HM Treasury

Debt Management Report 2023-24

March 2023

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Introduction

1.1 The 'Debt management report' is published in accordance with the 'Charter for Budget Responsibility'.[1] The Charter requires the Treasury to "report through a debt management report – published annually – on its plans for borrowing for each financial year" and to set remits for its agents. The Charter requires the report to include:

- the overall size of the debt financing programme for each financial year
- the planned maturity structure of gilt issuance and the proportion of index-linked and conventional gilt issuance
- a target for net financing through National Savings & Investment (NS&I)

1.2 The UK Debt Management Office (DMO) publishes detailed information on developments in debt management and the gilt market over the previous year in its 'Annual Review'.[2]

1.3 Chapters 2 and 3, along with Annexes A and B, contain information on the government's wholesale debt management activities. Information about financing from NS&I is set out in Annex C. The Exchequer cash management remit for 2023-24 is contained in Annex D.

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1 'Charter for Budget Responsibility: autumn 2022 update', HM Treasury, November 2022.

2 www.dmo.gov.uk/publications/annual-reviews

Chapter 2

Debt management policy

Introduction

2.1 This chapter provides an overview of the government's debt management framework and sets out medium-term considerations for debt management policy. The debt management framework is part of the overall macroeconomic framework, which includes the fiscal, macro prudential, and monetary policy frameworks.

Debt management framework

2.2 The debt management framework includes:

- The debt management objective
- The principles that underpin the debt management policy framework
- The roles of HM Treasury and the Debt Management Office (DMO)
- The full funding rule

Debt management objective

2.3 The debt management objective, as set out in the 'Charter for Budget Responsibility',[3] is:

> "to minimise, over the long term, the costs of meeting the government's financing needs, taking into account risk, while ensuring that debt management policy is consistent with the aims of monetary policy."

2.4 While decisions on debt management policy must be taken with a long-term perspective, specific decisions on funding the government's gross financing requirement are taken annually. Remit decisions are announced in advance of the forthcoming financial year and are typically revised in April (a technical adjustment to reflect outturn data from the previous financial year) and as the Office for Budget Responsibility (OBR) publishes subsequent fiscal projections. The remits may also be revised at other times in exceptional circumstances. Any such in-year revisions will be announced transparently to the market.

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[3] 'Charter for Budget Responsibility: autumn 2022 update', HM Treasury, November 2022.

Components of debt management objective

2.5 The costs of meeting the government's financing needs arise directly from the interest payable on debt (coupon payments and the difference between issuance proceeds and redemption payments) and the costs associated with issuance. "Over the long term" means that the government expects to issue debt beyond the forecast period. This expectation is reflected in the government's choice of debt management strategies.

2.6 A number of risks are taken into account when selecting possible debt management strategies. Five particularly important risks are:

- interest rate risk – interest rate exposure arising when new debt is issued
- refinancing risk – this includes interest rate exposure arising when debt is rolled over, with an increase in risk if redemptions are concentrated in particular years, as well as liquidity and execution risks arising from sizeable redemption payments, particularly if these occur in the near term.
- inflation risk – exposure to inflation, given that principal and coupon payments due on index-linked gilts are indexed to the Retail Prices Index (RPI)
- liquidity risk – the risk that the government may not be able to borrow freely and smoothly in the required size or manner at a particular time because of insufficient liquidity
- execution risk – the risk that the government is not able to sell the offered amount of debt at a particular time, or must sell it at a large discount to the market price

2.7 These are the major risks that the government has taken into account in recent years and expects to take into account in the future. The weight placed on each risk can change over time. An explanation of how risk is taken into account in determining the DMO's financing remit for 2023-24 is set out in Annex B.

Debt management policy principles

2.8 The debt management objective is achieved by:

- meeting the principles of openness, predictability, and transparency
- encouraging the development of a liquid and efficient gilt market
- issuing gilts that achieve a benchmark premium
- adjusting the maturity and nature of the government's debt portfolio
- offering cost-effective retail financing through NS&I, while balancing the interests of taxpayers, savers, and the wider financial sector

2.9 The framework is underpinned by the institutional arrangements for debt management policy as established in 1998 – in particular, the creation of the DMO with responsibility for the implementation and operation of debt management policy.[4]

Roles of HM Treasury and the DMO

2.10 The respective roles of HM Treasury and the DMO are set out in the DMO's 'Executive Agency Framework Document'.[5]

2.11 In support of the government's approach to debt management policy:

- the DMO will conduct its operations in accordance with the principles of openness, predictability, and transparency
- HM Treasury and the DMO will explain the basis for their decisions on debt issuance as fully as possible, in order to allow market participants to understand the rationale behind them
- the DMO will encourage the development of liquid and efficient gilt and Treasury bill markets

2.12 HM Treasury sets the annual financing remit using the projected financing requirement, which is calculated on the basis of the OBR's forecasts for the government's cash borrowing needs. The DMO has responsibility for pre-announcing the details of its issuance plans to the market, including a planned auction calendar (which sets out the operation dates and type of gilt to be issued as well as its approach to auction sizing).

The full funding rule

2.13 An overarching requirement of debt management policy is that the government fully finances its projected financing requirement each year through the sale of debt. This is known as the 'full funding rule'. The government therefore issues sufficient wholesale and retail debt instruments, through gilts, Treasury bills (for debt financing purposes), and NS&I products, so as to enable it to meet its projected financing requirement in full.

2.14 The rationale for the full funding rule is:

- that the government believes that the principles of transparency and predictability are best met by the full funding of its financing requirement
- to avoid the perception that financial transactions of the public sector could affect monetary conditions, consistent with the institutional separation between monetary policy and debt management policy

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[4] More information about the DMO can be found here: www.dmo.gov.uk/about/who-we-are

[5] 'United Kindgom Debt Management Office Executive Agency Framework Document', April 2005.

2.15 The total amount of financing raised in a financial year will in practice differ from the projected financing requirement. This divergence normally occurs towards the end of the financial year and can be explained by a number of different factors. These include:

- the difference between the projected central government net cash requirement and its outturn
- the difference between the projected net contribution to financing by NS&I and its outturn
- auction and/or gilt tender proceeds in the period following the Spring Budget that are different from those required to meet relevant financing targets
- the implementation of the syndication programme at year-end

2.16 The difference will be reflected in a change in the DMO's cash balance at the end of the financial year. To meet the full funding rule, the government adjusts the projected net financing requirement in the following financial year in order to offset any difference; however, this does not affect the DMO's cash management operations, which are intended to smooth the government's cash flows across the financial year (see Annex D). The DMO's flexibility to vary the stock of Treasury bills for cash management purposes is implemented with full adherence to the full funding rule.

Debt management considerations

2.17 Decisions on debt management policy are taken in advance of need, in order to achieve the debt management objective. Each year, the government assesses the costs and risks associated with different possible patterns of debt issuance, taking into account the most up-to-date information on market conditions and demand for debt instruments.

2.18 At present, annual debt management decisions are also made in the context of an elevated level of debt relative to gross domestic product, and an ongoing large gilt redemption profile. Consistent with the long-term focus of the debt management objective, the government takes decisions annually that enhance fiscal resilience by:

- mitigating refinancing risk; that is, the need to roll over high levels of debt continuously and to avoid concentrating redemptions in particular years, by taking decisions which spread gilt issuance along the maturity spectrum
- encouraging the liquidity and efficiency of the gilt market
- maintaining a diversity of exposure, both real and nominal, across the maturity spectrum, reflecting its preference for a balanced portfolio

2.19 As a result, subject to cost-effective financing, the government will:

- maintain a relatively long average maturity debt portfolio, in order to limit its exposure to refinancing risk
- issue an appropriate balance of conventional and index-linked gilts over a range of maturities, taking account of structural demand, the diversity of the investor base, and the government's preferences for inflation exposure
- maintain the Treasury bill stock at a level that will support market liquidity and the cash management objective

Index-linked gilts

2.20 The UK's stock of index-linked debt stood at around £549.4 billion at the end of 2022, making up 25.3% of the government's debt portfolio (Chart A.10).[6]

2.21 Issuing index-linked gilts has historically brought cost advantages for the government due to strong investor demand. Doing so has also built the UK's financial resilience by supporting both the UK's long average debt maturity and diversifying the investor base. Tying debt interest payments to RPI has historically helped to underscore the credibility of the government's commitment to low and stable inflation, particularly during the period prior to central bank independence; however, the UK's relatively large stock of index-linked debt also increases the sensitivity of the public finances to inflation shocks, as highlighted in the OBR's 2017 'Fiscal risks report'.[7]

2.22 At Budget 2018 – and as part of the government's responsible approach to fiscal risk management – the government announced that it would look to reduce the proportion of annual index-linked gilt issuance in a measured fashion over the medium term, as a means of reducing its inflation exposure in the debt portfolio. It has been doing so since. In the five years prior to 2018-19, index-linked gilts accounted for around 25% of the government's annual debt issuance, for which both the principal and coupon payments are indexed to RPI. Since then, the government has made progress towards reducing inflation exposure in relative terms. Index-linked gilt issuance has accounted for around 14% (unweighted) of annual gilt issuance on average over the last five years (including 2022-23), while the proportion of index-linked gilts in the debt stock has also fallen from 28.4% at the end of 2019 to 25.3% at the end of 2022 (see Charts A.10 and A.11).

2.23 As set out in the 2022-23 Debt Management Report, the government is no longer looking to reduce index-linked gilt issuance as a share of total issuance on a year-on-year basis over

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[6] In nominal uplifted terms.

[7] 'Fiscal risks report', Office for Budget Responsibility, July 2017.

the medium term. The government decides index-linked gilt issuance on an annual basis, and in practice the share of total issuance will vary from year to year depending on factors including the size of the financing requirement, demand and market conditions.[8] In the 2023-24 financing remit, planned index-linked gilt issuance accounts for 10.9% of total gilt issuance. It is higher in absolute terms than in 2022-23 but, given the elevated financing requirement in 2023-24, remains significantly lower as a proportion of total gilt issuance than in the years prior to 2018-19.

2.24 Decisions on the precise levels of index-linked and conventional gilt issuance will continue to be taken as part of the annual financing remit and in consultation with market participants.

Sovereign Sukuk

2.25 In March 2021, the government issued its second UK sovereign Sukuk, raising £500 million. Sukuk are financial certificates, similar to bonds, but which comply with the principles of Islamic finance. The Sukuk took an al-Ijara structure and will mature in 2026.

2.26 The issuance of sovereign Sukuk is not part of the government's regular debt management policy but is instead intended to deliver wider benefits, including reinforcing London's status as the leading centre for Islamic finance outside the Islamic world, supporting greater financial inclusion in the UK, and promoting greater trade and investment into the UK.

Green gilts and retail Green Savings Bonds

2.27 The government launched the UK's Green Financing Programme with the publication of the Green Financing Framework ('the Framework') in June 2021.[9] Under this Programme, the government has raised £26.8 billion through the sale of green gilts, via the DMO, and retail Green Savings Bonds (GSB), via NS&I.[10]

2.28 In September 2021, the DMO issued the UK's inaugural green gilt, maturing in 2033, raising £10.0 billion. This was the largest inaugural green bond issuance by any country at the time. This was followed by a second green gilt issuance in October 2021, raising a further £6.1 billion. Total proceeds raised from green gilt issuance in 2021-22 were £16.1 billion.

2.29 In 2022-23, the DMO raised a further £9.9 billion via the issuance of green gilts across five transactions in May, September, and November 2022 and February 2023 (two transactions). The focus was on re-opening the existing green gilts, in order to build up liquidity. The existing green gilts (£18.5 billion (nominal) for the 12-

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8 As is the case for conventional gilts of all maturity buckets, actual index-linked gilt issuance may differ from planned issuance due to transfers from the unallocated pot.

9 'UK Government Green Financing Framework', HM Treasury, June 2021.

10 Retail Green Savings Bond proceeds are up to and including February 2023.

year and £12.9 billion (nominal) for the 32-year green gilt) have scope to be built up further towards benchmark sizes for standard conventional gilts.

2.30 The government plans to issue £10.0 billion of green gilts in 2023-24, subject to demand and market conditions. The expectation is that the focus will be on further re-openings of the two existing green gilts, which will be kept under review, taking into account market conditions.

