United Kingdom
Debt Management Office

Annual Report and Accounts 2010-2011

of the United Kingdom Debt Management Office

and the Debt Management Account

United Kingdom Debt Management Office
Annual Report and Accounts 2010 – 2011

Presented to the House of Commons pursuant to
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and

Debt Management Account
Annual Report and Accounts 2010 – 2011

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Introduction

The DMO's Vision Statement: The DMO aims to be a centre of excellence for HM Treasury in the provision of policy advice on and the delivery of HM Government's financing needs and to act as a key gateway for HM Government to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objective of ensuring sustainable public finances.

What this document covers

This document presents the Annual Report and Accounts of the United Kingdom Debt Management Office (DMO) and the Annual Report and Accounts of the Debt Management Account (DMA) for the year ended 31 March 2011.

The **DMO** is an executive agency of HM Treasury. Its main aims are:

- to carry out HM Government's debt management policy of minimising its financing cost over the long-term, taking account of risk;
- to minimise the cost of offsetting HM Government's net cash flows over time, while operating within a risk appetite approved by Ministers;
- to provide loans to local authorities for capital purposes; and
- to manage the funds of selected public sector bodies.

The DMO also has responsibility for advising on and supporting HM Treasury's financial stability measures.

The **DMA** is one of the central Exchequer accounts (others include the National Loans Fund and the Consolidated Fund managed by HM Treasury and the Exchange Equalisation Account managed by the Bank of England for HM Treasury). The DMA records the assets, liabilities and other balances that arise from the DMO's debt management (except for gilts issued by the DMO, which are liabilities of the NLF), cash management and other activities that support Government initiatives.

The following sections of this document apply to both the DMO and the DMA:

The following sections are specific to the DMO:

The following section is specific to the DMA:

Chief Executive's statement

This year, the DMO has again operated successfully in a challenging financial market environment. Although the total amount of gilt financing we delivered, at £166.4 billion, was £60 billion lower than in the previous year, it was still the second highest on record, and three times higher than in the years immediately preceding the recent financial market turbulence.

To help deliver this quantity of debt sales to the market, and in particular to provide the required volumes of long-dated conventional and index-linked gilts, we have continued to use supplementary distribution methods. These were principally syndicated gilt offerings, to support the auction programme and target our core investor base more directly.

A programme of five syndicated offers raised £26.9 billion – including in June 2010 the sale of £8 billion of a new 30 year maturity conventional gilt, the largest sovereign syndication to date. These operations helped the DMO to sell a record £34.0 billion of index-linked gilts. In all, we conducted 61 operations (including 49 auctions), 16 fewer than last year.

The gilt market has continued to absorb this high level of issuance efficiently. We have received positive feedback from investors on the increased level of liquidity in the secondary market. Measured in terms of aggregate daily turnover, this has continued to rise to almost £21 billion per day in 2010, a three and a half-fold increase on 10 years ago. This may be partly due to continued strong overseas interest in gilts – the largest single investor class in 2010.

The DMO has also performed strongly this year in carrying out its cash management function. All cash management objectives have been met successfully in spite of the continued volatile market conditions.

The Treasury bill market, currently around £60 billion in terms of the amount outstanding, has almost quadrupled in size in the last three years. Like gilts, Treasury bills are attracting significant overseas investor interest, with around 50% of the market being held by such investors.

During the year, total loans outstanding with the Public Works Loan Board increased to £53 billion at 31 March 2011. This incorporated over £5 billion of new loans in the year.

The DMO has again successfully provided a cost effective service to its client funds through the fund management operations of the Commissioners for the Reduction of the National Debt. The market value of these funds was £50 billion as at 31 March 2011.

During the year, the DMO has also successfully executed a further eight auctions of EU Allowances for the UK's Emissions Trading System in the third year of Phase II of the scheme (the same number as in 2009-2010). The DMO was appointed to this role by the Department of Energy and Climate Change (formerly DEFRA) in 2008.

The DMO has also continued to play a facilitating role in the delivery of a range of schemes put in place by HM Treasury and the Bank of England to stabilise financial markets and support the banking system, including the Credit Guarantee Scheme, the Special Liquidity Scheme, and the Discount Window Facility.

Looking forward, the DMO has received a new debt remit for 2011-2012 that will require gilt sales of £167.5 billion. This will need to be delivered in a financial environment which may continue to be volatile and unpredictable.

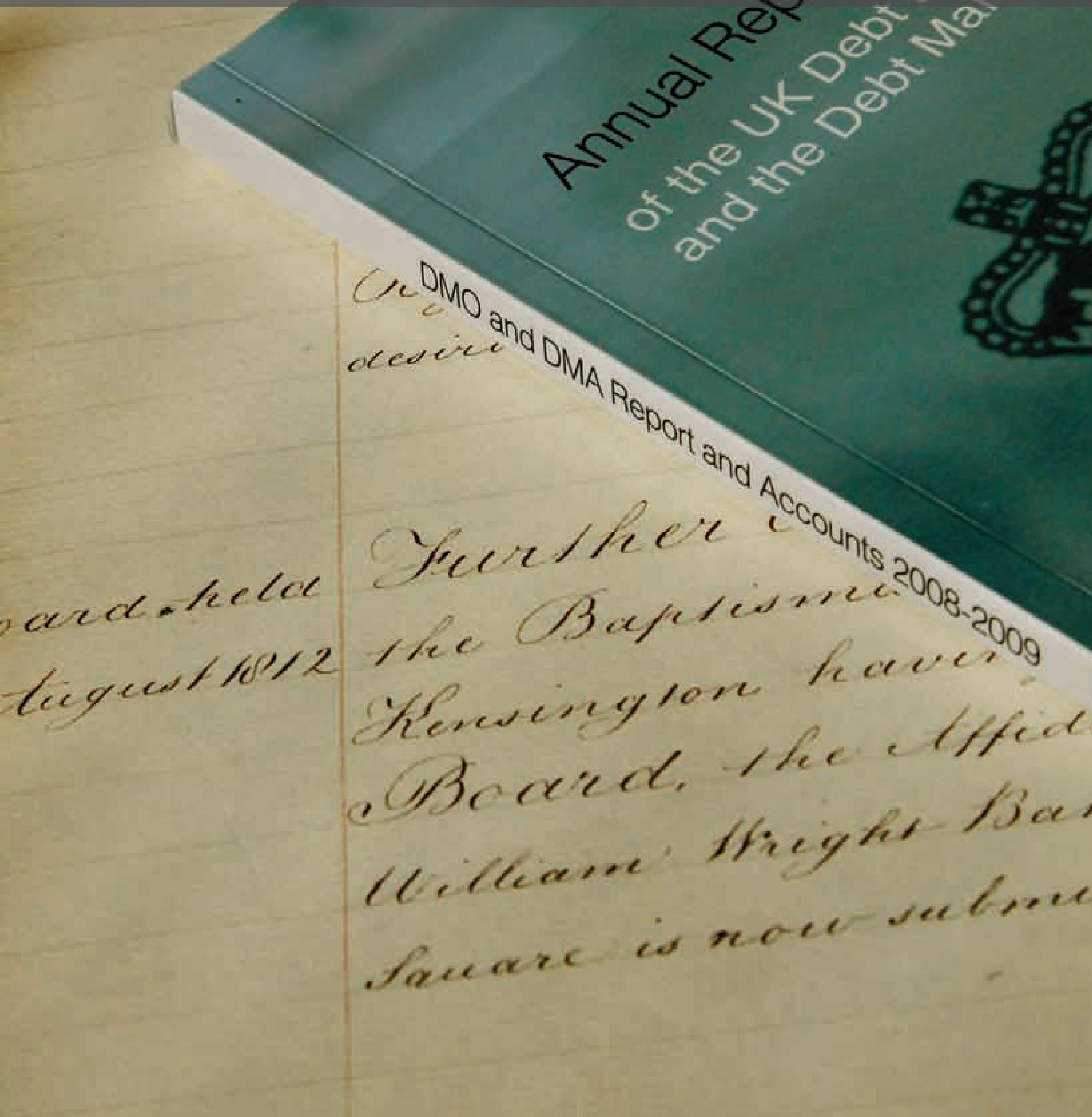
In summary, the DMO has performed strongly once again this year across its whole range of operations. It is therefore with confidence that I can look forward to the challenges of 2011-2012.

Once again, I would like to express my sincere appreciation to all DMO staff, to colleagues at HM Treasury and at the Bank of England, and to our market counterparties for their professionalism, commitment and hard work throughout the year. The success of the DMO would not have been possible without their collective contribution.

Robert Stheeman
Chief Executive
30 June 2011

Foreword

The DMO was established on 1 April 1998, with the aim *'… to carry out the Government's debt management policy of minimising financing costs over the longer term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost effective way'.*



Principal activities and history of the United Kingdom Debt Management Office

The DMO aims to be a centre of excellence for HM Treasury in the provision of policy advice on and the delivery of HM Government's financing needs and to act as a key gateway for HM Government to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objective of maintaining sound public finances.

The DMO is legally and constitutionally part of HM Treasury, but as an executive agency, it operates at arm's length from Ministers. The Chancellor of the Exchequer determines the policy and operational framework within which the DMO operates, but delegates to the Chief Executive operational decisions on debt and cash management and day-to-day management of the office.

The responsibilities of the Chancellor and other HM Treasury Ministers, the Permanent Secretary to HM Treasury and the DMO's Chief Executive are set out in a published Framework Document, available on the DMO website at www.dmo.gov.uk, which also sets out the DMO's objectives and lines of accountability. The Chief Executive is accountable to Parliament for the DMO's performance and operations, both in respect of its administrative expenditure and the Debt Management Account.

HM Treasury has specific objectives for debt management and cash management. The DMO is given annual remits by HM Treasury for its debt management and cash management. The remits are published in the Debt and Reserves Management Report, usually issued as part of the Budget announcements each spring. The DMO conducts its operations for the forthcoming financial year within the scope of these remits and in order to meet its specified objectives and targets.

Debt management

HM Treasury's debt management objective is "to minimise, over the long term, the cost of meeting the Government's financing needs, taking into account risk, whilst ensuring that debt management policy is consistent with the aims of monetary policy". The DMO advises HM Treasury on the development of an appropriate debt issuance strategy.

HM Government seeks to minimise the costs of servicing its debt over the long-term and tries to ensure that the chosen policy is robust in a wide range of economic conditions.

The composition of debt issued is the primary means by which HM Government adjusts the nature and maturity of its debt portfolio. In order to determine this composition, the Government takes into account, among other things, investor demand for gilts, its own appetite for risk, the shape of the yield curves and the expected effects of issuance.

The DMO's main debt management activity is the issue of gilt-edged securities (gilts) on behalf of the National Loans Fund (NLF). The DMO additionally issues Treasury bills.

The remit set by HM Treasury specifies the planned annual total of gilt sales in cash terms, the split between conventional and index-linked gilt sales and within conventional gilts the split by maturity band. The dates of scheduled outright auctions are also specified. The remit also provides the basis for the conduct of mini-tenders, syndications, switch, conversion or buy-back operations in a particular year. The DMO decides the size of gilt auctions and the choice of gilts to be auctioned, together with the size and choice of gilts to be issued via syndications and mini-tenders in accordance with the terms set out in the remit for the year. The DMO also decides the size and maturity breakdown of Treasury bill tenders.

All UK gilt auctions include an additional post-auction facility, whereby all successful direct bidders are offered the right to purchase up to an additional percentage (currently 10%) of the bonds they bought at the relevant auction, at the published average accepted price in multiple price format actions, or at the published strike price in auctions of uniform price format.

The DMO publishes Operational Notices describing how it acts in the gilts and sterling money markets – copies of these documents are available on the DMO website at www.dmo.gov.uk.

In addition to gilt issuance, the DMO contributes to the development of an efficient and liquid secondary market for gilts, by means that include the stewardship of the Gilt-edged Market Makers (GEMMs) system.

Under an agreement with the DMO, GEMMs provide a secondary market in all non-rump gilts, and are the point of access for institutional investors who wish to take part in the DMO's gilt auctions.

For various operational reasons, the DMO may redeem gilt holdings bought from the market by selling them back to the NLF at market rates prior to maturity.

Cash management

The DMO's cash management objective is "to minimise the cost of offsetting the Government's net cash flows over time, while operating to a risk appetite approved by Ministers".

Meeting these net cash flow requirements for HM Government is achieved through a combination of regular weekly Treasury bill tenders and bilateral dealing with market counterparties.

The DMO's remit includes information on the planned approach to Treasury bill issuance and the planned stock of Treasury bills at the end of the financial year.

