacting on financing since the Autumn Statement 2011 are:

<u>2011-12</u>

- the forecast net contribution to financing from National Savings & Investments (NS&I) has increased by £1.3 billion from £3.0 billion to £4.3 billion;

- the estimated outturn of gilt sales is £179.4 billion, £0.5 billion higher than the £178.9 billion plan, primarily reflecting higher auction proceeds via the PAOF; and

- a net increase of £6.6 billion in Treasury bill sales over the financial year (from a planned reduction of £0.4 billion to an increase of £6.2 billion). This reflects the bilateral sale of Treasury bills that mature after 31 March 2012. These stocks will be run-down in 2012-13 and refinanced by Treasury bills issued by tender.

27. The combination of these factors together with the lower CGNCR has led to a forecast net cash position for the DMO at end-March 2012 of £14.1 billion, relative to a planned net cash position of £0.5 billion. As usual in these circumstances, the additional cash position will be run down in 2012-13 reducing the financing requirement in 2012-13 by £13.6 billion.

<u>2012-13</u>

- Reflecting the factors above, the forecast gross financing requirement has fallen by £22.6 billion to £166.4 billion.

- NS&I's net contribution to financing is forecast to be £0.0 billion.

J. Royal Mail Pension Plan: gilt holdings

28. Under the powers contained in the Postal Services Act 2011, the Government intends to transfer assets (alongside the historical liabilities) of the Royal Mail Pension Plan (RMPP), a private sector pension scheme, into public ownership in April 2012, subject to State Aid clearance. As a result, around £11 billion worth of gilts by market value, of which around 80 per cent are index-linked, are expected to be transferred into public ownership in April 2012. The majority of the conventional gilts are expected to be of short maturities, with the majority of the index-linked holdings being of long maturities. However, the exact amount and breakdown of the gilts to be transferred depends on a number of factors and will not be known with certainty until the transfer has been completed. In due course, once this process has been completed, the DMO will publish the full portfolio breakdown.

29. **It is the Government's intention that these gilts will be cancelled during 2012-13.** Cancellation of gilts will have no impact on the CGNCR, the net financing requirement or any of the other fiscal aggregates. The DMO will invite feedback from the market, at its quarterly consultation meetings, on the appropriate timing of cancellation, to take account of the impact on indices. The DMO will provide the market with good notice of any cancellations, including the stocks and amounts to be cancelled.

K. Consultation on extending the UK government bond yield curve and potential issuance of perpetual gilts

30. Towards the end of the first quarter of 2012-13, the DMO will launch a market consultation on the case for the issuance of gilts with maturities longer (and potentially significantly longer) than those currently in issue (i.e. in excess of 50 years) and/or perpetual gilts. The consultation will build an evidence base to inform the Government's decision on whether to issue those instruments. It will seek to establish the likely sources, strength and sustainability of demand, the cost-effectiveness and risks of issuance, and the impact on market liquidity and the good functioning of the wider gilt market.

31. No presumption has been made about issuance at this stage, and any subsequent decision about whether to proceed will be informed by the responses received to the consultation and will follow an assessment with reference to the debt management objective. If any such decision was made to proceed with issuance in 2012-13, this would be reflected at the time of the next planned remit revision.