2.31 The government also launched the world's first sovereign retail Green Savings Bond (GSB), tied to the same framework as green gilts, through NS&I, in October 2021. The GSB is a three-year fixed-term savings product. Customers will benefit from the transparency of the annual allocation reports and biennial impact reports planned for the wider Green Financing Programme, as set out below.

2.32 The GSB has been repriced several times in response to market developments. Issue 4 was launched in February 2023, with an interest rate of 4.20%. As of February 2023, NS&I had raised £0.5 billion from GSB in the 2022-23 financial year and £0.8 billion since the initial October 2021 launch.

2.33 As an HM Treasury policy product,[11] proceeds from the GSB are additional to NS&I's annual Net Financing remit, although they have been reported alongside the financing arithmetic in Chapter 3 and Annex C.

2.34 As specified in the Framework, the first allocation report – covering both green gilts and the GSB – was published in September 2022.[12] This sets out how the 2021-22 green proceeds have been allocated, in line with the expenditure selection criteria described in the Framework. The next allocation report (covering proceeds from green gilt issuance and GSB sales in 2022-23) will be published by September 2023 alongside the first impact report. This impact report will assess the climate and environmental impacts and social co-benefits from the allocations of proceeds raised through green gilt issuance and GSB sales in 2021-22.

Borrowing by devolved administrations

2.35 The Scottish and Welsh governments and the Northern Ireland Executive have the power to borrow for capital investment, as set out in the Scotland Act 1998,[13] Wales Act 2006,[14] and Northern Ireland (Loans) Act 1975,[15] respectively. The Scottish and Welsh

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[11] Policy products are issued from time to time by NS&I at the request of HM Treasury in order to support particular policy objectives.

[12] 'UK Green Financing Programme Allocation Report, 2021-22', HM Treasury, September 2022.

[13] 'Scotland Act, 1998'.

[14] 'Government of Wales Act, 2006'.

[15] 'Northern Ireland (Loans) Act, 1975'.

governments' capital borrowing powers were updated in the ensuing Scotland Act 2016 and Wales Act 2017, with further detail set out in their respective fiscal frameworks. The Northern Ireland Executive's borrowing powers were updated in the Northern Ireland (Miscellaneous Provisions) Act 2006.

2.36 All three devolved administrations can borrow for capital investment from the National Loans Fund. The Scottish and Welsh governments also have the power to borrow from commercial lenders and issue bonds to finance capital investment. The Scottish and Welsh governments will be solely responsible for meeting their liabilities and the UK government will provide no guarantee on any bonds issued by the Scottish and Welsh governments. If there is an increase in the Scottish or Welsh government's borrowing limits, the UK government will also review devolved administrations' powers to issue bonds. In addition, the Scottish and Welsh governments would need further approval from HM Treasury to issue in any currency other than sterling.

2.37 The Scottish and Welsh governments also have resource borrowing powers for forecast error and in-year cash management, as set out in the Acts above. Further detail on the Scottish and Welsh governments' resource borrowing powers are included in their respective fiscal frameworks. The Northern Ireland Executive has short-term resource borrowing powers to assist cashflow management in the Northern Ireland Consolidated Fund.

Borrowing by local authorities

2.38 Under the prudential code, each local authority is responsible for meeting its own liabilities, including those taken on through extending guarantees. The UK government provides no guarantee on local authority borrowing.

2.39 Local authority capital financing decisions are subject to prudential guidance as published by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Department for Levelling Up, Housing and Communities (DLUHC), the Scottish Government, and the Welsh Government. Taken together, these documents form the prudential framework. DLUHC and CIPFA regularly update their respective elements of the framework. Local authorities undertake the bulk of their borrowing via the Public Works Loan Board (PWLB). On 24 February 2020, a governance change was implemented by Statutory Instrument, whereby the relevant borrowing powers vested in the former PWLB Commissioners were transferred to HM Treasury.

2.40 At Budget 2020, the government launched a consultation on a proposal to focus PWLB loans on service delivery, housing, and regeneration, as well as ensuring that this money is not diverted into financial investments that serve no direct policy purpose. The government introduced new lending terms to this effect in November 2020, alongside the Spending Review. The government further revised the PWLB lending guidance in May 2022, addressing lending to authorities where there is a more than negligible risk of non-repayment.

2.41 Local authorities are also now able to borrow from the UK Infrastructure Bank for strategic infrastructure projects, and the UK Infrastructure Bank has executed two transactions with local authorities since its launch in June 2021. The Infrastructure Bank Bill 2022-23, which is currently progressing through Parliament, will put the UK Infrastructure Bank on a statutory footing.

Chapter 3

The Debt Management Office's financing remit for 2023-24

Introduction

3.1 The financing arithmetic sets out the components of the government's net financing requirement (NFR) and the contributions from various sources of financing. The Debt Management Office's (DMO) financing remit sets out how the DMO, acting as the government's agent, will fund the projected NFR.

Financing arithmetic

3.2 The Office for Budget Responsibility's (OBR) forecast for the central government net cash requirement (excluding NRAM ltd, Bradford & Bingley, and Network Rail) (CGNCR (ex NRAM, B&B, and NR)) in 2023-24 is £159.5 billion. This is the fiscal aggregate that determines gross debt sales and is derived from public sector net borrowing (PSNB).

3.3 The forecast NFR in 2023-24 of £246.1 billion also reflects: projected gilt redemptions of £117.0 billion; and a planned short-term financing adjustment of -£21.3 billion resulting from unanticipated over financing in 2022-23.

3.4 Proceeds from NS&I are expected to make a £7.5 billion net contribution to financing in 2023-24 (excluding retail Green Savings Bonds), following a forecast net contribution of £6.1 billion in 2022-23. In addition to NS&I's net finance contributions, as of February 2023, NS&I had raised £0.5 billion from the sale of GSB in 2022-23 and £0.8 billion since the initial October 2021 launch. This is reflected in the financing arithmetic for 2022-23. The projection for 2023-24 assumes gross inflows of £56.5 billion. Details of NS&I's Net Financing Target are set out in Annex C.

3.5 Gilt issuance is the government's primary means by which it meets the NFR. Treasury bill issuance (for debt financing purposes) will also make a net contribution to meeting the NFR in 2023-24.

3.6 In 2023-24, the NFR will be met by gross gilt issuance of £241.1 billion and net issuance of Treasury bills for debt financing purposes of £5.0 billion (i.e. it is planned that the stock of Treasury bills in issue for debt financing purposes at end-March 2024 will increase to £75.0 billion).

3.7 Table 3.A sets out details of the financing arithmetic for 2022-23 and 2023-24.

Table 3.A: Financing arithmetic in 2022-23 and 2023-24 (£ billion)[1]

	2022-23	2023-24
CGNCR (ex NRAM, B&B, and NR)[2]	**115.4**	**159.5**
Gilt redemptions	107.1	117.0
Financing adjustment carried forward from previous financial years[3]	-33.1	-21.3
Gross financing requirement	**189.4**	**255.1**
less:		
NS&I net financing	6.1	7.5
NS&I Green Savings Bonds	0.5	-
Other financing[4]	1.4	1.5
Net financing requirement (NFR) for the Debt Management Office (DMO)	**181.4**	**246.1**
DMO's NFR will be financed through:		
Gilt sales, through sales of:		
Short conventional gilts	66.5	86.7
Medium conventional gilts (including green gilts)[5]	44.6	65.3
Long conventional gilts (including green gilts)[6]	40.8	50.9
Index-linked gilts	17.5	26.2
Unallocated amount of gilts	0.0	12.0
Total gilt sales for debt financing	**169.5**	**241.1**
Total net contribution of Treasury bills for debt financing	**33.2**	**5.0**
Total financing	**202.7**	**246.1**
DMO net cash position	23.6	2.3

[1] Figures may not sum due to rounding.

[2] Central government net cash requirement (excluding NRAM ltd, Bradford & Bingley, and Network Rail).

[3] The -£33.1 billion financing adjustment in 2022-23 carried forward from previous years reflects the 2021-22 outturn for the CGNCR (ex NRAM, B&B, and NR), as first published on 26 April 2022. The -£21.3 billion adjustment in 2023-24 is the amount required to reduce the estimated DMO cash position at end-March 2024 to £2.3 billion.

[4] This financing item is typically comprised of estimated income from coinage and unhedged reserves.

[5] Including green gilt sales of £6.4 billion in 2022-23, and planned green gilt sales in 2023-24.

[6] Including green gilt sales of £3.5 billion in 2022-23, and planned green gilt sales in 2023-24.

Source: Debt Management Office, HM Treasury, NS&I, and Office for Budget Responsibility.

Other short-term debt

3.8 The Ways and Means facility functions as the government's overdraft account with the Bank of England.[16] Ordinarily, a standing negative balance of around £0.4 billion is maintained at all times to support Exchequer cash management. It is planned to remain at around £0.4 billion in 2023-24.

3.9 The projected level of the DMO's net cash balance at 31 March 2023 is £23.6 billion, £21.3 billion above the level projected at Autumn Statement 2022.[17] The level will be reduced to £2.3 billion during 2023-24, as shown by the planned short-term financing adjustment of -£21.3 billion, and this will in turn reduce the NFR in 2023-24 accordingly.

Gilt issuance by method, type, and maturity

3.10 Auctions will remain the government's primary method of gilt issuance. In addition, the government will continue issuance via syndications and gilt tenders. Any type and maturity of gilts can be issued via syndication or gilt tender. Further details are set out in the DMO's 2023-24 financing remit announcement.

3.11 The government currently plans to raise £10.0 billion by sales of green gilts in 2023-24.

3.12 The government plans gilt sales via auction of £202.1 billion (or 83.8% of total issuance) which is currently planned to be split by maturity[18] and type as follows:

- £86.7 billion of short-dated conventional gilts (36.0% of total issuance)
- £65.3 billion of medium-dated conventional gilts (27.1% of total issuance)
- £32.9 billion of long-dated conventional gilts (13.6% of total issuance)
- £17.2 billion of index-linked gilts (7.1% of total issuance)

3.13 The government is also currently planning to sell approximately £27.0 billion of gilts (11.2% of total issuance) via syndication. The DMO's remit announcement sets out further detail about the planned syndication programme.

3.14 In addition, the DMO's financing remit includes an initially unallocated portion of £12.0 billion (5.0% of total issuance), through which gilts of any type or maturity may be sold, via any issuance method.

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16 Automatic transfers from the government's Ways and Means account at the Bank of England offset any negative end-of-day balances in the Debt Management Account.

17 'Autumn Statement 2022', HM Treasury, November 2022.

18 Maturities are defined as follows: short (1-7 years), medium (7-15 years), and long (over 15 years).

3.15 The deployment of the unallocated amount of gilt sales is designed to facilitate the effective delivery of the gilt financing programme while remaining consistent with the debt management principles of openness, predictability, and transparency.

3.16 To maintain the operational viability of syndicated offerings at the end of each financial year, the overall size of the syndication programmes (conventional and/or index-linked but not green) may be increased by up to 10% at the time of the final syndicated offering of each type.

3.17 Gilt sales from either the syndication or auction programmes at any maturity sector may vary from a broadly even-flow delivery during the financial year. Proceeds raised following the final transaction of each syndication programme may also vary from the planned total for each programme. Any variations of this nature may lead to a minor adjustment to the type and maturity of gilts sold via any issuance method towards the end of the financial year.

3.18 Through its gilt issuance programme, the government aims to achieve regular issuance across the maturity spectrum throughout the financial year and to build up benchmarks at key maturities in both conventional and index-linked gilts.

3.19 The current planning assumption for gilt issuance in 2023-24 by type, maturity, and issuance method is shown in Table 3.B.

Table 3.B Breakdown of currently planned gilt issuance in 2023-24 by type, maturity, and issuance method (£ billion and % of total)[1]

	Auction	Syndication	Gilt tender	Unallocated	Total
Short	86.7	-	-	-	86.7 (36.0%)
Medium[2]	65.3	-	-	-	65.3 (27.1%)
Long[3]	32.9	18.0	-	-	50.9 (21.1%)
Index-linked	17.2	9.0	-	-	26.2 (10.9%)
Unallocated	-	-	-	12.0	12.0 (5.0%)
Total	202.1 (83.8%)	27.0 (11.2%)	-	12.0 (5.0%)	241.1

[1]Figures may not sum due to rounding.
[2]Including planned green gilt sales.
[3]Including planned green gilt sales.