Gilt purchase and sale service

The DMO offers a gilt purchase and sale service to those registered on the approved group of investors database, maintained by Computershare Investor Services PLC, on behalf of the DMO. This service enables members of the public to undertake secondary market transactions in gilts, on an execution only basis.

Public Works Loan Board (PWLB)

The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

The operations of the PWLB (part of the former National Investment and Loans Office) have been integrated with the DMO since 1 July 2002.

The PWLB produces its own annual report and accounts.

Commissioners for the Reduction of the National Debt (CRND)

The principal function of the CRND is managing the investment portfolios of certain public funds.

The functions of the CRND (part of the former National Investment and Loans Office) have been carried out within the DMO since 1 July 2002.

Each fund produces its own annual accounts.

Hedging of NS&I's Guaranteed Equity Bonds

Since March 2002, National Savings & Investments (NS&I) has issued Guaranteed Equity Bonds to investors. On behalf of NS&I, the DMA hedges the equity index exposure resulting from the sale of these products by entering into derivative contracts with market counterparties to receive amounts based on equity index increases and pay amounts based on floating interest rates. Taking account of the position of both the DMA and NS&I, HM Government has no material exposure to equity index risk as a result of the issue of Guaranteed Equity Bonds.

Special Liquidity Scheme

On 21 April 2008, the Bank of England launched a scheme to allow banks to swap temporarily their high quality mortgage-backed and other securities for UK Treasury bills. The scheme was closed to any new swaps on 30 January 2009, but existing swaps may be extended up to 30 January 2012. The DMO facilitates this operation by purchasing Treasury bills issued by the NLF and lending them to the Bank of England when required.

Discount Window Facility

On 20 October 2008, the Bank of England launched the Discount Window Facility as a permanent successor to the Special Liquidity Scheme. The purpose of the Discount Window Facility, is to provide liquidity insurance to the banking system. The DMO facilitates this operation by purchasing gilts issued by the NLF and lending them to the Bank of England when required.

Credit Guarantee Scheme

On 8 October 2008, HM Government announced the Credit Guarantee Scheme as part of a comprehensive package of measures to address the stress in the financial markets. The principle of the scheme is that HM Treasury guarantees debt issued by banks and building societies which meet prescribed criteria. The DMO administers this operation on behalf of HM Treasury. The financial guarantee liability and related fee income are recorded in HM Treasury's accounts.

Emissions Trading System

The EU Emissions Trading System allocates emissions 'allowances' to industry, which can then be traded. The DMO has been appointed by the Department of Energy and Climate Change (DECC) to conduct the auction of EU Allowances in the UK.

Relationship of the Debt Management Account to the National Loans Fund

The NLF is central government's principal borrowing and lending account and is administered by HM Treasury. The DMA's principal role is to meet the financing needs of the NLF. These include long-term requirements (debt management), short-term requirements, and day-to-day cash needs (cash management).

In its debt management role, the DMA issues gilts on behalf of the NLF. This requires the DMA to purchase newly created gilts from the NLF, which it then sells to the market. In this way, gilts issued are liabilities of the NLF and the responsibility for paying gilt coupons and redeeming the debt on maturity lies with the NLF. The DMA regularly undertakes secondary market gilt transactions in small volumes.

The DMA issues sterling Treasury bills as part of both its debt and cash management operations, however, this type of financial instrument may also be issued by the NLF in certain circumstances.

The DMA transacts with the financial markets, on behalf of the NLF, for the purpose of managing HM Government's cash requirements. In this role, the DMA undertakes day-to-day borrowing and lending with the market, largely in the form of Treasury bill issuance, sale and repurchase agreements (repos) and reverse sale and repurchase agreements (reverse repos). The repos and reverse repos of the DMA are usually collateralised with gilts. For this purpose the DMA holds a large gilt portfolio bought from the NLF.

The DMA actively manages its daily target float to ensure that the NLF holds no cash at the end of each day. This is the means by which the DMA balances the daily financing needs of the NLF. The DMA pays interest, at the Bank Rate, on any advance from the NLF. The DMA receives interest on any daily deposit made with the NLF at the same rate.

Under the terms of the Finance Act 1998, the NLF made a cash advance of £6 billion to the DMA at inception in order to establish the account. Subsequent cash advances and repayments have been made from time to time as required. By 31 March 2011, the advance had risen to £157 billion. The increase was due to the DMA's purchase of collateral from the NLF, principally to facilitate the DMA's role in the Special Liquidity Scheme (NLF Treasury bill collateral) and the Discount Window Facility (gilt collateral).

While the DMA pays interest on funds advanced to it from the NLF at the Bank Rate, it receives interest from the gilts and Treasury bills purchased from the NLF. Changes in the advance from the NLF to the DMA are transactions internal to HM Government and do not constitute part of overall government borrowing.

Retained surpluses and deficits of the DMA are assets or liabilities of the NLF. In the case of a retained surplus, HM Treasury may make a payment from the DMA to the NLF (equal to all or part of the surplus) thereby reducing the liability of the DMA. In the case of a retained deficit, HM Treasury may make a payment to the DMA from the NLF (equal to all or part of the deficit).

Relationship of the Debt Management Account to the Commissioners for the Reduction of the National Debt

The Commissioners for the Reduction of the National Debt (CRND) is a statutory entity within the DMO that performs a fund management service for public sector clients.

The Secretary and Comptroller General of the CRND is also the Deputy Chief Executive of the DMO.

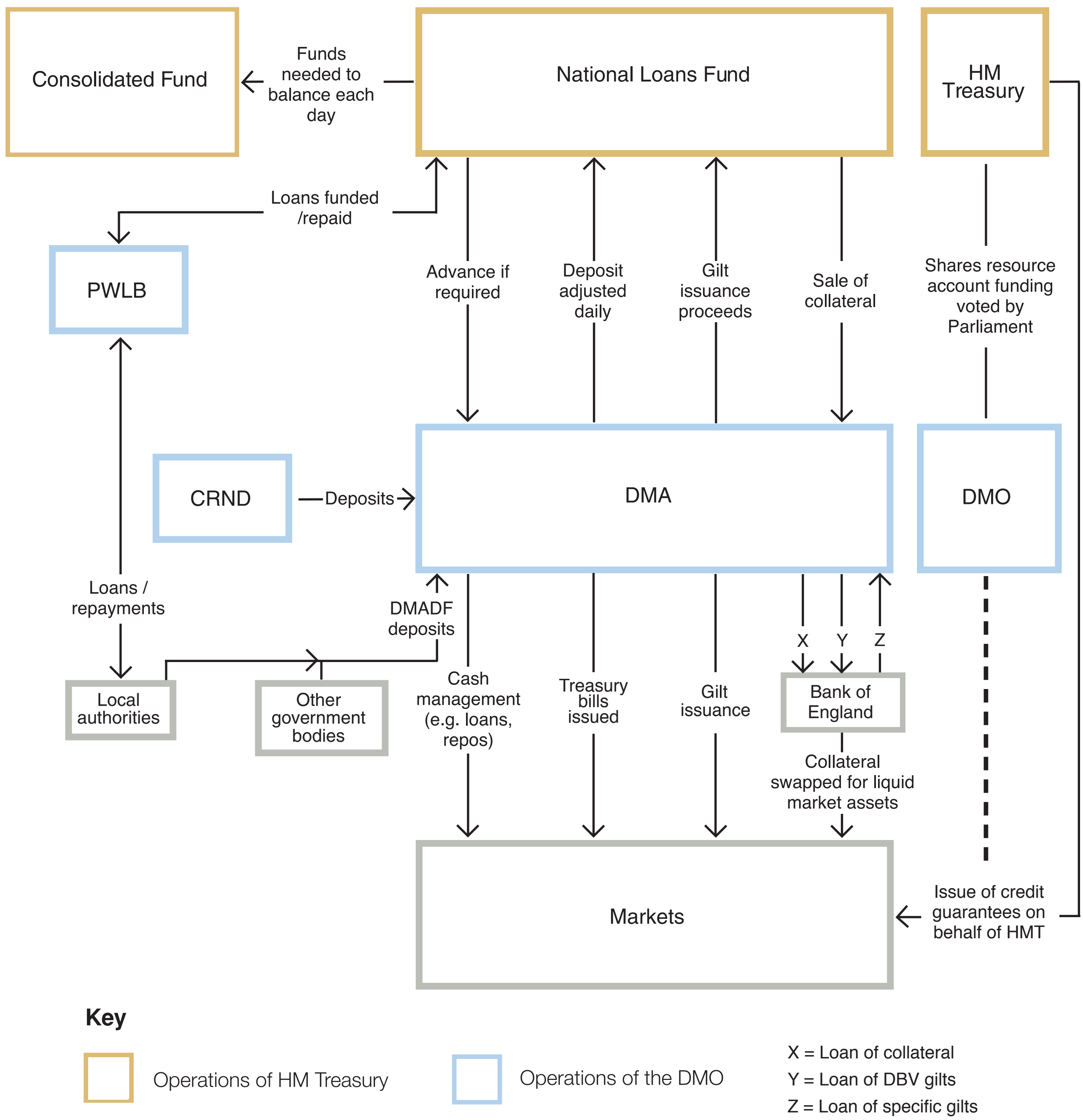
The CRND's client mandates require the bulk of the funds under management to be invested in gilts or on deposit with the DMA. In 2010-2011, the majority of CRND client funds were invested in short-term deposits with the DMA.

The DMA also transacts non-marketable gilts on behalf of the CRND's funds and trades these back-to-back with the NLF. These transactions are carried out on an arm's length basis and in line with a Memorandum of Understanding between the DMO and CRND.

The value of the CRND's deposits with the DMA at 31 March 2011 was £49.3 billion (31 March 2010: £53.1 billion).

Key relationships of the DMO and DMA

This diagram sets out the principal relationships of the DMO and DMA with other organisations and funds. It is intended for illustrative purposes only.



Note:

1) The DMO also uses the Bank of England for custody and settlement functions.

2) The DMA's loan of collateral to the Bank of England facilitates the Special Liquidity Scheme and Discount Window Facility.

Corporate governance

The Chancellor of the Exchequer has overall responsibility for HM Treasury and its executive agencies. He is supported by the other HM Treasury Ministers.

At the beginning of 2010-2011, ministerial responsibility for the DMO was vested in the Financial Services Secretary to the Treasury and Minister for the City, Lord Myners CBE. In May 2010, upon establishment of the new government following the 2010 General Election, ministerial responsibility for the DMO was transferred to the Commercial Secretary to the Treasury, Lord Sassoon.

Robert Stheeman, the Agency's Chief Executive, is the Accounting Officer for the Agency and is responsible to HM Treasury Ministers for the overall operation of the Agency in accordance with its Framework Document. The Chief Executive's appointment was made through open competition by HM Treasury and was effective from 6 January 2003.

The Chief Executive was assisted during 2010-2011 by a Managing Board that, in addition to the Chief Executive, comprised:

- **Jo Whelan**
  Deputy Chief Executive and Joint Head of Policy and Markets
- **Jim Juffs**
  Chief Operating Officer
- **Joanne Perez**
  Joint Head of Policy and Markets
- **Sam Beckett**
  Non-executive HM Treasury representative
- **Brian Larkman**
  Non-executive director
- **Brian Duffin**
  Non-executive director

Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006.

Brian Duffin was Chief Executive of Scottish Life from 1999 to 2007 and Executive Director of Royal London Mutual from 2001 to 2007.

The executive members of the Managing Board form an executive committee, which is informed by the following operational committees:

- Debt Management Committee
- Cash Management Committee
- Fund Management Committee
- Credit and Market Risk Committee
- Operational Risk Committee
- Business Delivery Committee
- Performance Review Team

The Chief Executive was supported as Accounting Officer during 2010-2011 on matters relating to risk, internal control and governance, and associated assurance by the Audit Committee. The Audit Committee covers the activities of the DMO, DMA, CRND and PWLB. The members of the Audit Committee during 2010-2011 were:

- Brian Larkman (Chair)
- Brian Duffin
- Caroline Mawhood (from 1 July 2010)

Caroline Mawhood was formerly Assistant Auditor General at the National Audit Office and was the 2008 to 2009 President of the Chartered Institute of Public Finance and Accountancy. She is a member of its Governing Council, and its representative on the Board of the Institute of Chartered Accountants in England and Wales and chair of the Public Sector Committee, Federation of European Accountants.

Risk management

The DMO has a comprehensive risk framework approved by the Managing Board and a range of risk policies and supporting processes to identify and manage its risks and to promote a strong culture of risk awareness throughout its operations.