L. Supplementary Information

32. The gilt auction calendar for 2012-13 is published at Annex A.

33. The revised financing arithmetic for 2011-12 and 2012-13 is published at Annex B.

34. The planned split of gilt issuance by type, maturity and method of issuance is published at Annex C.

35. Revised illustrative financing projections to 2016-17 are published at Annex D.

Annex A: Gilt auction calendar 2012-13

Date	Type
2012	
Tuesday 3 April	Conventional
Wednesday 11 April	Conventional
Thursday 12 April	Conventional
Thursday 19 April	Index-linked
Tuesday 1 May	Conventional
Thursday 3 May	Index-linked
Wednesday 9 May	Conventional
Tuesday 15 May	Conventional
Tuesday 12 June	Conventional
Thursday 14 June	Conventional
Thursday 21 June	Conventional
Tuesday 26 June	Index-linked
Tuesday 3 July	Conventional
Wednesday 4 July	Conventional
Tuesday 10 July	Index-linked
Thursday 12 July	Conventional
Thursday 19 July	Conventional
Thursday 16 August	Conventional
Tuesday 21 August	Index-linked
Thursday 23 August	Conventional
Wednesday 5 September	Conventional
Tuesday 11 September	Index-linked
Thursday 13 September	Conventional
Thursday 20 September	Conventional
Tuesday 2 October	Conventional
Tuesday 9 October	Conventional
Thursday 11 October	Index-linked
Thursday 18 October	Conventional
Thursday 1 November	Index-linked
Tuesday 6 November	Conventional
Thursday 15 November	Conventional
Tuesday 20 November	Conventional
Wednesday 5 December	Conventional
Thursday 13 December	Index-linked
Thursday 20 December	Conventional
2013	
Thursday 3 January	Conventional
Tuesday 8 January	Conventional
Thursday 17 January	Index-linked
Tuesday 22 January	Conventional
Tuesday 5 February	Index-linked
Thursday 14 February	Conventional
Thursday 21 February	Conventional
Tuesday 5 March	Conventional
Wednesday 13 March	Conventional
Thursday 21 March	Index-linked

Auction dates are subject to confirmation depending on the timetable for Budgetary announcements by HM Treasury and the Office for Budget Responsibility.

Annex B: Financing arithmetic 2011-12 and 2012-13

£ billion		
	2011-12	2012-13
Central Government Net Cash Requirement	129.9	121.0
Gilt redemptions	49.0	52.9
Financing for the Official Reserves	6.0	6.0
Gilt secondary market purchases[1]	0.0	0.0
Planned short-term financing adjustment[2]	-8.6	-13.6
Gross Financing Requirement	176.3	166.4
Less:		
Contribution from National Savings & Investments	4.3	0.0
Net Financing Requirement	**172.0**	**166.4**
Financed by:		
1. Debt issuance by the DMO		
a) Treasury bills (net stock change in financial year)[3]	**6.2**	**-1.3**
b) Gilt sales (planned outright sales)	**179.4**	**167.7**
Short-dated conventionals	60.6	51.6
Medium-dated conventionals	40.1	34.9
Long-dated conventionals	39.7	37.6
Index-linked	39.0	36.1
Mini-tenders		7.5
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]	13.6	0.0
Total financing	**185.6**	**166.4**
Short-term debt levels at end of financial year		
Treasury bill stock (in market hands)[6]	69.8	68.5
Ways and Means	0.4	0.4
DMO net cash position	14.1	0.5

Figures may not sum due to rounding.

1. 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.

2. 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.

3. The stock change shown for 2011-12 is a planning assumption and measures the change in the level of the Treasury bill stock in issue between end-March 2011 and that currently forecast for end-March 2012. The stock of bills for this purpose comprises both those issued at weekly tenders and those issued separately to individual cash management counterparties. The stock change shown for 2012-13 is that currently required to take the stock of Treasury bills to £68.5 billion by end-March 2013.

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 2011-12 (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.

6. The DMO has operational flexibility to vary the end-financial year stock subject to its operational requirements.

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

(£ billions)	Auction	Syndication	Mini-tender	Total
Short-dated conventional				
£ billion	**51.6**			**51.6**
Per cent				30.8%
Medium-dated conventional				
£ billion	**34.9**			**34.9**
Per cent				20.8%
Long-dated conventional				
£ billion	**23.6**	**14.0**		**37.6**
Per cent				22.4%
Index-linked				
£ billion	**16.6**	**19.5**		**36.1**
Per cent				21.5%
Total	**126.7**	**33.5**	**7.5**	**167.7**
	75.6%	**20.0%**	**4.5%**	

Annex D: Illustrative gross financing projections

The table below shows annual illustrative gross financing projections from 2013-14 to 2016-17 using updated projections of the CGNCR plus the latest estimate of gilt redemptions and planned financing for the Official Reserves in these years. These are not gilt sales forecasts and, in particular, make no assumption about any contribution to financing from NS&I or the sale of Treasury bills.

(£ billions)				
	2013-14	2014-15	2015-16	2016-17
CGNCR projections	112	81	56	37
Gilt redemptions	52	60	67	69
Financing for the Official Reserves	6	6	0	0
Illustrative gross financing requirement	**170**	**147**	**123**	**106**
CGNCR change since the Autumn Statement (AS) 2011	-5	-4	-6	-7
Financing for the reserves change since AS 2011	0	0	0	0
Redemptions change since AS 2011	0	0	0	16
Figures may not sum due to rounding.				