Source: DMO.

Gilt auction calendar

3.20 On the same day as the publication of the Debt management report, the DMO will publish a planning assumption for the gilt auction calendar that is consistent with the remit. The planned auction calendar may be adjusted during the year. The DMO will explain the parameters for this alongside the publication of the auction calendar.

Post-Auction Option Facility (PAOF)

3.21 In 2023-24, the DMO will continue to offer successful bidders at auction (both primary dealers and investors) the option to purchase additional stock. The details of how this facility works are set out in the DMO's gilt market Operational Notice.[19] The PAOF will however not, be applicable to any auctions of green gilts, reflecting the requirement that proceeds from green gilt issuance must not exceed the available amount of eligible green spending in the relevant period.

The Standing Repo Facility

3.22 For the purposes of market management, the DMO may create and repo out gilts in accordance with the provisions (which are revised from time to time) of its Standing Repo Facility,[20] as launched on 1 June 2000. Any such gilts created will not be sold outright to the market and will be cancelled on return.

Other operations

3.23 The DMO has no current plans for a programme of reverse or switch auctions, or conversion offers, in 2023-24.

Coupons

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

Purchases of short maturity debt

3.25 The DMO may buy in gilts that are close to their final maturity date in order to help manage Exchequer cash flows.

Treasury bill issuance

3.26 It is currently planned that Treasury bill issuance for debt financing purposes will make a £5 billion net contribution to debt financing in 2023-24. The amount that Treasury bills have contributed to debt financing up to, and including, 2022-23 will be reported by the DMO shortly after the end of 2022-23.

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[19] https://www.dmo.gov.uk/media/5rkbjnuu/opnot310322.pdf.

[20] https://www.dmo.gov.uk/media/zxmkrsd1/repotc020223.pdf.

New gilt instruments

3.27 There are no current plans to introduce new types of gilt instrument in 2023-24.

Revisions to the remit

3.28 In addition to planned updates to the remit, any aspect of this remit may be revised during the year in light of relevant new information. For example, this might include revisions in response to substantial changes in the following:

- the government's forecast for the NFR
- the level and/or shape of the gilt yield curves
- market expectations of future interest and inflation rates
- market volatility

3.29 Any such in-year revisions will be announced transparently to the market.

Medium-term projections for annual financing requirements

3.30 The government has published projections for financing requirements in the fiscal forecast period. The financing requirements include the forecast path for CGNCR (ex NRAM, B&B, and NR) and the gilt redemption profile. Table 3.C sets out the financing requirement projections from 2022-23 to 2027-28.

Table 3.C Financing requirement projections, 2022-23 to 2027-28 (£ billion)[1]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
CGNCR (ex NRAM, B&B, and NR)[2]	115.4	159.5	130.9	102.6	84.4	89.4
Redemptions	107.1	117.0	139.9	136.6	92.5	109.1
Financing adjustment carried forward from previous years	-33.1	-21.3	0.0	0.0	0.0	0.0
Illustrative gross financing requirement	189.4	255.2	270.8	239.2	176.9	198.5

[1]Figures may not sum due to rounding.
[2]Central government net cash requirement (excluding NRAM ltd, Bradford & Bingley, and Network Rail).

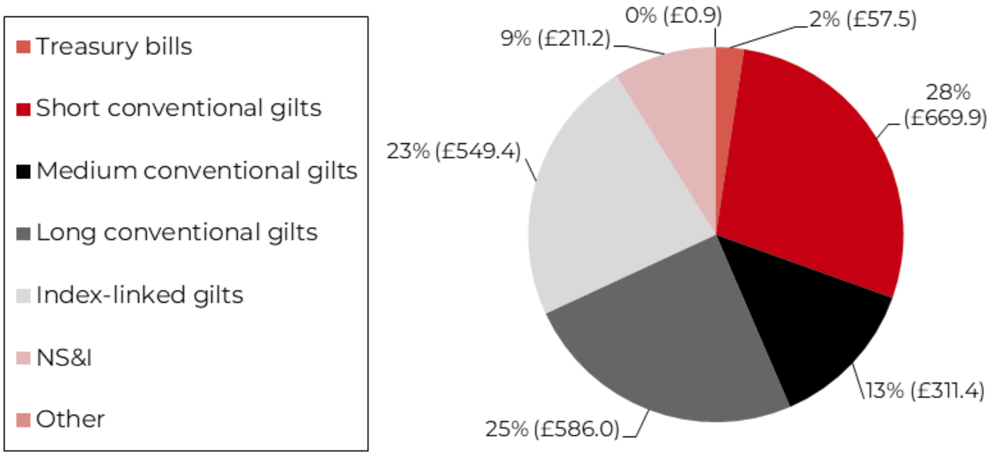
Source: DMO, HM Treasury, and OBR.

Annex A
Debt Portfolio

A.1 The total nominal outstanding stock of central government sterling wholesale debt excluding official holdings was £2,174.2 at end-December 2022.[21] The components of this stock are set out in Table A.1.

A.2 Chart A.1 shows the composition of the government's debt portfolio at end-December 2022.[22] Conventional and index-linked gilts made up the largest proportion of government debt (totalling 89%).

Chart A.1 Composition of central government sterling debt in % and £ billion (end-December 2022)[1,2]



[1]Figures may not sum due to rounding. Nominal uplifted values.

[2]Other is comprised of Ways and Means and Sukuk.

Source: DMO and NS&I.

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[21] Official holdings of gilts comprise holdings by the Debt Management Office (DMO) of gilts created for use as collateral in the conduct of its Exchequer cash management operations (such gilts are not available for outright sale to the market). This also includes any DMO purchases of near-maturity gilts.

[22] Maturities here are defined as follows: Treasury bills (0-12 months), short (0-7 years), medium (7-15 years), and long (over 15 years). The maturity ranges defined here represent the residual maturities of the relevant instrument categories.

Table A.1 Composition of central government wholesale and retail debt[1]

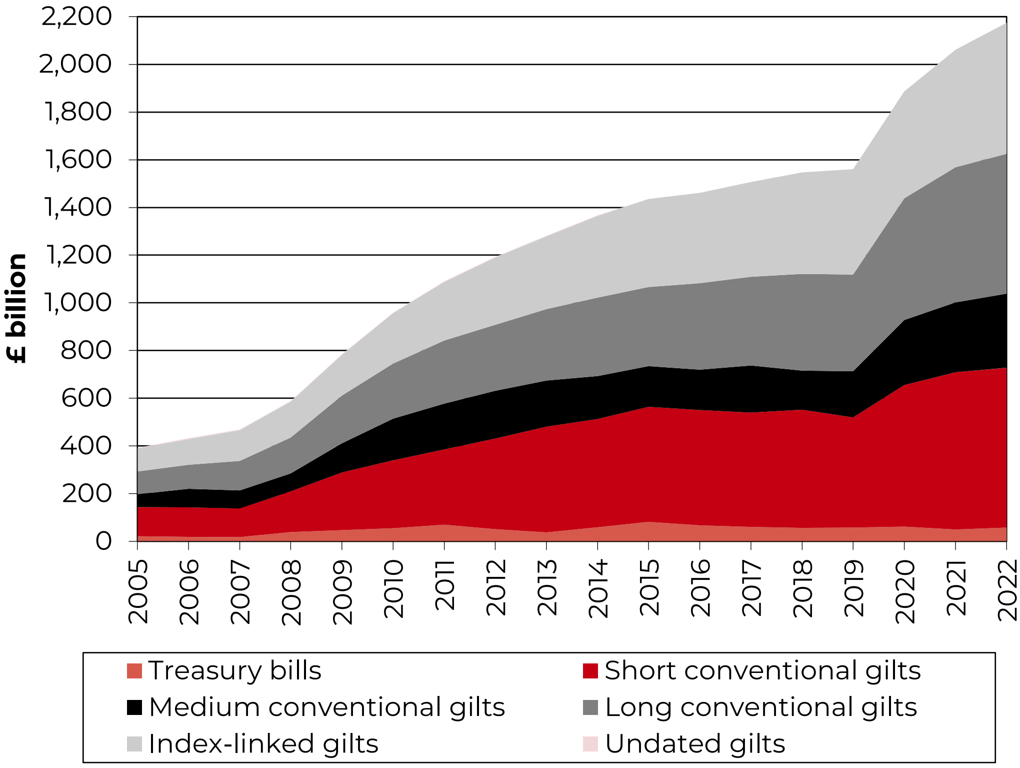
£ billion nominal value	End-December 2021	End-December 2022
Wholesale		
Conventional gilts	1,614.2	1,721.7
Less government holdings	95.9	154.4
	1,518.3	1,567.3
Index-linked gilts	362.9	359.6
less government holdings	3.0	2.8
plus accrued inflation uplift	133.2	192.6
	493.2	549.4
Treasury bills for debt management	50.5	57.5
Total wholesale debt	2,061.9	2,174.2
Retail		
NS&I	205.2	211.2
Other		
Balance on Ways and Means Advance	0.4	0.4
Sovereign Sukuk	0.5	0.5
Total central government sterling debt	2,268.0	2,386.3
Other government debt less liquid assets	102.9	101.9
Public sector net debt	2,370.9	2,488.2
Public sector net debt to GDP (%)[2]	99.3%	98.9%
Wholesale debt		
Wholesale debt to GDP (%)[2]	86.3%	86.2%
Average time to maturity (years)[3]	14.7 years	14.7 years
Debt maturing in one year (%)	8.1%	7.3%

[1]Figures may not sum due to rounding.
[2]Adjusted to GDP centred on end-December.
[3]Calculated on a nominal weighted basis, excluding government holdings, including accrued inflation uplift and Treasury bills for debt management purposes.

Source: DMO, NS&I, OBR, and ONS.

A.3 Chart A.2 shows the evolution of the gilt stock over time. Conventional gilts continue to make up the largest share of the gilt stock. In recent years, as part of the government's responsible approach to fiscal risk management, the relative balance of the central government wholesale debt stock has shifted more towards conventional gilts. Reducing the proportion of the total debt stock held in index-linked gilts has, in relative terms, reduced the government's inflation exposure in the debt portfolio. Further details of the government's current index-linked gilt issuance strategy can be found in Chapter 2.

Chart A.2 Composition of central government wholesale debt stock, 2005-2022 (end-December values)



Source: DMO.

A.4 Chart A.3 shows the government's gilt redemption profile as at end-February 2023. Following the extension of the maturity of the conventional gilt curve from 2071 to 2073 in 2021-22, the longest maturity gilt in issue is due to redeem in the 2073-74 financial year.[23] The index-linked gilt curve was also extended in 2021-22, with the longest maturity index-linked gilt now maturing in 2072-73.[24] While the majority of gilts in issue are conventional, particularly at shorter maturities, the split between conventional and index-linked gilts becomes more balanced at longer maturities.

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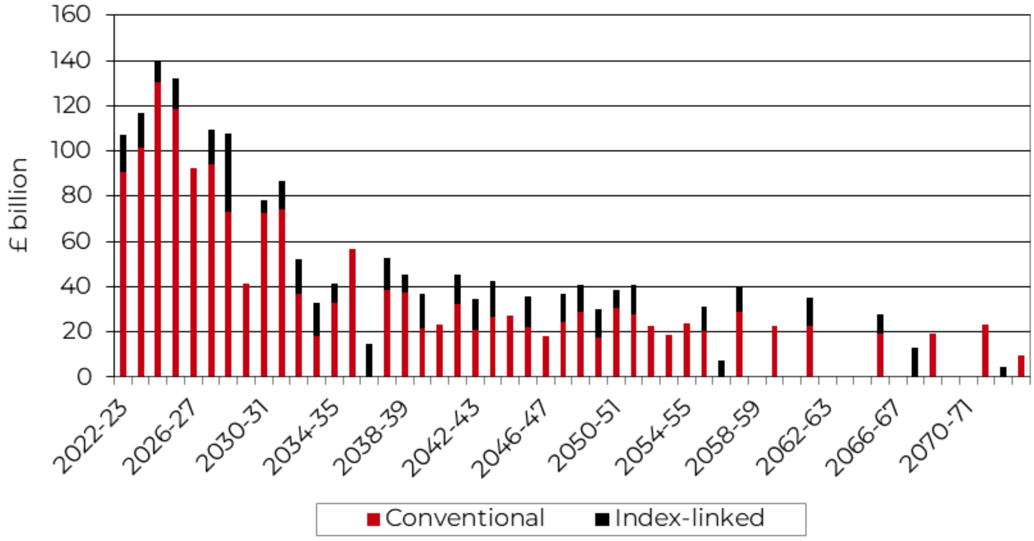
23 'Press Notice: Syndicated launch of £4.3 billion nominal of1 1/8% Treasury Gilt 2073: Result', Debt Management Office, February 2022.