The DMO's position differs from that of a commercial organisation in that it must always be in a position to transact the underlying business required to meet its remit, although it will seek to minimise risk in doing so. Implementation of these policies is the responsibility of the Chief Executive as the Accounting Officer of the DMO and the DMA. Functional teams and committees comprising appropriately qualified staff assist the Chief Executive in this role.

Further details of the DMO's risk management processes are given in the statement on internal control on page 50 to 55 and notes 22 to 24 of the DMA accounts on page 102 to 116.

Other organisational arrangements

Equal opportunities

The DMO is an equal opportunities employer. Policies are in place to ensure that no job applicant or member of staff receives less favourable treatment on grounds of gender, gender re-assignment, marital or family status, colour, racial origin, sexual orientation, age, background, religion, disability, trade union membership or by any other condition or requirement.

Employee relations

A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been effective as a conduit for wider communication and consultation with all staff. Union arrangements also continue for staff transferred to the DMO in 2002 under TUPE principles. Staff may choose to join a trade union of their choice.

Improving good practice and investment in people

The DMO was re-accredited as an Investor in People again in September 2008. The DMO's training and development policy aims to ensure that its staff have the right skills to meet its objectives. The DMO provides targeted training and support for professional studies to enhance the skills base of its employees.

Staff sickness absence

Recorded working days lost due to permanent DMO staff sickness absence in 2010-2011 were 373.5 or 1.7 per cent of the total available (2009-2010: 468.5 or 2.6 per cent of the total available).

Pension liabilities

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in the Remuneration Report on page 42 to 47. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of these elements over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

Supplier payment policy

All the DMO's supplier invoices are processed for payment by HM Treasury. With effect from 1 May 2010, the prompt payment target for all valid invoices not in dispute was reduced from 10 to 5 working days. The HM Treasury group applied these targets to all suppliers irrespective of size and paid

87 per cent of invoices within 5 working days, while achieving 97 per cent for the 10 day target.

HM Treasury services

HM Treasury continues to provide several support services to the DMO, including purchase order processing, invoice processing and payment, payroll processing and some financial accounting services.

Sustainable development

As an executive agency of HM Treasury, the DMO is committed to contributing to the Government's objectives on Sustainable Development including the 10% carbon reduction commitment.

During 2010-2011, the DMO devised an energy-use reduction strategy. In addition to the introduction of a full recycling process the DMO has recently carried out a lighting modification project, resulting in the installation of light sensors in all meeting rooms, energy saving detectors applied to audio visual equipment and energy efficient bulbs & LEDs installed throughout the office. This has allowed the DMO to achieve the government's 10% carbon reduction target.

Auditors

The Comptroller and Auditor General is responsible for auditing the DMO and DMA accounts, as specified by the Government Resource Accounts Act 2000 and the National Loans Act 1968 respectively.

The auditors have been provided with all information and explanations that they required to conduct their audit.

As far as the Accounting Officer is aware, there is no relevant audit information of which the external auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the external auditors are aware of that information.

Reporting of personal data related incidents

The DMO had no protected personal data related incidents during 2010-2011, nor during any previous period.

Robert Stheeman
Chief Executive
30 June 2011

Management commentary

In 2010-2011, DMO successfully delivered a historically high-level of financing.

Review of activities in 2010-2011

2010-2011 was another successful year for the DMO, in which it met its debt and cash management remits, its strategic objectives and published targets. A full account of these is given on page 26 to 32.

Debt management

Debt issuance

In 2010-2011, the DMO again delivered very high gilt sales, as a result of HM Government's funding requirements. The DMO's gilt financing requirement for 2010-2011 was £187.3 billion as announced in the Budget in March 2010. This was later revised downwards to £165.0 billion in the new Government's Emergency Budget in June 2010 and adjusted marginally to £165.2 billion in the Economic and Fiscal Outlook on 29 November 2010. This was the DMO's second largest gilt financing requirement, following the record requirement of £225.1 billion in 2010-2011. This challenging remit was successfully delivered, with overall gilt sales of £166.4 billion.

A total of 49 gilt auctions were held in 2010-2011 (the record is 58 in both 2008-2009 and 2009-2010) and the average release time for auction results fell from 6.3 minutes to 6.1 minutes.

The debt issuance profile remained similar to that of 2009-2010, though it was spread more evenly by conventional gilt maturity, resulting in proportionally more longer-dated conventional gilts being issued. The need to raise a large amount of cash again led the DMO to plan the largest proportion of its issuance in the deepest and most liquid part of the market (and consequently that part with lowest execution risk), short-dated conventional gilts. The size and proportion of the short-dated conventional gilt programme was £59.0 billion (31.5 per cent) in the remit for 2010-2011. This compared to £74.2 billion (33.0 per cent) in the revised remit for 2009-2010.

Mini-tenders of gilts continued to supplement sales at auctions, as a means of accessing pockets of demand with a much shorter period of pre-commitment than auctions. Seven such tenders were held, raising £6.3 billion.

The DMO sold £26.9 billion of gilts in a programme of five syndicated offerings in 2010-2011.

Since 2 June 2009, successful bidders at gilt auctions have had the right to acquire up to an additional 10 per cent of their auction allocation between 12pm and 2pm on the day of the auction, at the average accepted/strike price of the auction. During the year to 31 March 2011, this option was activated 35 times out of 49 auctions, raising an additional £8.1 billion.

Gilt market turnover and liquidity was maintained in 2010-2011 with average daily turnover of £20.9 billion, up from £18.5 billion in 2009-2010. Maintaining market liquidity is a key factor in addressing the needs of a diversified investor base. 2010 saw a continuation of the trend of recent years, with another increase from £224.3 billion to £309.2 billion in the estimated value of gilts held by overseas investors.

The DMO received its remit for 2011-2012 on 23 March 2011, which showed planned gilt sales of £169.0 billion, which was subsequently revised down to £167.5 billion on 21 April as a consequence of the Central Government Net Cash Requirement outturn for 2010-2011.

Gilt holdings

In addition to holding gilts for use as collateral in its cash management operations, as described in the section below, and for lending to the Bank of England to facilitate the Discount Window Facility, the DMA continues to hold relatively small portfolios of gilts for other purposes:

- Purchase and sale service (fair value of £20 million at 31 March 2011) - this portfolio of gilts is used for purchase and sale transactions with retail investors.
- Rump stocks (fair value of £5 million at 31 March 2011) - these are gilts in which the DMO will make a bid price upon request from a GEMM. GEMMs are not required to make a market in such gilts, due to the small nominal values outstanding.
- Other tradable gilts (fair value of £287 million at 31 March 2011) - this portfolio comprises a residual from each gilt auction. A small amount of each gilt auction may be retained due to rounding the allotment of gilts to successful bidders. Gilts are also retained in the case of an uncovered gilt auction. The portfolio may also include any gilts bought by the DMO in the secondary market for other reasons.

Cash management

During 2010-11, the DMO continued to successfully meet its cash management remit. To meet Exchequer borrowing needs, the DMO continued to raise cash principally through the sterling repo market, though there remained a strong market demand to buy Treasury bills at tender and sometimes through bilateral agreement. In addition, cash deposits continued to be taken via the Debt Management Account Deposit Facility (DMADF), which allows local authorities and government agencies to place surplus funds with the DMA for up to six months. During the recent financial market turbulence, use of this facility increased significantly as a result of credit risk aversion among customers. However, the level of deposits has fallen significantly over the last 18 months.

Repos and reverse repos were the DMO's principal tools for carrying out its cash management operations. Throughout 2010-2011, the DMO held gilts for use as collateral in repo transactions. The collateral is held in the DMA on a continuing basis and has been purchased on various occasions since 3 February 2000. At 31 March 2011, gilts held specifically for use as cash management collateral had a carrying value of £77.9 billion.

The DMO's performance is monitored and assessed using a range of key performance indicators, details of which will be reported in the DMO Annual Review 2010-2011.

Hedging of NS&I's Guaranteed Equity Bonds

The DMA held a number of equity derivatives in the year. These had an aggregate nominal value of £290 million at 31 March 2011 (31 March 2010: £375 million). Both NS&I's equity index exposure and the DMA's hedge are reported at fair value on the respective statements of financial position. The net fair value of the derivatives in the DMA accounts was £8 million at 31 March 2011 (31 March 2010: negative £10 million).

PWLB

Throughout the year, the PWLB continued to provide local government capital finance and aimed to meet all local authorities' needs for long-term borrowing.

During this period, the PWLB agreed 489 applications for loans totalling £5.3 billion (2010: £5.1 billion). This small increase in appetite for new advances by PWLB borrowers resulted in a correspondingly small increase in fee income for the PWLB to £1.9 million (2010: £1.8 million).

In total, 301 local authorities applied for advances.

At 31 March 2011, the overall level of nominal debt outstanding to the PWLB amounted to £53.1 billion (31 March 2010: £51.2 billion).

Additional information on the PWLB's activities, including its Annual Report and Accounts and lending arrangements, can be found on the PWLB section of the DMO website (www.dmo.gov.uk).

Following the Chancellor's announcement on the Spending Review on 20 October 2010, HM Treasury instructed PWLB to increase the interest rate on new loans to around 1% above Government's cost of borrowing.

CRND

During the year CRND continued to provide an efficient value for money service to its clients, with the main investment objectives being to maintain sufficient liquidity to meet withdrawals and to protect the capital value of the funds under management.

Special Liquidity Scheme

Since its launch by the Bank of England in April 2008, the DMO has supported the Special Liquidity Scheme by lending unsecured Treasury bills, which were issued by and bought from the NLF, to the Bank of England for a fee. The DMO established, and subsequently refreshed monthly, the stock of Treasury bills available for this scheme by purchasing specially created Treasury bills from the NLF in quantities informed by the Bank of England's estimates of future demand. Held by the DMA, the Treasury bills earn interest from the NLF. Treasury bills loaned to the Bank of England have been returned on or before the due date. By agreement with HM Treasury, stock lending fees received from the Bank of England, less recovery of costs to cover HM Treasury and DMO involvement in the scheme, have been shared between the DMA and the NLF.

As at 31 March 2011, the nominal value of Treasury bills held on the DMA's statement of financial position for the purpose of providing collateral under the Special Liquidity Scheme was £123.2 billion (31 March 2010: £176.4 billion).

Although the drawdown window to access the SLS has closed, the scheme will remain in place until 30 January 2012. During this time, participant banks may replace existing stock swaps under the scheme with new stock swaps under the same terms and maturing prior to the scheme closure. Therefore, under current arrangements, the DMA's stock of NLF Treasury bills held for the Special Liquidity Scheme will not increase.

Discount Window Facility

Under the Discount Window Facility, the DMO may lend gilt-edged securities to the Bank of England, so that it may swap them with participating banks for eligible securities. In October 2008, gilts with a nominal value of £47.8 billion were created by the NLF and sold to the DMA for this purpose.

Credit Guarantee Scheme

The DMO administers the operational elements of the 2008 Credit Guarantee Scheme, on behalf of HM Treasury. This has principally involved assessing applications to the scheme, issuing guarantees for specific bond issues upon request by eligible banks, collecting fees payable by the participating banks, and accounting.

The related assets, liabilities and income are recorded in the accounts of HM Treasury.

Asset Purchase Facility

The DMO met the funding requirements of the Bank of England's Asset Purchase Facility. The Bank of England uses this facility to purchase high-quality private sector assets.

During 2010-2011, the DMA also lent gilts to the Bank of England in delivery by value (DBV) transactions, and borrowed specific gilts of the same value.

Emissions Trading System

In 2007-2008, the DMO was commissioned to act as auctioneer for the Department for Environment, Food and Rural Affairs (later to become the Department of Energy and Climate Change) for phase II of the European Union Emissions Trading System.

During 2010-2011, the DMO conducted eight (2009-2010: eight) successful auctions of EU Allowances for carbon emissions.

The transactions are reported in the Trust statement prepared by the Department of Energy and Climate Change.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Achievements against objectives

HM Treasury Ministers set the DMO's objectives, which are published in the DMO's business plan and its Framework Document. The objectives for 2010-2011 and the DMO's performance against them is summarised below.

1. To develop, provide advice on and implement HM Government's debt management strategy.

The DMO provided analysis and advice to HM Treasury in connection with the preparation of its financing remit for 2010-2011 against the backdrop of a high forecast financing requirement. The financing requirement was only slightly lower than the record level in 2009-2010. The market environment remained substantially the same as in the preceding year. There was continued perceived structural demand for long-dated and index-linked gilts, particularly from the UK pension and insurance industries, and for shorter dated gilts from overseas investors, amid continued volatility in international capital markets.

This led to a broadly similar financing remit structure to 2009-2010, although the proportion of index-linked gilts was increased and that of medium-dated conventional issuance reduced to improve cost effectiveness. The core auction programme was again supported by supplementary distribution methods, syndicated offerings and mini-tenders, designed to facilitate higher issuance of long-dated conventional and index-linked gilts than would be possible by auctions alone. The proportion of total issuance planned via supplementary methods rose marginally compared to the previous financial year from 18% to 21%. In addition, the Post-Auction Option Facility (PAOF), under which successful bidders at auctions receive an option to buy up to 10% of their allocation in a period between 12pm and 2pm on the day of the auction (at the average accepted/strike price of the auction) was also continued.

Planned gilt sales were revised during the year and the DMO's final target issuance was £165.2 billion, comprising £52.7 billion of short-dated conventional gilts, £38.2 billion of medium-dated conventional gilts, £40.5 billion of long-dated conventional gilts, and £33.8 billion of index-linked gilts.

The DMO successfully delivered the financing remit with gilt sales of £166.4 billion. This was slightly above the planned target, principally reflecting the impact of PAOF, total proceeds from which were £8.1 billion in 2010-2011.

2. To develop, provide advice on and implement HM Government's cash management requirements.

The DMO successfully delivered its cash management objectives for 2010-2011 despite ongoing challenging market conditions throughout the period.

The DMO monitored and assessed its overall performance in meeting HM Government's objectives in cash management using a number of key performance indicators.

A full account of cash management performance is included within the DMO's Annual Review 2010-2011.

3. To provide advice and operational services to HM Treasury on issues relating to the management of HM Government's balance sheet.

The DMO has continued to provide advice and analysis to HM Treasury to support the management of the wider balance sheet for HM Government, including in relation to the administration of HM Government's Credit Guarantee Scheme for the banking sector.

4. To provide advice and operational services to HM Government's departments on whole markets-related issues and activities (e.g. Emissions Trading System etc.).

The DMO has continued to work with the Department for Energy and Climate Change (DECC) to implement the Government's sale by auction of EU allowances in the UK for Phase II of the EU Emission Trading Scheme (EU ETS). The DMO successfully conducted eight EU ETS auctions in 2010-2011, the same number as in 2009-2010.

5. To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.

The DMO continued to provide a cost-effective service to client funds through the Commissioners for the Reduction of the National Debt. The DMO charged £0.63 million in 2010-2011 for services relating to the management of funds with a value of £49.3 billion at 31 March 2011.

6. To provide a cost-effective lending service to local authorities through the Public Works Loan Board.

The Public Works Loan Board agreed £5.25 billion of new loans to borrowers in 2010-2011. Full details appear in the Public Works Loan Board Annual Report and Accounts.

The full cost to the DMO of providing the PWLB lending service was £1.9 million in 2010-2011. The DMO received fees of £1.8 million from the PWLB's borrowers in respect of new loans issued.

7. To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.

During 2010-11, the DMO employed an average of 109 full-time staff, of whom 80 were permanent civil servants and 29 were short-term contract staff.

The DMO was re-accredited as an "Investor in People" in September 2008 and continues to work towards maintaining this status.

The DMO's training programme, complemented by additional specialist and individual training and support for ongoing professional studies, continues to maintain and enhance the skills base of its employees to the required level.

8. To manage, operate and develop an appropriate risk and control framework.

The DMO continued to operate an effective risk and control framework throughout the year as detailed in the statement on internal control on page 50 to 55.

There were no significant breaches of controls during the year.

Performance against targets

1.To ensure full compliance with HM Government's remit for the DMO (which is primarily set out in the Debt and Reserves Management Report 2010-2011).

Achieved. The DMO complied fully with the financing remit in 2010-2011.

The gilt sales outturn was £166.4 billion (cash) relative to the final revised target of £165.2 billion. This final revised target was published in HM Treasury's revision to the DMO's financing remit in November 2010 and coincided with the Office of Budget Responsibility's Economic and Fiscal Outlook 2010. Sales were achieved through the conduct of 49 auctions (34 conventional and 15 index-linked), 5 syndicated offerings and 7 mini-tenders. All syndications and mini-tenders were of long-dated conventional or index-linked gilts.

Outright gilt sales of £187.3 billion had initially been planned for 2010-2011, as announced at the Budget in March 2010. This comprised a programme of £148.1 billion via 52 auctions and a supplementary distribution programme of £39.2 billion, of which it was assumed £10.0 billion would be raised via mini-tenders. For the remainder, up to 10 syndicated offerings were planned. In addition, the use of the Post Auction Option Facility (PAOF) was continued. The gilt sales requirement was revised down by £2.1 billion to £185.2 billion on 22 April reflecting the outturn Central Government Net Cash Requirement for 2009-2010.

The emergency Budget on 22 June 2010 announced an expanded programme of fiscal tightening. This included a £20.2 billion reduction in planned gilt issuance for 2010-11. The reduction was implemented in such a way that the proportionate split of issuance between maturities and types of gilt was maintained.

The gilt sales requirement later rose by £0.2 billion, to the final revised target of £165.2 billion, as a result of the revision to the fiscal aggregates announced by the Office of Budgetry Responsibility in the Economic and Fiscal Outlook, November 2010. Short-dated and long-dated conventional sales rose by £0.1 billion each to £52.7 billion and £40.5 billion respectively. The evolution of planned and actual issuance by maturity and type through 2010-2011 is presented in the table below.

The auction results throughout the year were generally good and were achieved despite challenging global market conditions. Cover, the ratio of the total amount of bids to the amount of gilts on offer at an auction, ranged from 1.38 times at the auction of 4% Treasury Gilt 2016 on 20 July 2010 to 2.80 times at the auction of 0.625% Index-linked Treasury Gilt 2042 on 8 March 2011. Average cover at gilt auctions in 2010-2011 was 1.93 times compared to 2.04 times in 2009-2010.

There were no credit breaches during the financial year.

2010-2011 Gilt sales

	Conventional gilts (£bn)			**Index-linked gilts (£bn)**	**Total (£bn)**
	Short-term	Medium-term	Long-term		
Remit	59.0	45.0	45.3	38.0	187.3
April revision	59.0	42.9	45.3	38.0	185.2
June budget	52.6	38.2	40.4	33.8	165.0
Economic and Fiscal Outlook update	52.7	38.2	40.5	33.8	165.2
Gilt sales at 31 March 2011	**53.2**	**38.2**	**41.1**	**33.9**	**166.4**

2. To ensure that the maximum time taken to issue the results of auctions and mini-tenders of gilts, and Emissions Trading System auctions does not exceed 15 minutes - although the DMO will aim to publish the results of these operations within 10 minutes of the close - whilst achieving complete accuracy. Furthermore, as a result of the introduction of electronic bid capture for Treasury bill tenders in February 2010, the maximum time taken to issue the results will also be reduced from 20 minutes to 15 minutes. In addition, as for other operations, the DMO will aim to reduce the publication time for the results of Treasury bill tenders to within 10 rather than within 15 minutes of the close of offer - again, whilst achieving complete accuracy.

Date	Gilt	Proceeds (£m)	Release time (mins)
7 April 2010	4¾% Treasury Stock 2015	4,998	5
13 April 2010	4¼% Treasury Gilt 2039	2,336	6
15 April 2010	0 5/8% Index-linked Treasury Gilt 2042	908	5
21 April 2010	1¼% Index-linked Treasury Gilt 2017	728	4
22 April 2010	4¾% Treasury Stock 2020	4,346	6
27 April 2010	1¼% Index-linked Treasury Gilt 2032	1,179	5
28 April 2010	4½% Treasury Gilt 2013	4,832	5
11 May 2010	4¼% Treasury Gilt 2027	2,408	8
13 May 2010	1 7/8% Index-linked Treasury Gilt 2022	1,387	5
17 May 2010	4¼% Treasury Stock 2032	982	4
20 May 2010	4¾% Treasury Stock 2020	3,885	6
26 May 2010	0½% Index-linked Treasury Gilt 2050	3,762	n/a*
2 June 2010	2¾% Treasury Gilt 2015	4,766	5
3 June 2010	4½% Treasury Gilt 2034	2,231	5
8 June 2010	1¼% Index-linked Treasury Gilt 2027	1,317	7
9 June 2010	3¾% Treasury Gilt 2020	3,786	8
16 June 2010	1¼% Index-linked Treasury Gilt 2017	672	8
17 June 2010	5% Treasury Stock 2014	4,920	5
29 June 2010	4¼% Treasury Gilt 2040	7,995	n/a*
1 July 2010	0¾% Index-linked Treasury Gilt 2047	970	6
6 July 2010	3¾% Treasury Gilt 2020	3,652	5
14 July 2010	4¼% Treasury Gilt 2046	2,452	6
15 July 2010	1 7/8% Index-linked Treasury Gilt 2022	1,496	5
20 July 2010	4% Treasury Gilt 2016	4,062	7
27 July 2010	0 5/8% Index-linked Treasury Gilt 2040	5,557	n/a*
3 August 2010	2¾% Treasury Gilt 2015	4,245	5
10 August 2010	4½% Treasury Gilt 2034	1,829	5
12 August 2010	4% Treasury Gilt 2022	3,460	6
19 August 2010	1¼% Index-linked Treasury Gilt 2027	1,224	5
1 September 2010	4¾% Treasury Stock 2038	1,157	4
2 September 2010	5% Treasury Stock 2014	4,672	6
7 September 2010	0¾% Index-linked Treasury Gilt 2047	1,002	6
15 September 2010	4¾% Treasury Gilt 2030	2,220	8
16 September 2010	3¾% Treasury Gilt 2020	3,444	9
23 September 2010	1¼% Index-linked Treasury Gilt 2027	693	7
5 October 2010	0 5/8% Index-linked Treasury Gilt 2042	979	6
13 October 2010	4¼% Treasury Gilt 2027	1,289	7
14 October 2010	4¾% Treasury Stock 2015	4,687	5
19 October 2010	1¼% Index-linked Treasury Gilt 2032	1,432	6
21 October 2010	3¾% Treasury Gilt 2020	3,447	7
27 October 2010	4¼% Treasury Gilt 2040	5,000	n/a*
2 November 2010	2% Treasury Gilt 2016	4,406	4

Date	Gilt	Proceeds (£m)	Release time (mins)
9 November 2010	1¼% Index-linked Treasury Gilt 2055	1,123	6
11 November 2010	4½% Treasury Gilt 2034	2,154	6
18 November 2010	3¾% Treasury Gilt 2020	3,330	6
23 November 2010	1¼% Index-linked Treasury Gilt 2027	748	5
7 December 2010	4¼% Treasury Gilt 2049	2,143	6
15 December 2010	2% Treasury Gilt 2016	3,747	5
16 December 2010	0 5/8% Index-linked Treasury Gilt 2042	901	13
6 January 2011	3¾% Treasury Gilt 2020	3,037	7
11 January 2011	1¼% Index-linked Treasury Gilt 2032	1,032	5
19 January 2011	4¼% Treasury Stock 2036	2,387	16
27 January 2011	1¼% Index-linked Treasury Gilt 2055	4,625	n/a*
1 February 2011	2% Treasury Gilt 2016	3,628	5
3 February 2011	4¼% Treasury Gilt 2040	2,064	5
8 February 2011	1 7/8% Index-linked Treasury Gilt 2022	1,303	6
17 February 2011	3¾% Treasury Gilt 2020	2,989	4
1 March 2011	2% Treasury Gilt 2016	4,212	7
3 March 2011	4¼% Treasury Gilt 2055	2,431	5
8 March 2011	0 5/8% Index-linked Treasury Gilt 2042	916	4
17 March 2011	3¾% Treasury Gilt 2021	2,770	5
		166,353	

*Operations for which the release time is shown as n/a were syndications, which are not included in the release target.

Mostly achieved. The release times for the 49 auctions held during the financial year ranged from 4 to 16 minutes and averaged 6.1 minutes (2009-2010: 6.3 minutes). There was only one occasion where the auction result release exceeded 15 minutes. The auction result on 19 January 2011 of 4¼% Treasury Stock 2036 was released after 16 minutes. The delay was attributed to a counterparty error discovered after the close of bidding. Once detected, the erroneous bids were manually corrected by DMO officials before the results were calculated.

The release times for the 7 mini tenders held during the financial year ranged from 4 to 8 minutes and averaged 5.6 minutes.