24 'Press Notice: Syndicated launch of £1.1 billion of 0 1/8% Index-linked Treasury Gilt 2073: Result', Debt Management Office, November 2021.

Chart A.3 Gilt redemption profile (as of end-February 2023)

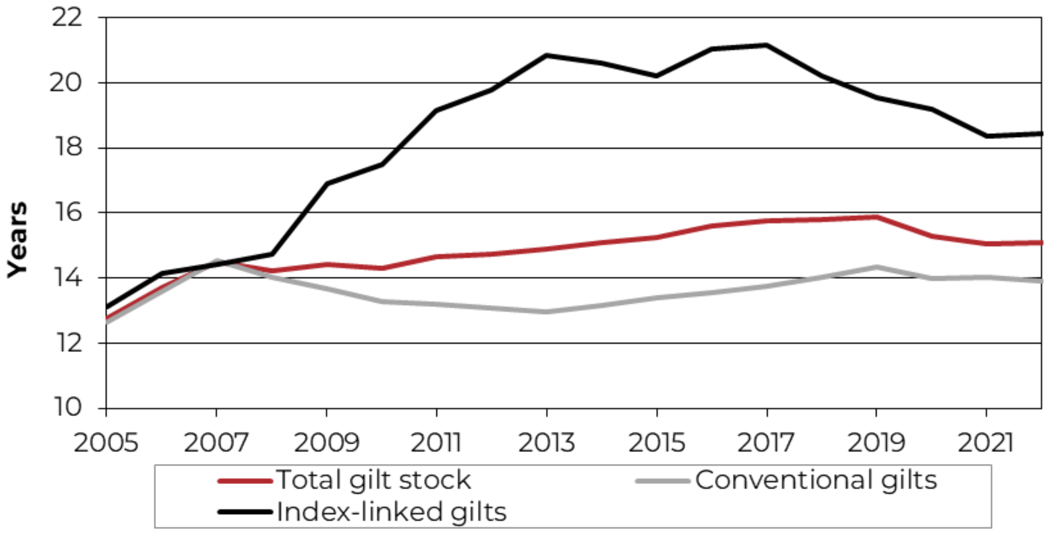


Source: DMO.

Maturity and duration of the debt stock

A.5 At end-December 2022, the average maturity of the total stock of gilts was 15.1 years, as shown in Chart A.4. The average maturity of the stock of conventional gilts fell very slightly from 14.0 years at end-2021 to 13.9 years at end-2022, with the average maturity of index-linked gilts unchanged at 18.4 years. The average maturity of the government's wholesale marketable debt remains consistently longer than the average across the G7 group of advanced economies, as shown in Chart A.5.

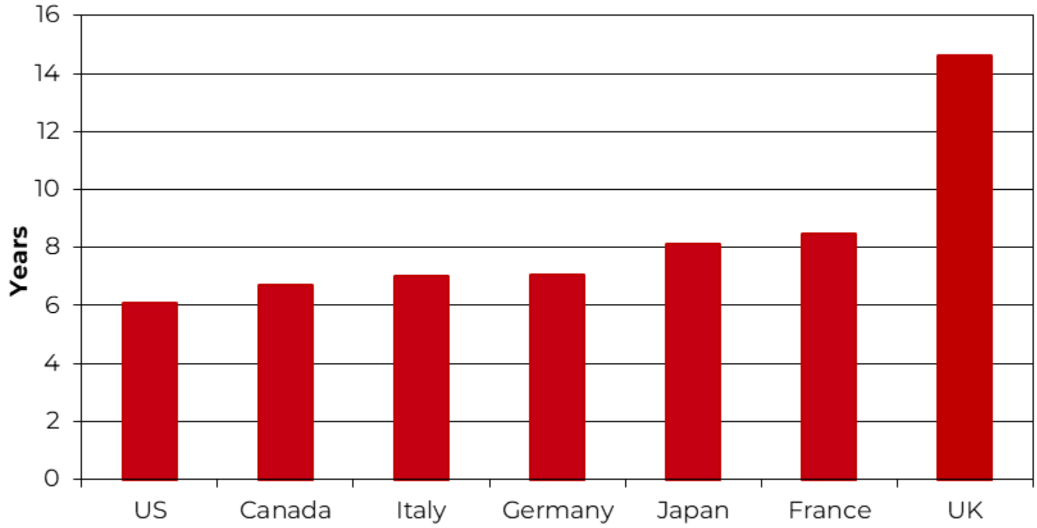
Chart A.4 Average maturity of UK gilt stock (end-December 2022 values)[1]



[1]Calculated on a nominal weighted basis, excluding official holdings, including accrued inflation uplift.

Source: DMO.

Chart A.5 Average maturity of the debt stock by country (end-December 2022)[1]



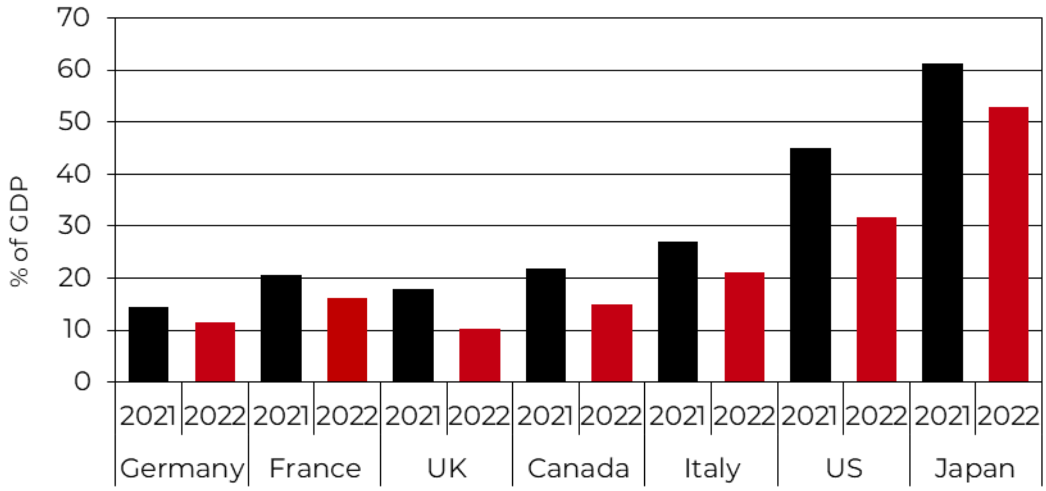
[1]Calculated on a nominal weighted basis, excluding inflation uplift, including Treasury bills.

Source: Bloomberg L.P.

A.6 A long average maturity of debt significantly reduces the UK government's exposure to refinancing risk, by enabling gilt issuance to be spread along the maturity spectrum. Chart A.6 shows the expected gross financing requirement as a share of GDP for all G7 countries in 2021 and 2022.[25] This illustrates the supportive impact that the long average maturity of the UK's debt stock has on the UK's annual gross financing requirement, which thereby lowers refinancing risk. Nonetheless, even within a long average maturity, it is possible to have a relative concentration of redemptions in certain years.

25 2022 outturn gross financing requirements may differ from these projections, which were published in October 2022.

Chart A.6 Annual gross financing requirement as a % of GDP



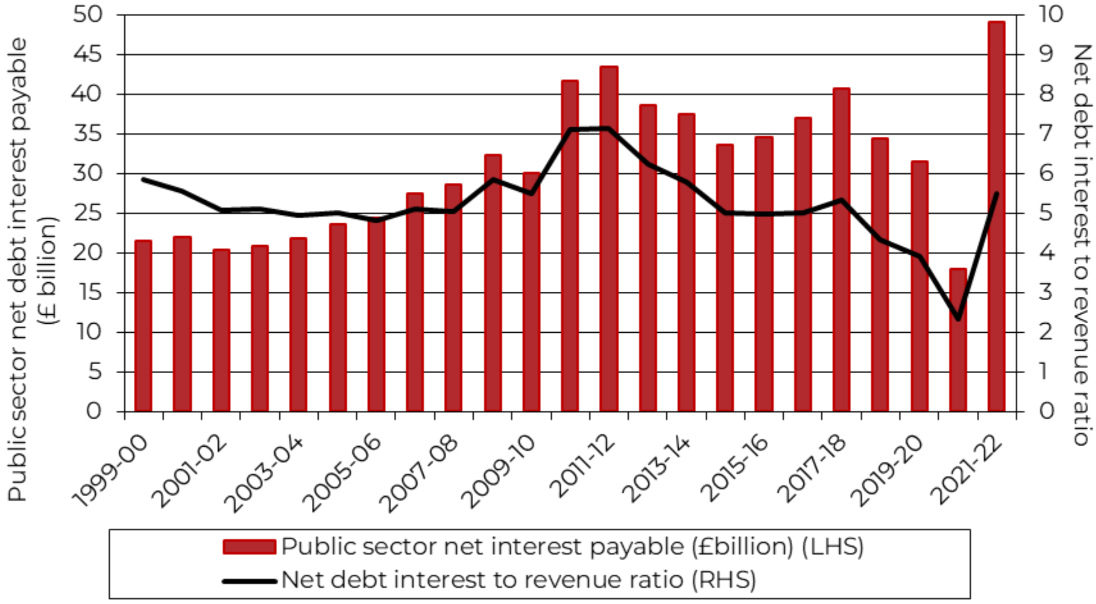
Source: IMF Fiscal Monitor October 2021-2022.

Debt Interest

A.7 Net debt interest spending rose significantly in 2021-22, as shown in Chart A.7. Public sector debt interest spending in 2022-23 is forecast to be double that of the previous year, as shown in Chart A.8, largely due to recent higher inflation (affecting the accrued interest due on index-linked gilts). This higher level of debt interest is forecast to persist throughout the next few years due primarily to increased interest rates but also as a result of high projected borrowing requirements. Net debt interest spending is forecast to reach £94.0 billion in 2023-24, which is £14.5 billion lower than the November 2022 forecast – but still double that of pre-pandemic debt servicing costs. As set out in the updated 'Charter for Budget Responsibility' published at Autumn Budget and Spending Review 2021, the government is focused on monitoring and assessing the affordability of servicing public debt, in order to support the achievement of its fiscal objectives.[26]

[26] 'Charter for Budget Responsibility: Autumn 2022 update', HM Treasury, November 2022

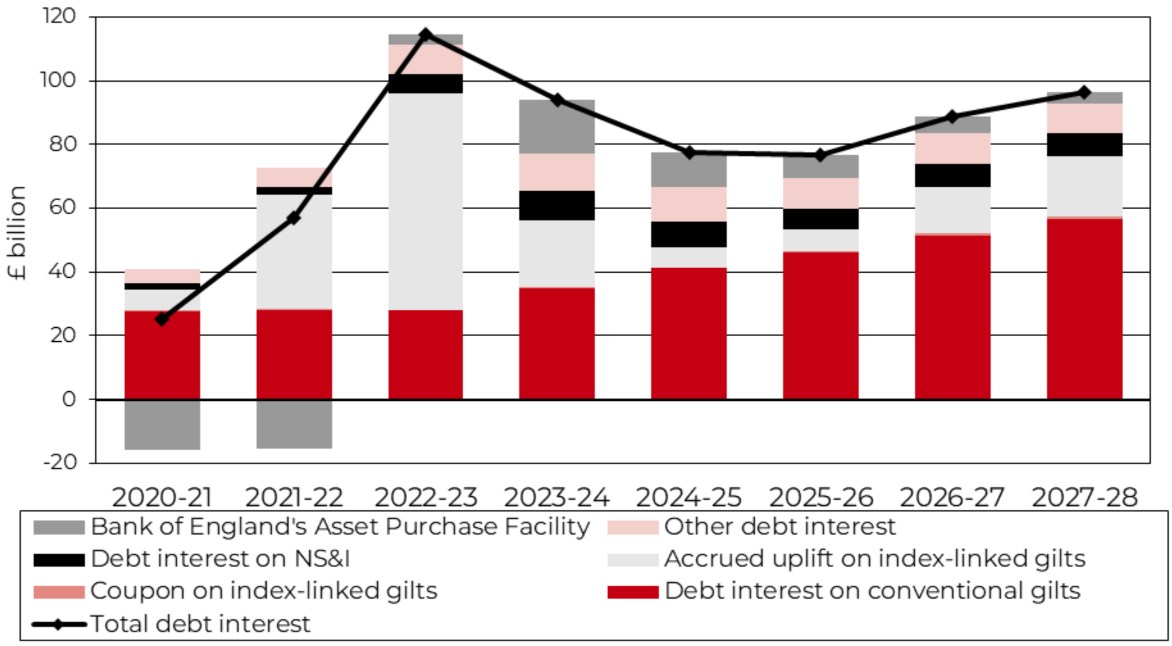
Chart A.7 Net debt interest in £ billion and as % of public sector receipts[1]



[1]The debt interest presented in this chart is public sector debt interest expenditure net of interest and dividends receipts, all on an accrued basis. This reflects the use of debt liabilities to purchase financial assets which provide a rate of return.

Source: ONS.

Chart A.8 Breakdown of gross debt interest forecast[1]



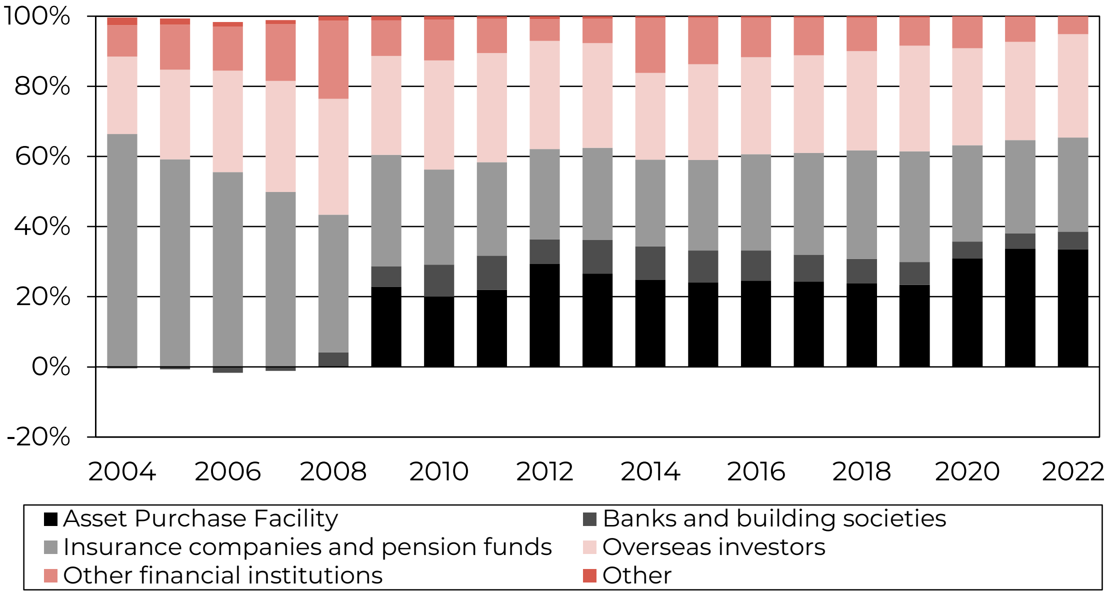
[1] Gross debt interest reflects the instruments issued as outlined in the outturn financing remits and forward projections. This aggregate does not include any negative debt interest from the Asset Purchase Facility nor from any financial assets held by government.

Source: HM Treasury calculations and OBR.

Gilt holdings by sector

A.8 At end-September 2022, the gilt holdings of the largest investor groups continued to be Bank of England's Asset Purchase Facility 34%, insurance companies and pension funds 27%, and overseas investors 30%, as shown in Chart A.9.

Chart A.9 Gilt holdings by sector (% total market value gilt holdings)[1]



[1]All end-December data, except 2022, for which data are only available until end-September. The Bank of England's holdings of gilts which are not related to the Asset Purchase Facility are included in the 'Banks and building societies' category.

Source: ONS and Bank of England.

A.9 The introduction of quantitative easing (QE) through the Bank of England's Asset Purchase Facility (APF) has caused the largest change to gilt holdings by sector over time, as shown in Chart A.9. Between its introduction in 2009 and the last QE gilt purchases in December 2021, the market value of holdings in the APF increased. In February 2022, the Monetary Police Committee (MPC) voted to begin unwinding the stock of gilts held in the APF by ceasing to reinvest maturing gilts. In September 2022, the MPC voted to begin active sales of gilts, which began in November 2022. Since December 2021, as a result of falls in gilt prices (primarily driven by rising interest rates) and the unwinding of the APF, the market value of holdings in the Asset Purchase Facility has decreased: as of end-December 2022, gilt holdings in the facility stood at around £639 billion.

Gilt issuance

A.10 The central government net cash requirement (excluding NRAM ltd, Bradford & Bingley, and Network Rail) (CGNCR (ex NRAM, B&B, and NR)), gilt redemptions, and the volume of gilt sales for each financial year since 2008-09 are shown in Table A.2.

Table A.2 Central government net cash requirement, redemptions and gilt sales (£ billion)

	CGNCR (ex NRAM, B&B, and NR)[1]	Redemptions	Gross gilt sales[2]
2008-09	162.4	18.3	146.5
2009-10	198.8	16.6	227.6
2010-11	139.6	38.6	166.3
2011-12	126.5	49.0	179.4
2012-13	98.6	52.9	165.1
2013-14	79.3	51.5	155.4
2014-15	92.3	64.5	126.4
2015-16	78.5	70.2	127.7
2016-17	71.1	69.9	147.6
2017-18	40.7	79.5	115.5
2018-19	36.9	66.7	98.6
2019-20	55.8	99.1[4]	137.9
2020-21	334.5	97.6	485.8
2021-22	129.2	79.3	194.7
2022-23[3]	115.4	107.1	169.5
2023-24[3]	159.5	117.0	241.1

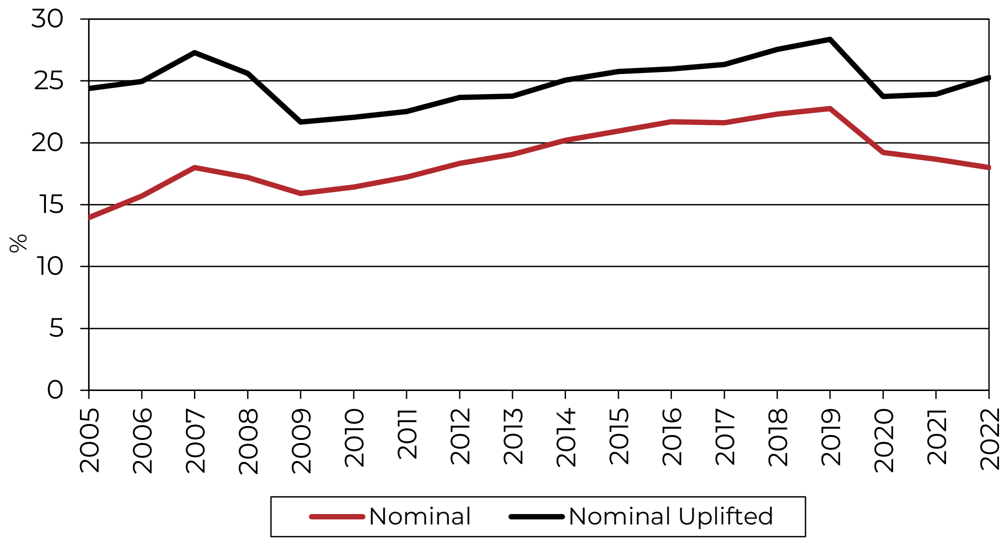
[1]Central government net cash requirement (excluding NRAM, Bradford and Bingley, and Network Rail).
[2]Figures are in cash terms.
[3]Budget 2023 projections.
[4]Includes £0.2 billion for the redemption of the 2014 sovereign Sukuk in 2019-20.

Source: DMO, HM Treasury, ONS, and OBR.

Index-linked gilts

A.11 The stock of index-linked gilts has increased over time and stood at around £549.4 billion in nominal uplifted terms at the end of 2022. Index-linked gilts make up 25.3% of the government's debt portfolio in nominal uplifted terms (Chart A.10). The proportion of index-linked debt in the government's wholesale debt portfolio remains consistently higher than across the G7 group of advanced economies and is around twice as large as the second highest G7 country. This is largely owing to the high level of structural demand for such instruments in the UK, from the domestic pensions sector in particular.

Chart A.10 Index-linked proportion of the debt stock[1]

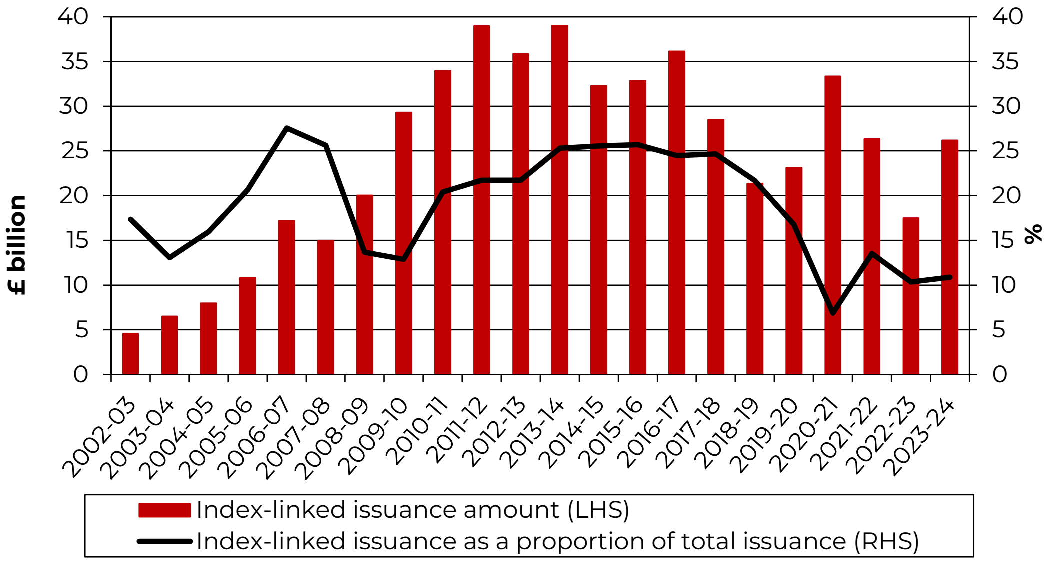


[1] The term 'nominal value' refers to the nominal amount of gilts in issue; the term 'nominal uplifted' refers to the nominal amount in issue multiplied by the known inflation uplift on the gilts to date.

Source: DMO.

A.12 Details on the government's current policy position in relation to index-linked gilt issuance, as well as the specific decisions in respect of the 2023-24 remit, are provided in Chapter 2.

Chart A.11 Annual index-linked gilt issuance[1]



[1] Data up to, and including 2022-23, are outturns. For 2023-24: (i) data are based on initial planned issuance, which is subject to change as the initially unallocated amount of gilts is distributed over the year; and (ii) no assumption is made about in-year transfers from the initially unallocated portion of issuance.

Source: DMO.

Annex B
Context for decisions on the Debt Management Office's financing remit

Introduction

B.1 This annex provides the context for the government's decisions on gilt and Treasury bill issuance in 2023-24, setting out the qualitative and quantitative considerations that have influenced them.

B.2 The government's decisions on the structure of the financing remit, which are taken annually, are made in accordance with the debt management objective, the debt management framework, and wider policy considerations (see Chapter 2).

B.3 In determining the overall structure of the financing remit, the government assesses the costs and risks of debt issuance by maturity and type of instrument. Decisions on the composition of debt issuance are also informed by an assessment of investor demand for debt instruments by maturity and type as reported by stakeholders, and as manifested in the shape of the nominal and real yield curves, as well as the government's appetite for risk.