The release times for the 8 EU ETS auctions held during the financial year ranged from 5 to 7 minutes and averaged 5.8 minutes.

The release times for the 51 weekly Treasury bill tenders conducted during the financial year ranged from 4 to 12 minutes and averaged 5.7 minutes.

There were no ad hoc or other Treasury bill tenders.

3. To achieve complete accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and in delivering money (and reconciling payments) to the NLF and to meet the required deadlines for the publication and submission for audit of the annual reports of the DMO, DMA, the PWLB and the CRND.

Achieved. Management accounts and other internal control procedures did not identify any significant errors. The Comptroller and Auditor General certified that the 2009-2010 financial statements of the DMO, the DMA, the PWLB and the CRND investment accounts each give a true and fair view of the accounts involved.

The Annual Report and Accounts of the DMO and DMA were laid before Parliament on 27 July 2010. The Annual Report and Accounts of the other entities were also laid in 2010.

4. To ensure that the DMO responds to enquiries under the Freedom of Information Act within the statutory timeframe.

Achieved. All of the DMO's responses to Freedom of Information Act requests were within the statutory 20 day limit.

5. To avoid breaches of the DMO's operational market notices.

Not achieved. There was one technical breach of the Cash Management Operational Notice. Actions were taken to minimise the risk of reoccurrence.

6. To ensure that, for cash management purposes, target weekly balances and expected daily variations are notified to the agreed schedule.

Achieved. All relevant weekly targets were notified to the Bank of England according to the agreed schedule.

7. To ensure that settlement instructions to counterparties, agent and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through settlement is effective, so that the DMO successfully settles at least 99% (by value) of agreed trades on the due date.

Achieved. No trades failed due to DMO processing failures. During the year, trades with a total value of £4,641 million (0.18% per cent by value) failed as a result of external circumstances outside the DMO's control. All failed trades were due to market counterparties having insufficient securities to meet their traded obligations.

8. To avoid factual errors in the publication of all market sensitive data and to make announcements in a timely manner.

Partially achieved. The target to release all market sensitive data and announcements in a timely manner was successfully achieved on all but one occasion where there was a late transmission of auction details on the wire services by 15 minutes. The press notice and web notice went out on time as scheduled.

The target to avoid factual errors in material published by the DMO was not achieved. There were a total of twenty errors in the financial year, comprising eighteen website errors and two errors in published material. Each error was corrected upon detection. The majority of the errors were traced to technical system issues, which affected the content of the automated web reports.

Appropriate steps have been taken to reduce the risk of such errors in the future.

9. To process all loan and early settlement applications from local authorities within two working days (between the date of the agreement and the completion of the transaction).

Achieved. During 2010-2011 all loan or early settlement applications from local authorities were processed within two working days (between date of agreement and completion of transaction).

10. To ensure that the gilt purchase and sale service is operated according to its published terms and conditions.

Achieved. The gilt purchase and sale service during 2010-2011 was conducted fully in line with its terms and conditions, with no exceptions. The pattern of sales and purchases through the financial year is shown in the following table.

	Sales	Purchases	Aggregate retail sales	Aggregate retail purchases
	(transactions)	(transactions)	£m	£m
Apr-Jun 2010	1,108	514	12.9	11.3
Jul-Sep 2010	1,104	482	11.3	12.6
Oct-Dec 2010	903	1,717	9.9	26.4
Jan-Mar 2011	1,008	684	10.6	17.5
Total	**4,123**	**3,397**	**44.7**	**67.8**

11. To administer the Credit Guarantee Scheme on behalf of HMT in accordance with the scheme's published rules.

Achieved. The Credit Guarantee Scheme was administered by the DMO fully in accordance with the scheme's published rules.

Financial results of the United Kingdom Debt Management Office

The DMO is financed through an allocation of HM Treasury's net funding approved by Parliament.

The DMO's net operating cost for 2010-2011 was £14.7 million (2009-2010: £15.7 million). This decrease of £1.0 million is due to:

	£m
Decrease in gross administration costs	(0.4)
Decrease in administration income	0.2
Decrease in gross programme costs	(1.2)
Decrease in programme income	0.4
	(1.0)

These changes are explained below.

Administration

Administration expenditure primarily includes payroll and staff-related costs, IT infrastructure, accommodation, business services and depreciation.

During 2010-2011, the gross administrative expenditure amounted to £14.8 million (2009-2010: £15.2 million). The **decrease of £0.4 million** is mostly driven by a reduction in IT related costs.

Parliament approves annually a limit on income that the DMO may off-set against its gross expenditure. This income is known as appropriations-in-aid. Income received by the DMO principally comprised fees charged for issuing new loans to PWLB customers and for the provision of fund management services to Government customers of CRND. In addition, the DMO recovered costs associated with various other activities it undertakes on behalf of others, including acting as an agent for the Department of Environment and Climate Change (DECC) for auctions of allowances under the Emissions Trading System.

During 2010-2011, the administration income **decreased by £0.2 million** to £3.5 million (2009-2010: £3.7 million). Costs recovered from DECC for the Emissions Trading System reduced as the DMO completed the development stage of new business initiatives required by DECC. Costs recovered from the Bank of England for running the Special Liquidity Scheme also fell as the level of administrative support required to support operational needs reduced.

In 2010-2011, the DMO received £289,204 in excess of the Parliamentary approved appropriations-in-aid limit. This amount arose from administrative income and was surrendered to the Consolidated Fund.

Programme

Programme expenditure covers the DMO's trading and debt issuance activities. These include settlement and custodial charges, brokerage fees and the cost of acting as an agent for the National Loans Fund (NLF) in issuing government backed securities.

During 2010-2011, gross programme expenditure **decreased by £1.2 million** to £4.5 million (2009-2010: £5.7 million). This movement was principally due to the DMO's decreased level of trading activity over the course of the financial year. In addition, during the year the DMO ceased to incur advertising costs for the gilt issuance programme reducing this type of expenditure.

The DMO also has Parliamentary approval to off-set programme expenditure with associated income. During 2010-2011, the DMO received £1.1 million (2009-2010: £1.5 million), being equal to the income target and has been able to apply this total in full.

The amount of programme income received in 2010-2011 represents a **decrease of £0.4 million**. This is principally due to lower commission received from Computershare Investor Services for secondary market trading activity in the gilt purchase and sale service. The reduced programme costs incurred for gilt issuance advertising (see above) also resulted in a reduction in costs that were able to be recovered from the National Loans Fund.


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Financial results of the Debt Management Account

Income statement

The DMA's operations for the financial year 2010-2011 gave rise to **net interest income of £5,119 million** (2010: £5,301 million), **other losses of £3 million** (2010: other gains of £20 million), and **fee income** of **£44 million** (2010: £63 million). This resulted in an **income statement surplus for the year of £5,160 million** (2010: £5,384 million). **Net unrealised gains on investment securities recorded in the revaluation reserve were £1,642 million** (2010: net unrealised losses of £3,707 million).

Net interest income £5,119m

	£m
Income net of associated cost of funds	
Cash management (excluding non-interest gains and losses)	43
Facilitation of HM Treasury and Bank of England schemes	
Gilts held for the Discount Window Facility	1,830
Treasury bills held for the Special Liquidity Scheme	248
Other interest income	
Collateral pool	3,403
Deposit at National Loans Fund (part not allocated as cost of funds)	133
Other	14
Other interest expense	
Deposits from CRND funds	(242)
Treasury bills issues	(310)
Advance from National Loans Fund (part not allocated as cost of funds)	-
Other	-
	5,119

Net interest income was generated mainly by the DMA's holding of collateral gilts for cash management operations (£3,403 million) and involvement in the **Discount Window Facility** (£1,830 million) and the **Special Liquidity Scheme** (£248 million). These holdings resulted in net interest income because interest income on gilts and Treasury bills, for use as collateral or for lending to the Bank of England to facilitate the Discount Window Facility or the Special Liquidity Scheme was greater than the interest expense on the liabilities that funded these assets.

Interest income from the DMA's gilts and Treasury bills reflected the yields available when they were purchased from the NLF. The Bank Rate was 5.25 per cent when the DMA purchased the majority of the Discount Window Facility gilts and was significantly higher than the present Bank Rate when the DMA purchased all the collateral gilts, so their yields reflected relatively high prevailing market rates. The Treasury bills for the Special Liquidity Scheme were replaced every nine months, so their yields reflected the prevailing rates of the previous nine months.

These asset yields were greater than the average rates that the DMA paid on the corresponding liabilities during 2010-2011. The DMA funds its purchase of such gilts and Treasury bills with an advance from the NLF, which incurs interest at the Bank Rate. The Bank Rate decreased to 0.5 per cent on 5 March 2009, and remained at this historic low level throughout 2010-2011.

The total carrying value of these collateral gilts for cash management, Discount Window Facility gilts and Special Liquidity Scheme Treasury bills at 31 March 2011 was £249,976 million (31 March 2010: £314,882 million).

Interest income was also generated by the **deposit at the NLF**, which earned interest at the Bank Rate, and by **loans and advances to banks**, which yielded money market rates. Interest expense was also generated by **deposits taken from other government departments**, which incurred interest at rates related to the Bank Rate, by **deposits by banks**, and by **Treasury bills in issue**, which generally incurred money market rates.

The DMO uses gilt collateral for its cash management operations. The amount of collateral required is influenced by the daily cash requirements of HM Government and the transactions undertaken by the DMO to satisfy these requirements. The size and composition of the DMA's statement of financial position during the year, and the maturity of the DMO's money market transactions, are influenced by the seasonal pattern of HM Government's cash flows.

Relative to HM Government's marginal cost of funds, cash management operations achieved a net interest surplus. Details of the DMO's cash management performance can be found in the DMO Annual Review 2010-2011.

The DMA does not seek to achieve a particular yield by timing its purchases of gilts and Treasury bills, for use as collateral or for lending to the Bank of England to facilitate the Discount Window Facility or Special Liquidity Scheme. Similarly, the DMA also does not seek to affect its funding rate – it incurs the Bank Rate on its advance from the NLF. As a result, the net interest income from these operations does not reflect the performance of the DMA. In addition, both the interest income and the interest expense arising from these operations are internal to Government, so HM Government incurs net interest income of zero from these operations.

Other gains and losses £3m loss

The DMA holds derivatives to hedge foreign exchange risk and HM Government's exposure to equity index risk relating to Guaranteed Equity Bonds issued by National Savings & Investments (NS&I). Valuation changes net of realised gains on the equity index / interest rate derivatives used for hedging the Guaranteed Equity Bonds resulted in net income of £6 million (2010: income of £26 million) in the DMA, largely due to a rise in the FTSE 100 index in the year to 31 March 2011. The gain incurred by the DMA is mirrored by higher borrowing costs incurred by NS&I. Taking account of the positions of both the DMA and NS&I the Government incurred no material gain or loss.

The DMA holds gilts and Treasury bills as collateral. Disposal of these assets resulted in less than £1 million of net income in the year (2010: £16 million). The DMA also holds assets as part of its cash management operations. Changes in the value of these assets resulted in net expense of £9 million (2010: net expense of £22 million).

Unrealised gains on investment securities due to revaluation £1,642m

Falling yields on conventional gilts, held by the DMA for use as collateral in its cash management operations and for use in the Discount Window Facility reflected the increase in value of these instruments. Demand for HM Government gilts increased as a result of improved sentiment about the UK credit rating as well as other economic factors. This increased demand for HM Government gilts caused the price of these instruments to increase.

Because of their classification as investment securities available-for-sale, changes in the fair value of the gilt collateral pool, Discount Window Facility gilts, and Special Liquidity Scheme Treasury bills are not reflected as gains and losses in the income statement, but in the revaluation reserve. During 2010-2011, the revaluation reserve increased by £1,642 million (2010: decreased by £3,707 million).

Fee income £44m

The DMA earned fee income in 2010-2011 of £44 million (2010: £63 million) from activities that included lending Treasury bills to the Bank of England to facilitate the Special Liquidity Scheme.

Composition of the statement of financial position

Investment securities classified as available-for-sale had a fair value of £249,976 million at 31 March 2011 (31 March 2010: £314,882 million). This decrease was principally due to reduced holdings of Special Liquidity Scheme Treasury bills.

As during 2009-2010, Treasury bills were sold by the NLF to the DMA for use in the Special Liquidity Scheme. As at 31 March 2011, the DMA's statement of financial position still included such Treasury bills with a nominal value of £123,182 million (2010: £176,354 million), and a fair value of £122,832 million (2010: £176,108 million). For operational reasons, the balance of Treasury bills sold by the NLF to the DMA tended to exceed the value of Treasury bills loaned to the Bank of England throughout the year.

These assets continued to be funded largely by the advance from the NLF to the DMA. As at 31 March 2011, the carrying value of the NLF advance was £157,101 million (31 March 2010: £242,127 million).

The lending and borrowing that the DMA engaged in, as part of its cash management operations, varied in response to the funding requirements of the National Loans Fund, which reflect HM Government's daily cash flows. Loans and advances to banks, securities held for trading, and deposits by banks are particularly affected in this respect. As at 31 March 2011, securities held for trading were £3,313 million (31 March 2010: £924 million), loans and advances to banks were £17,323 million (31 March 2010: £44,187 million), and deposits by banks were £10,988 million (31 March 2010: £15,355 million).

Issuance of Treasury bills by the DMA

During the year, the DMA issued Treasury bills with a nominal value of £214.4 billion (2010: £217.9 billion) of which £63.6 billion was still in issue at 31 March 2011 (31 March 2010: £63.3 billion). Such Treasury bills had a carrying value of £63.6 billion (31 March 2010: £63.0 billion). This increase was planned in order for the DMO to meet its remit for 2010-2011.

Treasury bills sold by the NLF to the DMA for use in the Special Liquidity Scheme are not included in the issuance figures above.

Forward look

Vision statement

The DMO aims to be a centre of excellence for HM Treasury in the provision of policy advice on and the delivery of HM Government's financing needs and to act as a key gateway for HM Government to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objective of ensuring sustainable public finances.

The DMO's key business planning themes for 2011-2012

The key business planning themes for 2011-2012 remain consistent with previous years. The plan is primarily focused on the continued delivery of the DMO's debt management, cash management, fund management, local authority lending and other functions to the highest standards of quality and cost-effectiveness. We fully recognise that the effective delivery of these functions and services is our overriding objective and intend to allocate our resources, skills, systems and development activities accordingly.

The DMO's key themes for 2011-2012

1. Delivery of the debt management remit - which comprises a gilt financing requirement of £167.5 billion which it is intended is to be achieved through around 60 gilt market operations.

2. Delivery of the cash management remit – which will require management of the cash consequences of the gilt and Treasury bill programme, along with other HM Government cashflows, in as an efficient and cost-effective way as possible.

3. Continuing to consult and liaise with key stakeholders – and in particular the Gilt-Edged Market Makers - in the financial markets in which the DMO has an interest; and to consider further developments, innovations and enhancements to facilitate the effective delivery of the debt and cash management remits. The DMO will also continue to maintain close contact with the Bank of England on operational matters pertaining to the Asset Purchase Facility.

4. Continuing to minimise operational risk by ensuring the DMO's business operations are fully supported by resilient and efficient systems and processes, and are managed within the budget envelope agreed with HM Treasury.

5. Continuing to work closely with HM Treasury and the Department of Energy and Climate Change (DECC) on the ongoing delivery and development of phase II of the UK's auctions of EU Emission Trading System (ETS) allowances.

6. Continuing to manage the administration of the Credit Guarantee Scheme.

7. Continuing to seek out operational process efficiencies with the intention of further reducing cost and risk.

8. We will continue to monitor the resource and skills required to deliver the DMO's array of objectives within the Spending Review 2010 budget settlement agreed with HM Treasury.

9. In line with our commitment to Investors in People status, we will continue to manage and develop our staff to achieve their professional potential and support the objectives of the office.

The DMO's objectives for 2011-2012

The DMO's objectives for 2011-2012 are set out in the published business plan which is available on the DMO website at www.dmo.gov.uk.

1. To develop, provide advice on and implement HM Government's debt management strategy.
2. To develop, provide advice on and implement HM Government's cash management requirements.
3. To provide advice and operational services to HM Treasury on issues relating to the management of HM Government's balance sheet.
4. To provide advice and operational services to government departments on wholesale markets-related issues and activities.
5. To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.
6. To provide a cost-effective lending service to local authorities through the Public Works Loan Board.
7. To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.
8. To manage, operate and develop an appropriate risk and control framework.

Planning uncertainties

In view of the size and scale of the debt and cash management remits and unfolding market conditions, the DMO will need to retain the flexibility and capability to adapt quickly to changing market and other conditions and, where necessary, re-order priorities in the plan.

The DMO's operational targets for 2011-2012

1. To ensure full compliance with HM Government's remit for the DMO (which is set out in the Debt and Reserves Management Report 2011-2012).
2. To ensure that the maximum time taken to issue the results of gilt operations, Treasury bill tenders and ETS auctions does not exceed 15 minutes – with the aim of publishing the results within 10 minutes of the close of offer - whilst achieving complete accuracy.
3. To achieve accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and meeting the required deadlines for the publication and submission for audit of the annual reports of the DMO, DMA, the PWLB and CRND.
4. To ensure that the DMO responds to enquiries under the Freedom of Information Act within the statutory timeframe.
5. To avoid breaches of the DMO's operational market notices.
6. To ensure that, for cash management purposes, target weekly balances and expected daily variations are notified according to the agreed schedule.
7. To ensure that settlement instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through settlement is effective, so that the DMO successfully settles at least 99% (by value) of agreed trades on the due date.
8. To ensure factual accuracy in the publication of all market sensitive data and to make announcements in a timely manner.
9. To process all loan and early settlement applications from local authorities within two working days (between the date of the agreement and the completion of the transaction).

10. To ensure that the gilts purchase and sales service is operated according to its published terms and conditions.

11. To administer the Credit Guarantee Scheme on behalf of HM Treasury in accordance with the Scheme's published rules.

Remuneration report

This report provides details of senior management contracts, remuneration and pension entitlement.

Remuneration report

The DMO has a Pay Committee, which during 2010-2011 comprised:

- **Robert Stheeman**
  Chief Executive (Chair)
- **Jo Whelan**
  Deputy Chief Executive and Joint Head of Policy and Markets
- **Jim Juffs**
  Chief Operating Officer
- **Joanne Perez**
  Joint Head of Policy and Markets
- **Brian Larkman**
  Non-executive director
- **Brian Duffin**
  Non-executive director

The Pay Committee is responsible for overseeing the DMO's delegated pay arrangements and ratifying the DMO's Pay Remit submission to HM Treasury and its subsequent implementation. Pay progression takes into account individual performance, job size, external market comparators and public sector pay policy and affordability.

Remuneration policy

Senior DMO staff

The Chief Executive is a member of the Senior Civil Service, employed by HM Treasury and included in HM Treasury's appraisal arrangements. Remuneration is set by HM Treasury in accordance with the Senior Salaries Review Body's Report.

Further information about the work of the Review Body can be found at www.ome.uk.com.

Salaries of the Deputy Chief Executive, Chief Operating Officer and Joint Head of Policy and Markets are set internally in accordance with DMO's delegated pay arrangements by the Chief Executive and the non-executive Directors.

Non-executive directors

The Chief Executive, in discussion with the Deputy Chief Executive, Chief Operating Officer and Joint Head of Policy and Markets, determines the remuneration of the non-executive Directors. Remuneration is reviewed annually taking account of external market comparators as well as public sector pay policy and affordability, but the DMO reserves the right not to make adjustments.

Contracts

Senior DMO staff

The Chief Executive's appointment was for an initial 3 year fixed term period. This has been extended three times for a further fixed term period, currently until 31 December 2011. The contract is subject to a 3 month notice requirement. Compensation for early termination would be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

The appointments of the Deputy Chief Executive, the Chief Operating Officer and Joint Head of Policy and Markets have been made in accordance with the provisions of the Civil Service Commissioners' Recruitment Code. The employment contract for each requires a 3-month termination period.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Non-executive directors

Brian Larkman was originally contracted for an initial 3 year period from 1 January 2005. Upon completion, his contract was extended to 31 December 2010 and has been further extended for an additional 3 year term to December 2013.

Brian Duffin commenced his employment as a non-executive Director on 1 January 2010. His contract is for a 3 year period, which finishes on 31 December 2012.

The employment contracts for both Brian Larkman and Brian Duffin are subject to a 5 week early termination notice period. Contracts will automatically terminate on the date stated unless an extension has been agreed. As office holders there is no provision for compensation for early termination.

Remuneration received

	2010-2011 Salary £000	2010-2011 Performance related payments £000	2009-2010 Salary £000	2009-2010 Performance related payments £000
Senior DMO Staff				
Robert Stheeman - Chief Executive	140-145	10-15	140-145	10-15
Jo Whelan - Deputy Chief Executive and Joint Head of Policy and Markets *	100-105	5-10	95-100	10-15
Full time equivalent salary	*135-140*		*135 -140*	
Jim Juffs - Chief Operating Officer	130-135	15-20	125 -130	15-20
Joanne Perez – Joint Head of Policy and Markets **	65-70	5-10	65-70	5-10
Full time equivalent salary	*125-130*		*120- 125*	
Non-executive directors				
Brian Larkman				
- salary	20 -25	-	15 -20	-
- other contractual remuneration***	5-10	-	-	-
Brian Duffin	15-20	-	0-5	-
Colin Price				
- salary	-	-	10-15	-
- other contractual remuneration****	15-20	-	-	-

(This disclosure has been audited.)

* The salary disclosed reflects part time hours and is calculated on a pro rata basis from a full time equivalent of 0.72 in 2010-2011 (2009-2010: 0.72).

** The salary disclosed for 2010-2011 reflects part time hours and is calculated on a pro rata basis from a full time equivalent of 0.60 from 1 April to 30 June and 0.50 from 1 July to 31 March. During 2009-2010, the full time equivalent was 0.50 from 1 April to 30 September and 0.60 from 1 October to 31 March.

*** Brian Larkman received a payment in 2010-2011 for untaken annual leave (for the period 1 January 2005 to 31 March 2010) upon expiry of his previous employment contract to 31 December 2010.

**** Colin Price received a payment in 2010-2011 for untaken annual leave (for the period 21 February 2001 to 31 December 2009) relating to his employment contract which expired on 31 December 2009. Colin Price's term of office as a non-executive director of the DMO was completed on 31 December 2009.

'Salary' includes gross salary, overtime and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by the DMO and thus recorded in its accounts.

The DMO is not responsible for the remuneration of any Ministers or the non-executive HM Treasury representative (Sam Beckett), who is an employee of HM Treasury.

Performance related payments

The payment of performance related awards are assessed annually by the DMO Pay Committee. These one-off payments are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay.


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The awards reported for 2010-2011 relate to performance in 2009-2010 and the comparative awards reported for 2009-10 relate to performance in 2008-2009.

Pension benefits

	Accrued pension at age 60 at 31 March 2011 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31 March 2011	CETV at 31 March 2010 *	Real increase in CETV
	£000	£000	£000	£000	£000
Robert Stheeman	15-20	0-2.5	244	204	19
Jo Whelan	10-15	0-2.5	137	113	12
Jim Juffs	15-20	0-2.5	279	240	16
- plus lump sum	50-55	2.5-5.0			

(This disclosure has been audited.)

* The actuarial factors that are used in the CETV calculation were changed during 2010, due to changes in demographic assumptions and the move from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) as a measure used to uprate Civil Service pensions. The impact of this change has resulted in the CETV at 31 March 2010 being different from the corresponding figure disclosed in last year's report.

CETV is an abbreviation for 'Cash Equivalent Transfer Value'. This measure of value is explained on page 47.

Joanne Perez has chosen to join a partnership pension scheme rather than the Principal Civil Service Pension Scheme (PCSPS). The total contributions paid to the partnership pension provider amounts to £11,800 (2009-2010: £12,300).

The non-executive Directors are not entitled to any pension benefits.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his/her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted, is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice.gov.uk/my-civil-service/pensions/index.aspx.

The cash equivalent transfer value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost.

CETVs are calculated in accordance within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Robert Stheeman
Chief Executive
30 June 2011

Statement of Accounting Officer's responsibilities

The DMO prepares accounts under the Government Resources and Accounts Act 2000 and under Schedule 5A of the National Loans Act 1968.

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, the DMO is required to prepare agency accounts for each financial year, in the form and on the basis set out in the accounts direction issued by HM Treasury on page 79.

Under Schedule 5A of the National Loans Act 1968, HM Treasury has directed the DMO to prepare a statement of the Debt Management Account in the form and on the basis set out in the accounts direction on page 117.

Both accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the DMO and of the operations of the Debt Management Account respectively, as well as their income and expenditure and cash flows for the financial year.

In preparing both accounts, the Accounting Officer is required to:

- observe the relevant accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going-concern basis.