B.4 Alongside these considerations, the government takes into account the practical implications of issuance (for example, the scheduling of operations throughout the year).

Demand

B.5 Both Gilt-Edged Market Makers (GEMMs) and investors have reported ongoing support for the current design of the issuance programme, which has helped to support market liquidity.

B.6 At the annual consultation meetings with the Economic Secretary to the Treasury in January 2023, there was a general view that the issuance programme should be skewed towards the short and medium maturities for conventional gilts, with increased demand expected from banks and financial institutions for shorter-dated gilts in particular.

B.7 Demand is expected to remain strong for long-dated gilts, in both conventional and index-linked format, from long term savings institutions; however, given the overall size of the financing programme, it was suggested that the proportion of long conventional and index-linked gilts be reduced somewhat relative to financial year 2022-23.

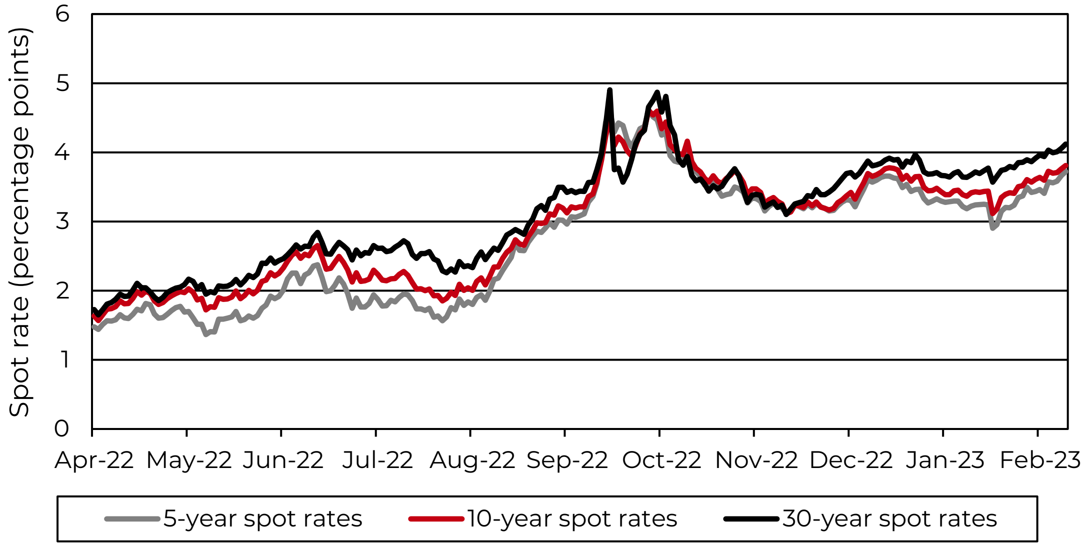
B.8 Demand for Treasury bills is expected to remain strong in 2023, with market feedback suggesting that the size of the Treasury bill programme could potentially be increased commensurately with the increase in the size of the gilt market and to help to improve liquidity.

B.9 Good investor appetite for further green gilt issuance was also reported, with market feedback supporting the continuation and expansion of the programme.

Cost

B.10 This section provides an overview of cost considerations. These analyses complement the qualitative demand feedback and help to inform evaluations of the relative cost effectiveness of different types of gilt issuance. Chart B.1 reports the evolution of nominal spot rates for several maturities since the beginning of 2022-23.[27] It shows yields climbing until they peaked in October 2022, with spot rates close to 5%. Since then, yields have fallen with 5-year, 10-year, and 30-year spot rates between 3% and 3.75% at the end of the period. The chart also illustrates large changes in yields throughout the year. Particularly during periods of volatility, outturn yields during the financial year may differ from observations made at the time at which the annual remit is set. Hence, immediately observable cost factors must be weighed carefully against other considerations.

Chart B.1 Nominal spot rate dynamics (to February 2023)[1]



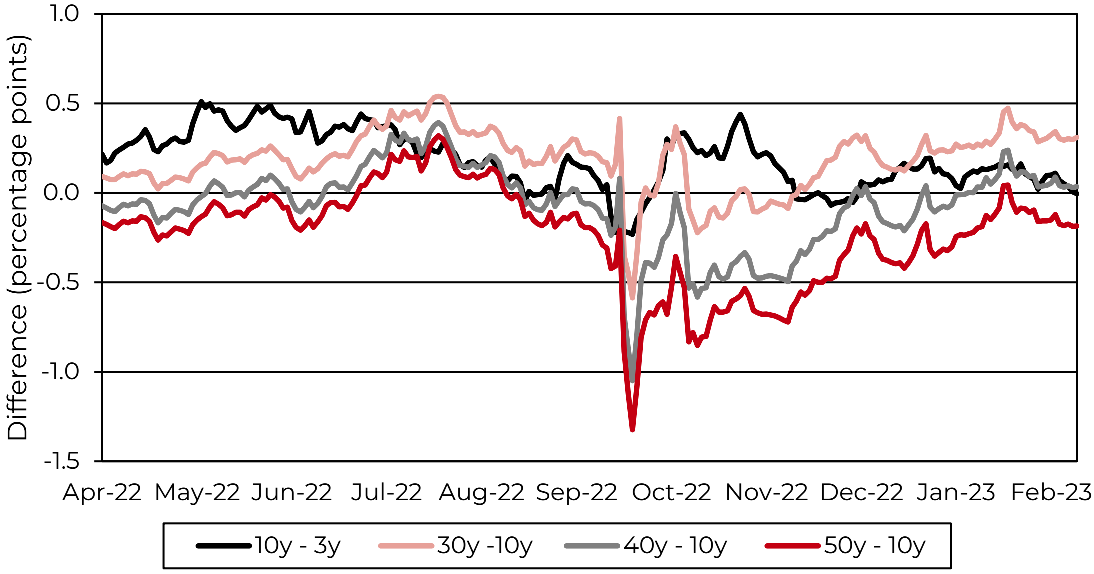
[1]Daily spot rates for selected maturities from 1 April 2023 to 27 February 2023.

Source: DMO.

[27] The spot rate for any maturity is defined here as the yield on a theoretical zero-coupon gilt which gives a single payment at that maturity. The spot rate reflects the current yield at a particular point in time.

B.11 Since October 2022, there has been a gradual steepening in the curve, with the inversion between the 30-year and 10-year points that was present towards the end of October slowly reversing, as shown in Chart B.2.

Chart B.2 Differences across spot rates of different maturities (to February 2023)[1]

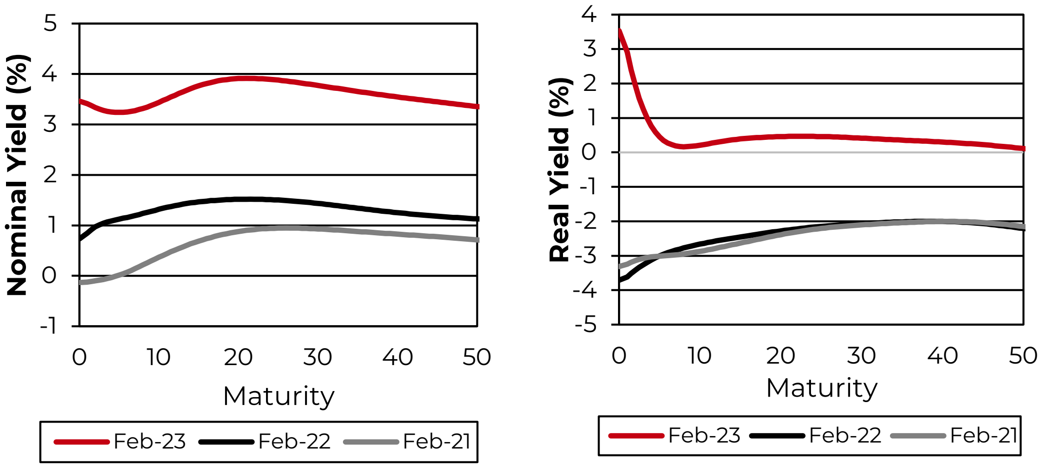


[1]The black line shows the difference between 10-year and 3-year spot rates to 27 February 2023. The pink, grey, and red lines show the difference between the 30-,40-,50-year spot rates and the 10-year spot rates to 27 February 2023, respectively.

Source: DMO.

B.12 The changes described above, together with current demand conditions, have resulted in an upward shift in the nominal yield curve. This can be seen in Chart B.3, which displays the shapes of both the nominal and real spot yield curves as at the end of February 2021, 2022, and 2023.

Chart B.3 Nominal and real spot yield curves (as at start-February 2021, 2022 and 2023)[1]



[1]The left-hand (right-hand) side panel shows the shape of nominal (real) spot yield curves as of 01 February 2020, 2021, and 2022.

Source: DMO.

B.13 Understanding the market pricing of gilts can be a useful consideration in determining the appropriate composition of maturities to issue. To illustrate, the yield of a long-term, zero-coupon gilt can be decomposed into two components: a 'risk neutral' yield and a risk premium (also called a term premium). The former corresponds to the average expected future short-term interest rates over the life of the gilt. The latter is normally thought of as the additional return that risk-averse investors demand as compensation for the possibility of capital loss if a gilt is sold before maturity and, in the case of conventional gilts, the risk of the bond value being eroded by inflation.

B.14 The risk premium may also be determined by supply and demand imbalances for a specific instrument.[28] All else being equal, cost considerations would tend to prompt a government to issue at maturities where the risk premium demanded by investors is lowest relative to other maturities.

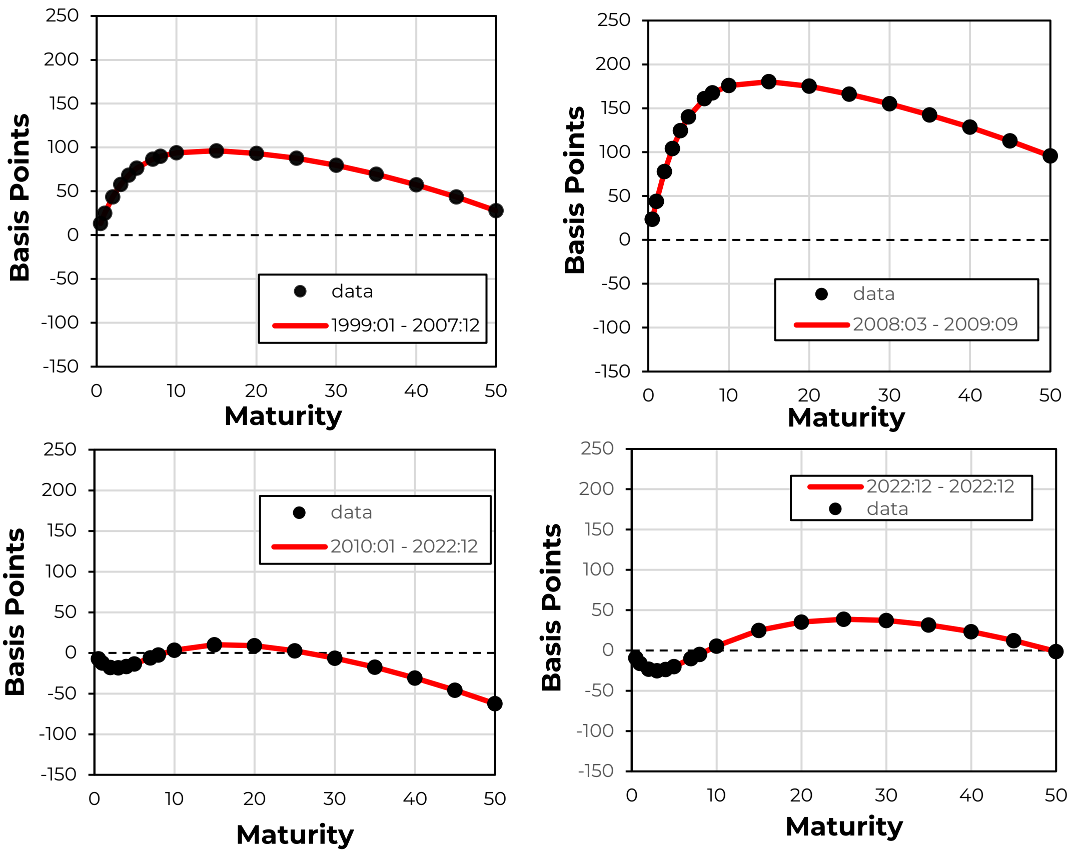
B.15 Risk premia are typically maturity-specific and time-varying. Several factors contribute to the variation and trends in risk premia, among which are changes in investors' risk preferences and expectations, and unanticipated macroeconomic shocks.

B.16 Chart B.4 displays the term structure of risk premia, with each individual panel showing averages over a selected time period.

[28] More generally, the risk premium can be decomposed into several components, including: (i) a premium which compensates investors for duration risk that increases for longer maturity investments; (ii) a credit and default risk premium; (iii) a liquidity discount or premium owing to the different levels of liquidity in some bonds or maturities, which enhances or restricts investors' ability to hedge; and (iv) an inflation risk premium to compensate investors in nominal bonds for uncertainty owing to inflation.

The top left panel focuses on the period before the global financial crisis, when yields and risk premia were higher than today. Risk premia increased during the global financial crisis (top right panel). Since then, there has been a steady decline; during COVID and the period of quantitative easing by the Bank of England, risk premia were at historically low levels. Since the beginning of 2022, risk premia have been rising and are now mostly above zero for maturities greater than 10 years (Chart B.5). This return to positive risk premia means investors now demand yields greater than that of the 'risk neutral' yield. Risk premia are, however, still low by historical standards, with risk premia lower at all maturities than the average in the decade before the global financial crisis (most significantly at shorter maturities). Chart B.5 shows that risk premia for all maturities are within a narrower range than they have been in the recent past, suggesting that issuance of conventional gilts across the maturity spectrum are more equal in terms of cost effectiveness.

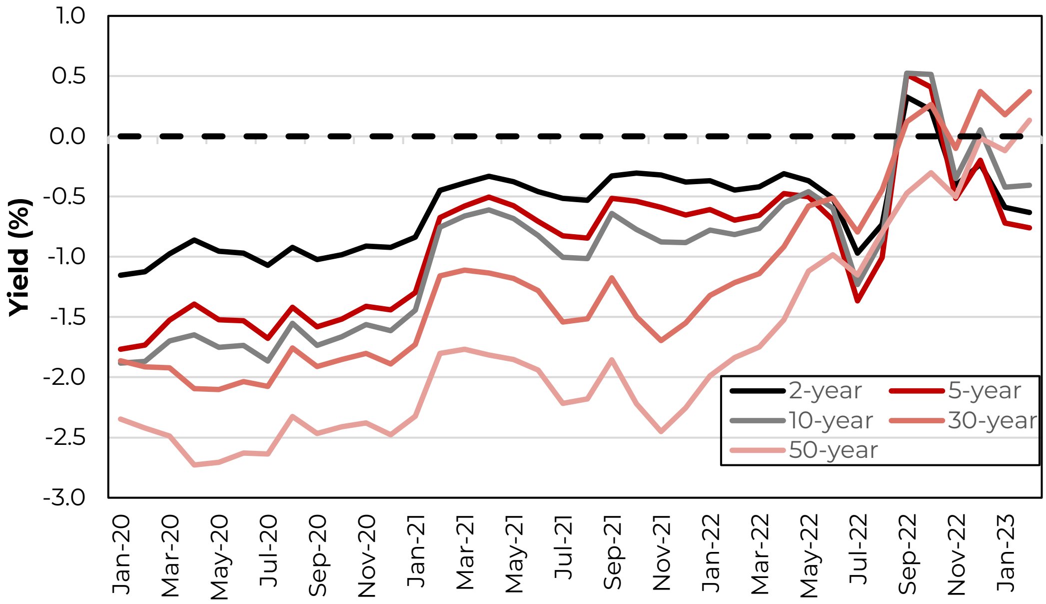
Chart B.4 The term structure of risk premia in the UK conventional gilt market over selected sample periods[1]



[1]Averages of time-varying risk premia over selected time periods are based on the AFNS model of Christensen, J. H., Diebold, F. X., & Rudebusch, G. D. (2011). "The affine arbitrage-free class of Nelson–Siegel term structure models". Journal of Econometrics, 164(1), 4-20.

Source: DMO.

Chart B.5 The term structure of risk premia in the UK conventional gilt market since 2020[1]



[1]Time-varying risk premia are based on the AFNS model of Christensen, J. H., Diebold, F. X., & Rudebusch, G. D. (2011). "The affine arbitrage-free class of Nelson–Siegel term structure models". Journal of Econometrics, 164(1), 4-20.

Source: DMO.

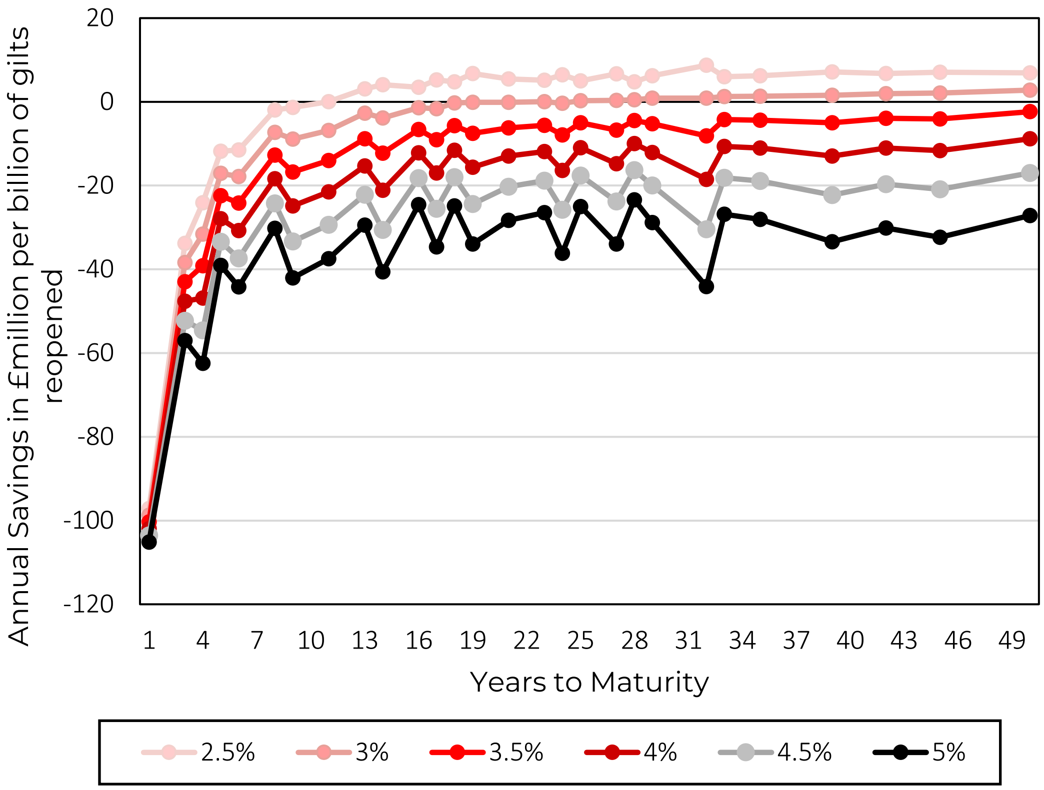
B.17 The government also undertakes an evaluation of the relative cost-effectiveness of index-linked gilts (ILGs), in addition to its analysis of conventional gilts. ILGs differ from conventional gilts as both the principal and coupon payments are indexed to the value of the Retail Prices Index (RPI). One cost consideration for issuing ILGs is whether investors are typically willing to pay an additional premium for the protection from inflation that these securities provide.

B.18 One way to take account of the cost-effectiveness of ILGs against conventional gilts is to evaluate the break-even inflation rate (BEIR). It is typically calculated as the difference between the yield of a nominal gilt and the yield of an ILG of the same maturity. The BEIR can be seen as the average rate of inflation, over the life of a gilt, at which an issuer should be indifferent on cost grounds between issuing either a conventional gilt or an ILG.

B.19 The BEIR can be decomposed into an expected inflation component and two additional factors: the additional premium investors are willing to pay for protection against inflation, and the discount they require for holding less liquid bonds. Consequently, one possible way to assess the cost-effectiveness of an ILG relative to a conventional gilt is to compare actual inflation outturn over the life of the gilt with the market-implied BEIR.

B.20 Chart B.6 illustrates potential costs or savings from ILG issuance relative to conventional issuance under different RPI inflation scenarios.[29] Note that these are purely illustrative and not forecast scenarios. The analysis is expressed in £ millions notionally saved per £ billion of each gilt issued. The analysis shows that issuing an ILG is cost-effective at maturities greater than or equal to 20 years relative to its conventional equivalent in scenarios where RPI does not exceed 3% (on average) over the life of the gilt.[30] Conventional issuance has higher cost-effectiveness than ILG issuance at all maturity points when RPI inflation is greater than or equal to 3.5% (on average) over the life of the gilt.

Chart B.6 The cost effectiveness of index-linked gilts relative to conventional gilts under different RPI scenarios (as of end-February 2023)[1]



[1]Data markers in each line on the chart represent results from specific index-linked gilts maturing at each point in time illustrated. The jagged path of the lines in Chart B.6 reflects the fact that gilts with higher coupons have a greater sensitivity to the Index Ratio. In such cases, a greater saving or cost occurs in comparison with gilts of the same maturity but with a smaller coupon. As can be seen in the chart, the effect also grows in scenarios with higher average levels of RPI (e.g. 5% (black line) versus 3.5% (red line)).

Source: DMO.

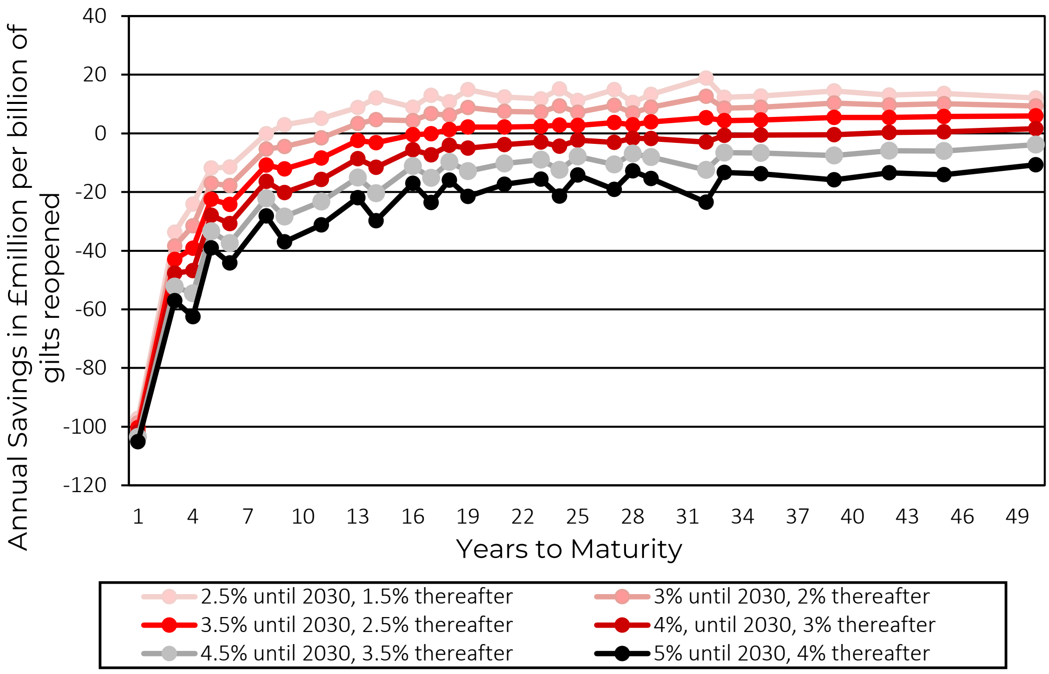
B.21 This analysis can be complemented by one which factors in the reform to RPI which is planned to take place in 2030, when the

[29] In each case an assumption is made that RPI inflation reaches the long term scenario rate over a two-year period. The analysis summarised in the charts is sensitive to the assumed time period over which inflation converges on the scenario rate, particularly for shorter maturities.