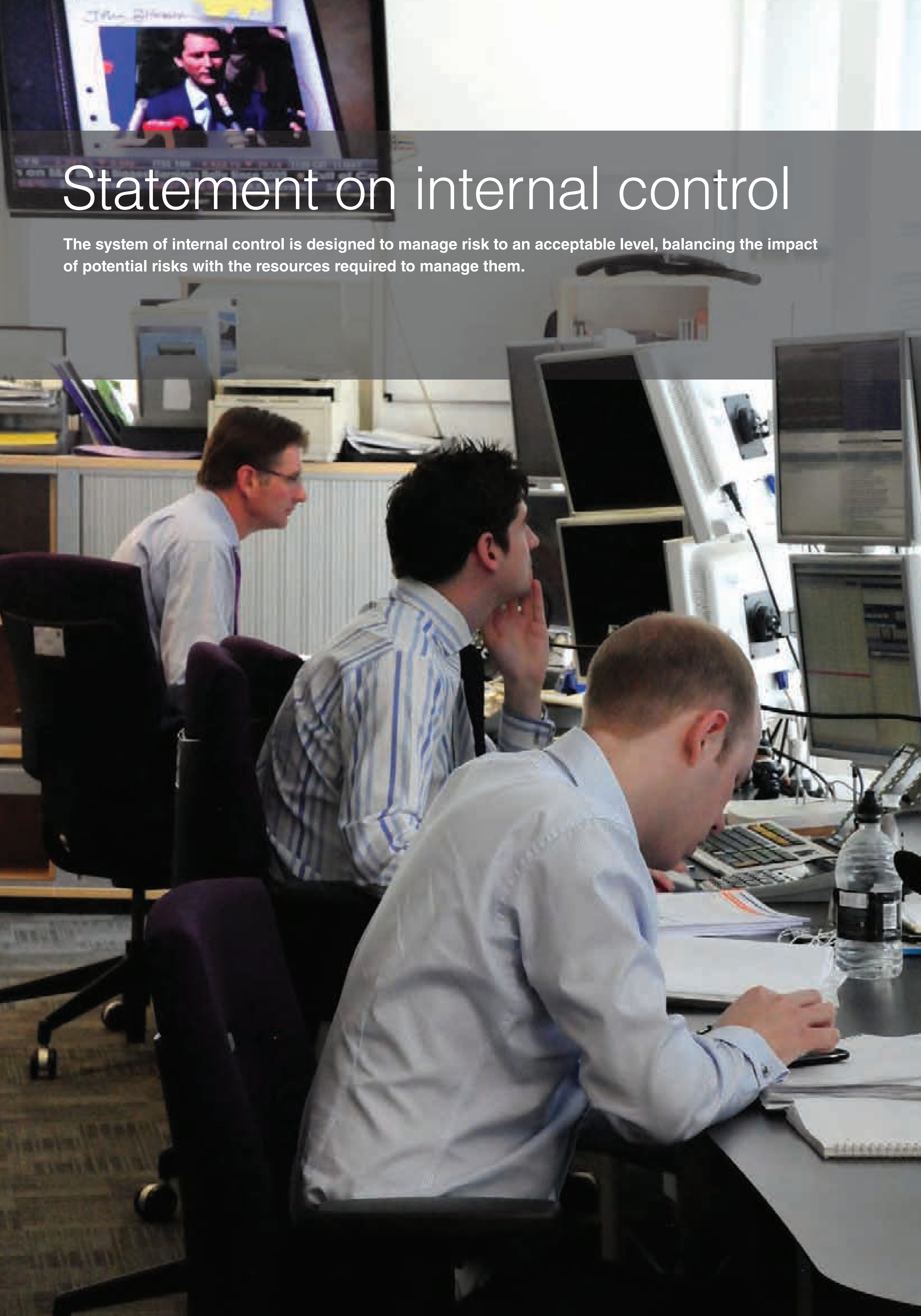
In addition, in preparing the accounts of the DMO, the Accounting Officer is required to comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FReM). The Accounting Officer is required to prepare the DMA accounts in accordance with applicable accounting standards and be consistent with the relevant requirements of the FReM.

HM Treasury has appointed the Chief Executive as Accounting Officer for the Debt Management Office and the Debt Management Account.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the DMO's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Managing Public Money.

Statement on internal control

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them.



Statement on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the United Kingdom Debt Management Office's (DMO's) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

I am Accounting Officer for both the Debt Management Account (DMA) and the DMO, an executive agency of HM Treasury. My accountability is subject to the overall responsibility of the Permanent Secretary of HM Treasury in his capacity as Accounting Officer for the organisation and management of the Department. In exercising my responsibilities for the DMA, I pay regard to the consequences for the National Loans Fund (NLF) and consult the Permanent Secretary if I consider that my actions could have implications for him in his role as NLF Accounting Officer.

The Public Works Loan Board (PWLB) and Commissioners for the Reduction of the National Debt (CRND) are separate business entities within the DMO. Responsibility for the reports and accounts of PWLB and CRND lies with the Secretary and the Secretary and Comptroller General respectively. The Secretary of the PWLB and the Secretary and Comptroller General of CRND are each responsible for maintaining a sound system of internal control that supports the delivery of the entity's agreed policies, objectives and targets. However, I am responsible for the wider DMO control framework within which both the CRND and PWLB are managed. The Secretary of the PWLB and the Secretary and Comptroller General of CRND take assurance from me for the continued sound maintenance of this framework in relation to their own control responsibilities.

In exercising my specific responsibilities for debt and cash management, I take regard of the objectives set by Treasury Ministers for HM Government's debt and cash management. It is my responsibility to ensure that all activities of the DMA are conducted with due regard to value for money. I have put arrangements in place to ensure there is a proper evaluation of the balance of cost and risk in our operations, taking into account, where appropriate, any cost, risk or other strategic objectives, parameters or guidelines agreed with HM Treasury.

As Agency Accounting Officer, I am responsible to the Chancellor and accountable to Parliament for the Agency's use of resources in carrying out its functions as set out in the Framework Document and Managing Public Money.

As Agency Accounting Officer, I take responsibility for activities in relation to a number of schemes and initiatives, including the 2008 Credit Guarantee Scheme. These are either brought to account on the DMA or have been conducted as agent for HM Treasury or other government bodies.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide a reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of DMO policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the DMO for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Capacity to handle risk

The DMO has a formal risk management framework document agreed by the Managing Board that summarises at a high level the principles which govern the DMO's approach to risk management, the different types of risk that the DMO manages, and the various mechanisms that the DMO employs to ensure that risks are identified, assessed and managed at all levels within the organisation. The DMO also has more detailed risk management policies and has documented the risk management processes. Elements of these policies have been reviewed and adjusted during the year and have proved effective during a period of continued uncertainty in the financial markets.

The DMO's Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub-committee of the Managing Board (Sub MB) generally meets weekly. The terms of reference of Managing Board and those of the Cash Management, Debt Management, Fund Management, Credit and Market Risk, Operational Risk and Business Delivery Committees clearly set out their roles and responsibilities for providing the organisational capacity to consider issues and make relevant decisions at the appropriate level.

The Business Delivery Committee includes the executive members of the Managing Board and key business managers. The committee exists to progress and review the status of the delivery of DMO's business and work plan as a collective cross-functional body, resolving emerging issues together to ensure the business and work plan is delivered in a timely and cost effective manner.

Staff are required to signify that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies with respect to whistle blowing, fraud and anti-money laundering. The DMO ensures that the exercise is undertaken on an annual basis in order to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage.

Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

During the year the new Coalition Government has introduced measures that have altered the DMO's risk profile over current and future years. In response, the DMO has placed increased focus on financial control, staff planning and responding to additional transparency requirements.

The risk and control framework

The DMO's formal risk management framework document sets out the various mechanisms for managing its risks that are incorporated into its approach to both regular operations and new business initiatives. There are processes in place to ensure regular measurement and monitoring of key business risks including market, credit, operational and liquidity risk. A statement of the risk appetite of the DMO for these risks is included within the risk management framework document.

The DMO's Risk Management Unit (RMU) provides control advice on risks throughout the DMO. In the DMO's management reporting structure, the RMU is separate and independent of the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risks are facilitated by the RMU, via consultation with heads of business units and functional teams. Regular meetings are held with heads of business units and functional teams to assess whether risks to their operations are being managed effectively. Significant risk issues are assessed by likelihood and materiality of occurrence. New risks and risks with an increased risk profile are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is assessed on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines.

Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. There is a Senior Information Risk Owner (SIRO) for the DMO, responsible for the information risk policy and risk assessment relating to information, who provides assurance over information risks to the Managing Board.

The DMO has designated Information Technology (IT) Security Officers who are responsible for the DMO's electronic network, including access to information and GSI accreditation. During the year, the DMO has continued a defined programme of work to deliver IT security and Information Management improvements.

The RMU communicates key risk issues to management on a regular basis within a number of forums, to enable management to take informed decisions on risk issues. Key forums are as follows:

The Credit and Market Risk Committee meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. The Credit and Market Risk Committee monitors and reviews primarily the management of market, credit, and liquidity risk.

The Operational Risk Committee meets regularly to monitor operational risks and to review significant risk issues, risk incidents and exceptions and progress against treatment actions. This review is supported by regular operational risk reporting produced by the RMU. The scope of this meeting covers issues relating to information risk, IT security, business continuity, anti fraud issues and key supplier risks.

A Controls Group meets periodically to review issues affecting the DMO's system of internal control and to analyse material changes to the control environment. The group recommends actions to management to implement changes where appropriate. The Controls Group consists of representatives of the DMO teams responsible for finance, risk, control, compliance and internal audit.

The Audit Committee supports me as Accounting Officer on matters relating to risk, internal control and governance and associated assurance.

A high level strategic risk report is published to promote awareness of all high level issues and risks that the DMO faces at an organisational level. The report is based on a High Level Risk Register maintained by RMU, and is presented to the Managing Board on a regular basis.

A key component of the DMO's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

The DMO's Business Continuity Plan (BCP) including Disaster Recovery (DR) and other arrangements is subject to continual review and update. The DMO ensured a programme of DR testing was carried out, and that BCP arrangements to support auctions were observed during the year, with teams working from the DR site during auction sessions. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

The DMO has maintained effective communication channels with its main stakeholders to help highlight issues that may affect either party's risks. In addition to maintaining bilateral contacts with market counterparties, the DMO also holds quarterly consultation meetings with gilt-edged market makers (GEMMs) and issues ad hoc public consultation documents on specific issues.

The DMO implemented a number of improvements and changes during the year, including IT infrastructure changes which improved its auction and other trading facilities; improved controls surrounding Information Management and IT Security; and improved budgeting and forecasting processes. The relevant changes were reviewed by the Controls Group to ensure identification of potential risks and implementation of adequate controls.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the DMO, who have been delegated responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

The DMO Audit Committee considered the 2010-2011 DMO Agency and DMA accounts in draft and provided me with its views before I formally signed the accounts. The Audit Committee met five times during the year to 31 March 2011.

Plans to address weaknesses and ensure continuous improvement of the system are in place. There are a number of activities that form the basis of my review of the effectiveness of the system of internal control in place for the DMO. Annually, I formally review the key outcomes and findings of each activity in order to make my assessment.

The Managing Board met approximately every six weeks and considered risk management and operational control issues throughout the year. To support this, members of the Managing Board received the reports produced for regular meetings of SROs and details of any agreed actions to improve the DMO's risk profile. The Managing Board has also received high level Strategic Risk reports for review on a regular basis. The executive sub-committee of the Managing Board usually met weekly and considered risk and control issues on a regular basis.

The Business Delivery Committee met on a weekly basis and reviewed the status of key projects and business improvement initiatives, reprioritising work as required. The committee challenged budget and resource utilisation to make sure priority projects were appropriately resourced, and provided the necessary management information to Managing Board on business plan delivery issues and progress.

The Credit and Market Risk Committee has advised me during the year on significant current and emerging risk issues and actions to mitigate such risks and in particular this year on the possible impacts of ongoing volatility in the eurozone on DMO activities. The Credit and Market Risk Committee met eleven times during the year.

The Operational Risk Committee and Senior Risk Owners have advised me during the year on significant operational risk concerns, significant risk issues and trends, as well as actions to mitigate such risks. The Committee has had an increased focus this year on further developing business continuity planning and also improving the data quality and reliability of the DMO website. The Operational Risk Committee met seven times during the year.

The Controls Group has advised me on any significant risk concerns relating to the introduction of new business activities into the DMO as well as risks relating to other change management activities, and has made me aware of actions taken to mitigate identified risks. The Controls Group had an active involvement in the smooth introduction of the new auction and tender system and the supporting procedures for processing auction results.