[30] In the period after inflation has converged to the scenario rate (in each of these illustrative examples).

methodology and data sources of CPIH will be brought into RPI. To take this into account, for each RPI scenario, a simple adjustment can be made to illustrate the effect if RPI were one percentage point lower from 2030 onwards. This simplified assumption is for illustrative purposes and not a forecast. As shown in Chart B.7, with these changes, ILG issuance would be more cost-effective for maturities greater than 12 years relative to conventional gilts in scenarios where RPI stayed below approximately 3% (on average) during the period up to 2030.

Chart B.7 The cost effectiveness of index-linked gilts relative to conventional gilts under different RPI scenarios and RPI reform (as of end-February 2023)



Source: DMO.

Risk

B.22 In the context of the long-term focus of the debt management objective, the other key determinant in the government's decisions on debt issuance by maturity and type of instrument is its assessment of risk. In reaching a decision on the overall structure of the remit, the government considers the risks to which the Exchequer is exposed through its debt issuance decisions, and assesses the relative importance of each risk in accordance with its risk appetite.

B.23 The government places a high weight on minimising near-term exposure to refinancing risk. This exposure is managed partly by maintaining a sizeable proportion of long-dated debt in the portfolio, which reduces the need to refinance debt frequently. As part of this, all else equal, doing so also reduces exposure to interest rate risk in the near term. The government places importance on avoiding, when practicable, large concentrations of redemptions in any one year. To achieve this, the government will issue debt across a range of maturities, smoothing the profile of gilt redemptions.

B.24 The government is mindful of the long-term inflation exposure in the public finances and gives due consideration to ensuring inflation risk is prudently managed. The government will manage this exposure through its decisions on the appropriate balance between index-linked and conventional gilts in its debt issuance in the coming years.

B.25 Prudent debt management is also served by promoting sustainable market access, which the remit is designed to support. The government places significant importance on encouraging the development of a deep, liquid, and efficient gilt market, and a diverse investor base, in order to maintain continuous access to cost-effective financing in all market conditions.

B.26 Promoting these features of the gilt market will also serve to minimise debt costs to the government over the long term, because investors reward an issuer for providing a continuous and ready market and a globally recognised benchmark product.

Gilt distribution

B.27 Auctions will remain the primary method of issuance in 2023-24. The use of syndications will continue in 2023-24. Any type and maturity of gilt can be sold through syndication and the Debt Management Office (DMO) will announce on a quarterly basis its planned syndication programme.

B.28 Gilt tenders may be used in 2023-24 to issue any type and maturity of gilt. Further details are set out in the DMO's 2023-24 financing remit announcement.

B.29 The scheduling of gilt operations throughout 2023-24 will, as usual, take into account the timing of gilt redemptions in the financial year.

B.30 The government remains committed to the GEMM model to distribute gilts through auctions, syndications, and gilt tenders, and the government recognises that GEMMs play an important role in helping to facilitate liquidity in the secondary market.

Gilt issuance by maturity and type in 2023-24

B.31 In determining the split of gilt issuance, the government has taken into account its analysis of the relative cost-effectiveness of the different gilt types and maturities, its risk preferences (including for the portfolio as well as the issuance programme), the market feedback it has received, and operational viability.

B.32 Continuing strong demand for short conventional gilts is anticipated in 2023-24, which has been balanced against managing the government's near-term exposure to refinancing risk. Relative to the 2022-23 programme from Spring Statement 2022, a 6.2 percentage point proportional increase in the issuance of short-dated conventional gilts is planned in 2023-24 (at 36.0%).

B.33 In deciding the proportion of medium conventional gilts to issue, the government recognises the important role that medium-dated conventional gilts (particularly at the 10-year maturity) play in facilitating the hedging of a wide range of gilt market exposures through the futures market, which helps to underpin liquidity in the sector. Relative to the 2022-23 programme from Spring Statement 2022, a 5.8 percentage point proportional increase in the issuance of medium-dated conventional gilts is planned in 2023-24 (at 27.1%).

B.34 Market feedback also suggests ongoing demand exists for long conventional gilts from domestic investors in particular. Additionally, in determining the amount of long-dated conventional gilts to issue, the government has taken into account the role of long conventional issuance in mitigating its near-term exposure to refinancing risk. Relative to the 2022-23 programme from Spring Statement 2022, a 7.4 percentage point proportional decrease in the issuance of long-dated conventional gilts is planned in 2023-24 (at 21.1%).

B.35 Issuing index-linked gilts has historically brought cost advantages for the government due to strong demand from the domestic pensions sector in particular, and market feedback suggests that this is ongoing.

B.36 Relative to the 2022-23 programme from Spring Statement 2022, a 4.0 percentage point proportional decrease in the issuance of index-linked gilts is planned in 2023-24 (at 10.9%). Details on the government's current policy position in relation to index-linked gilt issuance, as well as the specific decisions in respect of the 2023-24 remit, are provided in Chapter 2.

B.37 A 5.0% proportion and £12.0 billion absolute amount of issuance will be initially unallocated in 2023-24. The existing purposes of the unallocated portion of issuance will continue to apply – namely, to give increased flexibility to the DMO to issue any type or maturity of gilt by any issuance method, while remaining consistent with the principles of openness, predictability, and transparency.

Treasury bill issuance in 2023-24

B.38 Treasury bills are used for both debt and cash management purposes. With regard to the former, changes to the Treasury bill stock have historically offered an efficient way to accommodate in-year changes to the financing requirement.

B.39 The government does not have a target for the planned end-year total Treasury bill stock (i.e. including Treasury bills issued for cash management purposes). Information on the outstanding stock of Treasury bills will continue to be published monthly in arrears on the DMO's website.[31]

B.40 It is expected that net issuance of Treasury bills will make a contribution to debt financing in 2023-24 of £5 billion.

[31] www.dmo.gov.uk/data/treasury-bills

Annex C
NS&I's financing remit for 2023-24

C.1 This annex sets out information on the activities of NS&I in 2022-23 and 2023-24. NS&I is both a non-ministerial department and an executive agency of the Chancellor of the Exchequer. Its activities are conducted in accordance with its remit, which is to provide cost-effective finance now, and in the future, for the government. It does this by raising deposits and investments from retail customers, whilst balancing the interests of the taxpayer, its savers, and the wider financial services sector. This will remain the case in 2023-24.

C.2 NS&I's contribution to meeting the government's financing needs is agreed with HM Treasury each year, and is based on the government's gross financing requirement, conditions in the retail financial services market, and NS&I's ability to raise the funding without distorting the market.

C.3 As an HM Treasury policy product,[32] proceeds from retail Green Savings Bonds (GSB) are in addition to NS&I's Net Financing targets, as such they have been reported alongside the financing arithmetic for 2022-23.

Volume of financing in 2022-23

C.4 NS&I's contribution to financing in 2022-23 is projected to be £6.1 billion, with gross inflows (including reinvestments and gross accrued interest) of approximately £49.4 billion. This is against a 2022-23 target of £6.0 billion (within a range of ± £3.0 billion).[33]

C.5 Table C.1 shows changes in NS&I's product stock during 2022-23. With consumers experiencing a higher cost of living and a steadily rising market, NS&I has experienced pressures on Net Financing during 2022-23 but remained competitive.

32 Policy products are issued from time to time by NS&I at the request of HM Treasury in order to support particular policy objectives.

33 NS&I's net financing target does not include inflows from GSB.

Table C.1: Changes in NS&I's product stock in 2022-23 (£ billion)

	2021-22	2022-23[1]	Year on year changes
Variable rate	177.2	181.9	+4.7
Fixed rate (exc. GSB)	11.6	11.5	-0.1
Index Linked	18.5	20.1	+1.6
Total	207.3	213.5	+6.2
Green Savings Bonds	0.3	0.5[2]	+0.2

[1] Projections for 2022-23.
[2] This reflects proceeds from Green Savings Bonds from the period Oct 2021 to Feb 2023.

Source: NS&I.

Volume of financing in 2023-24

C.6 Gross inflows (including reinvestments and gross accrued interest) of NS&I's products are projected to be around £56.5 billion in 2023-24. After allowing for expected maturities and withdrawals, NS&I will have a 2023-24 Net Financing target of £7.5 billion (within a range of ± £3.0 billion).

C.7 Further details of NS&I's activities in 2022-23 and 2023-24 will be included in its 2022-23 Annual Report and Accounts, which is scheduled to be laid in Parliament in Summer 2023, and which will be published on www.nsandi.com

Annex D
The Exchequer cash management remit for 2023-24

Exchequer cash management objective

D.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 this is used to best advantage. Cash management operations are intended to work alongside debt management activities so that the government can always rely on sufficient funds being available to finance its activities. HM Treasury and the Debt Management Office (DMO) work together to ensure a suitable framework is in place to achieve this.

D.2 HM Treasury's role is to make arrangements for a forecast of the daily net flows related to revenue and expenditure into or out of the central Exchequer funds (and its objective in so doing is to provide the DMO with timely and accurate forecasts of the expected net cash position over time).

D.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 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).

D.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.[34] The risk appetite defines objectively the bounds of appropriate government cash management activities, in accordance with the government's policy for cash management; that is, as a cost minimising – rather than profit maximising – activity, and one that plays 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.

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[34] The four types of risk for cash management 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 Annual Review 2004-05'.

DMO's cash management objective

D.5 The DMO's cash management objective is to minimise the cost of offsetting the government's net cash flows over time, while operating within the government's risk appetite. In so doing, where possible, the DMO will seek to avoid actions or arrangements that would:

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

Instruments and operations used in Exchequer cash management

D.6 The range of instruments and operations that the DMO may use for cash management purposes, including the arrangements for the issuance of Treasury bills, is set out in the DMO's Exchequer cash management Operational Notice.[35]

D.7 Treasury bills may be used for both cash and debt management purposes. In relation to the latter, any positive or negative net contribution to the government's debt financing plans that is attributable to changes in the stock of Treasury bills is set out in the financing arithmetic (Table 3.A).

D.8 For cash management, the DMO uses Treasury bills to help manage fluctuations in the government's cash flow profile throughout the year and does so by varying the amount raised through Treasury bills, with reference to the forecast net cash position. In order to provide flexibility for the DMO to use Treasury bills across the financial year-end for cash management, no end-year target stock of Treasury bills is set. Information on the total stock of Treasury bills is published monthly on the DMO's website.[36]

D.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, assist the Bank of England's operations in the sterling money markets, 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 Treasury bill tender(s) and deposit the proceeds with the Bank of England, remunerated at the weighted average yield(s) of the respective tenders. The amount being offered to accommodate the Bank of England's request will be identified in the DMO's

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35 The DMO's Exchequer cash management Operational Notice is available at: https://dmo.gov.uk/media/17701/cmopnot200921.pdf

36 Information on the Treasury bill stock is available at: www.dmo.gov.uk/data/treasury-bills

weekly Treasury bill tender announcement. Treasury bills may also be issued bilaterally to the Bank of England, in order to support intervention schemes. Treasury bill issuances made at the request of the Bank of England 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

D.10 Gilts and/or Treasury bills may be issued to the DMO to help in the efficient execution of its cash management operations. The amounts will be chosen to have a negligible effect on any relevant indices. This will normally be on the third Tuesday of April, July, October, and January. Any such issuances to the DMO will be used as collateral and will not be available for outright sale. The precise details of any such issuances to the DMO will be announced at least two full working days in advance of the creation date. If no issuance is planned to take place in a particular quarter, the DMO will announce that this is the case in advance.

D.11 In the event that the DMO requires collateral to manage short-term requirements, it may create additional gilt and Treasury bill collateral at other times. Any such issuances to the DMO will only be used as collateral and will not be available for outright sale by the DMO.

D.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. 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.[37]

Active cash management

D.13 The combination of HM Treasury's cash flow forecasts and the DMO's market operations characterises an active approach to Exchequer cash management. A 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 – has been in place since 2007-08. These include qualitative measures as well as measures quantifying returns to active management, after deducting an interest charge representing the government's cost of funds.

[37] More information about the Discount Window Facility can be found on the relevant section of the Bank of England's website at: www.bankofengland.co.uk/markets/the-sterling-monetary-framework

Performance against these key indicators is reported in the DMO's Annual Review.[38]

[38] For the latest report, see Annex B of the 'DMO Annual Review 2021-22', Debt Management Office, August 2022. This is available at: https://www.dmo.gov.uk/media/lrhfznwd/gar2022.pdf

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This document can be downloaded from www.gov.uk

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