The DMO's RMU conducts regular controls and compliance testing, providing the executive sub-committee of the Managing Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Services Authority rules in the dealing and settlement areas. The RMU experienced staff changes in the year and reprioritised the compliance testing during this period to focus on testing trading activities that could be relatively higher risk activities. The usual monthly compliance testing programme was reinstated by end March 2011. No significant internal control failures were identified during the period.

During the period of this Statement on Internal Control, Internal Audit has provided reports on the effectiveness of the risk management, control and governance processes for the DMO to the Audit Committee throughout the period. The audits make a series of recommendations that are addressed as part of our focus on continuous improvement in this area. The audits identified no serious breaches of risk or control systems. The Internal Audit work programme is approved by the Audit Committee at the start of the year.

Internal Audit attended each meeting of the Audit Committee to report the results of audit work and the results of follow-up work on management action to address audit recommendations.

On the basis of Internal Audit work during the year, the Head of Internal Audit has provided assurance to me on the adequacy and effectiveness of the risk management, control and governance arrangements relevant to the accounts, and has confirmed that there were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Statement on Internal Control.

Significant internal control issues 2010-2011

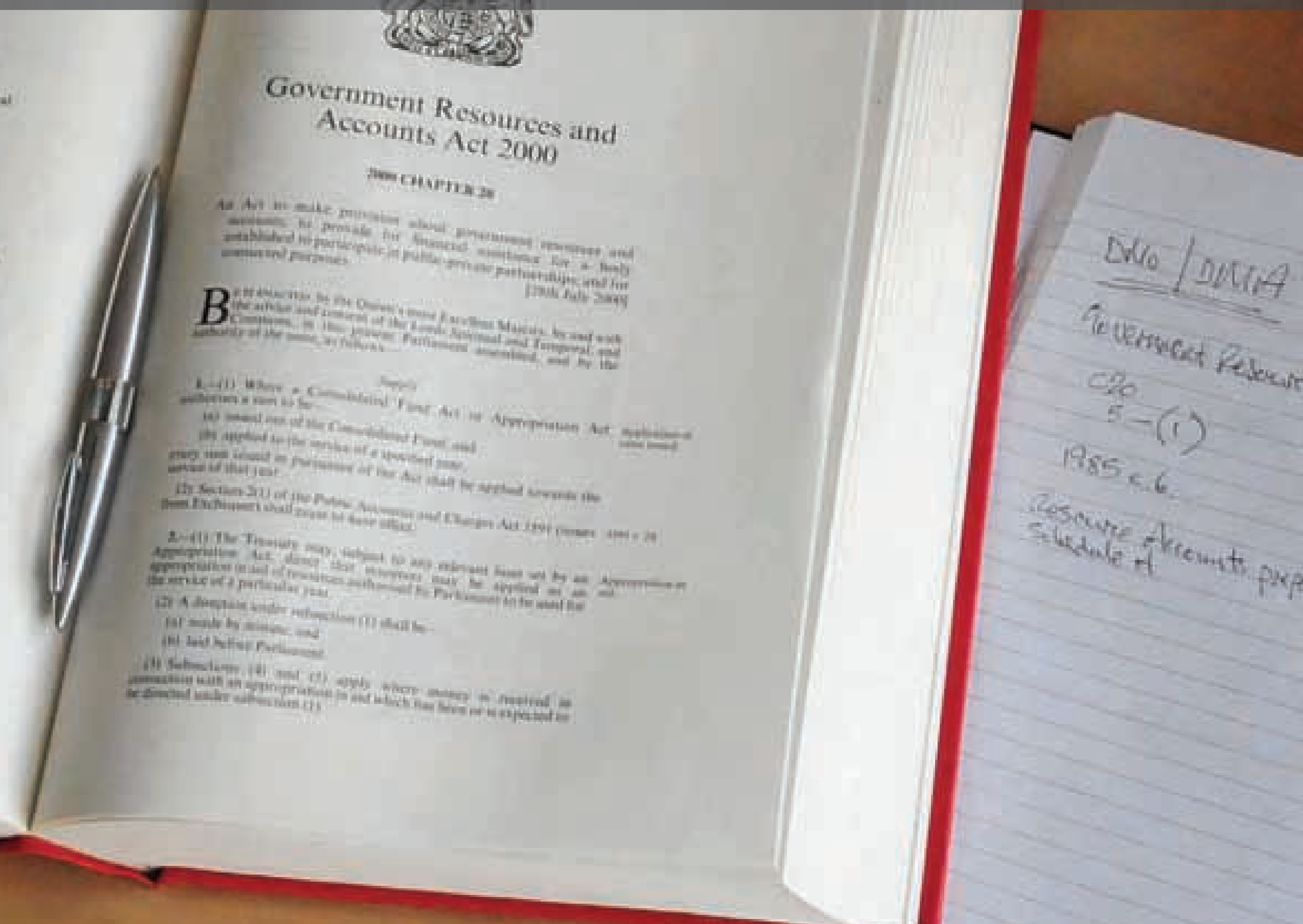
No significant internal control issues in the DMO were identified in 2010-2011. In my opinion, the DMO's system of internal control was effective throughout the financial year 2010-2011 and remains so on the date I sign this statement.

Robert Stheeman
Chief Executive
30 June 2011

Accounts of the United Kingdom Debt Management Office

Year ended 31 March 2011
Presented to the House of Commons 18 July 2011

United Kingdom Debt Management Office: 2010-2011 Accounts



Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the UK Debt Management Office for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the UK Debt Management Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the UK Debt Management Office; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of UK Debt Management Office's affairs as at 31 March 2011 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions issued under by Government Resources and Accounts Act 2000; and

- the information given in the Chief Executive's Statement, Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- The Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP

4 July 2011

United Kingdom Debt Management Office Statement of comprehensive net expenditure

For the year ended 31 March 2011

	Note	2011 £000	Restated 2010 £000
Administration costs			
Staff costs	3	8,628	8,687
Other administration costs	4	6,187	6,492
Gross administration costs		**14,815**	**15,179**
Administration income	6	(3,499)	(3,715)
Net administration costs		**11,316**	**11,464**
Gross programme costs	5	4,530	5,720
Programme income	6	(1,110)	(1,455)
Net programme costs		**3,420**	**4,265**
Net operating cost	2	**14,736**	**15,729**

All income and expenditure are derived from continuing operations.

The notes on page 63 to 78 form part of these accounts.

United Kingdom Debt Management Office
Statement of financial position

As at 31 March 2011

	Note	2011 £000	2010 £000
Non-current assets			
Property, plant and equipment	8 (i)	149	281
Intangible assets	8 (ii)	1,076	1,016
Trade and other receivables	9	133	7
Total non-current assets		**1,358**	**1,304**
Current assets			
Trade and other receivables	9	1,690	1,538
Cash and cash equivalents	10	15	15
Total current assets		**1,705**	**1,553**
Total assets		**3,063**	**2,857**
Current liabilities			
Trade and other payables	11	(2,788)	(3,615)
Non-current assets less net current liabilities		**275**	**(758)**
Non-current liabilities			
Provisions	12	(113)	(185)
Total net assets / (liabilities)		**162**	**(943)**
Taxpayers' equity / (deficit)			
General fund		162	(986)
Revaluation reserve		-	43
Total net taxpayers' equity / (deficit)		**162**	**(943)**

The notes on page 63 to 78 form part of these accounts.

Robert Stheeman
Chief Executive
30 June 2011

United Kingdom Debt Management Office Statement of cash flows

For the year ended 31 March 2011

	Note	2011 £000	Restated 2010 £000
Net cash outflow from operating activities			
Net operating cost		**(14,736)**	**(15,729)**
Adjustment for non-cash transactions			
Depreciation and amortisation of fixed assets	4	1,017	1,009
Payables for early retirements	4	2	17
Auditor's fee	4	40	45
		1,059	**1,071**
Adjustment for movements in working capital other than cash			
(Increase) / decrease in receivables		(279)	838
Decrease in current payables		(1,007)	(1,117)
Less movement in payables relating to items not passing through the statement of comprehensive net expenditure		35	74
Use of early retirements	12	(73)	(79)
		(1,324)	**(284)**
Net cash outflow from operating activities		**(15,001)**	**(14,942)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(122)	(185)
Purchase of intangible assets		(856)	(1,031)
Net cash outflow from investing activities		**(978)**	**(1,216)**
Cash flows from financing activities			
Payment of amounts due to the Consolidated Fund		(200)	(834)
From Consolidated Fund (supply)		16,179	16,822
Net financing		**15,979**	**15,988**
Net (decrease) in cash and cash equivalents in the year		**-**	**(170)**
Cash and cash equivalents at the beginning of the year		**15**	**185**
Cash and cash equivalents at the end of the year		**15**	**15**

The notes on page 63 to 78 form part of these accounts.

United Kingdom Debt Management Office
Statement of changes in taxpayers' equity

For the year ended 31 March 2011

	Note	Restated General Fund £000	Revaluation Reserve £000	Restated Total Reserves £000
Balance at 31 March 2009		**(1,967)**	**87**	**(1,880)**
Changes in taxpayers' equity for 2009-2010:				
Funding from HM Treasury		16,822	-	16,822
Net operating cost for the year - restated (see note 2)		(15,729)	-	(15,729)
Non-cash charges in statement of comprehensive net expenditure for the year				
Non-cash charges - auditors' remuneration	4	45	-	45
Transfers between reserves		44	(44)	-
CFERs payable to the Consolidated Fund	11	(201)	-	(201)
Balance at 31 March 2010		**(986)**	**43**	**(943)**
Changes in taxpayers' equity for 2010-2011:				
Funding from HM Treasury		16,179	-	16,179
Net operating cost for the year		(14,736)	-	(14,736)
Non-cash charges in statement of comprehensive net expenditure for the year				
Non-cash charges - auditors' remuneration	4	40	-	40
Transfer between reserves		43	(43)	-
CFERs payable to the Consolidated Fund	11	(378)	-	(378)
Balance at 31 March 2011		**162**	**-**	**162**

The notes on page 63 to 78 form part of these accounts.

Notes to the accounts

For the year ended 31 March 2011

1 Statement of accounting policies

(i) Basis of preparation

These accounts have been prepared in accordance with the 2010–2011 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The DMO's accounts have been prepared in accordance with the Accounts Direction given by HM Treasury as set out on page 79, under the legislative authority of the Government Resources and Accounts Act 2000.

Where the FReM permits a choice of accounting policy, the most appropriate policy for the DMO to provide a true and fair view has been selected. The DMO's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The presentational and functional currency of the DMO accounts is sterling.

Certain IFRS have been issued or revised this year, but are not yet effective and will be applied in subsequent reporting periods. These are:

- IFRS 9 Financial Instruments, which will replace IAS 39.

IFRS 9 is expected to improve and simplify the reporting of financial instruments. Application of IFRS 9 is required for any reporting period beginning on or after 1 January 2013. Earlier application is permitted. The DMO expects to apply IFRS 9 in its 2013-2014 Accounts.

The application of IFRS 9 is not expected to impact on the disclosure of financial instruments reported by the DMO.

- IAS 24 Related Party Disclosures, which has been revised.

The revisions to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled, or significantly influenced by a government.

Application of the revised IAS 24 is required for reporting periods beginning on or after 1 January 2011. Earlier application is permitted.

It is planned that IAS 24 will be applied initially in 2011-2012. Initial application of the revised IAS 24 will result in partial exemption from the disclosure requirements of IAS 24, and the relevant disclosures may be reduced from those presented in 2010-2011.

The particular policies adopted by the DMO are described below.

(ii) Accounting convention

These accounts have been prepared under the historical cost convention.

(iii) Administration and programme expenditure

The statement of comprehensive net expenditure is analysed between administration and programme expenditure. The classification of expenditure as administration or as programme follows the definition of administration costs set out in the FReM.

Administration expenditure reflects the cost of running the DMO, including PWLB and CRND, and includes staff related costs, IT and telecommunication costs, accommodation and non-cash charges.

Programme costs reflect non-administration costs, including external settlement charges and gilt issuance costs.

(iv) Operating income

All operating income relates to the operating activities of the DMO and is recognised in the statement of comprehensive net expenditure on an accruals basis.

Operating income is recognised by the following criteria:

- cost recoveries on a full cost basis for services provided to external clients;
- recovery of the direct costs when acting as an agent for the National Loans Fund; and
- fees set by statute and received from PWLB customers and from the Department for Environment and Climate Change (DECC) for the management of the Emissions Trading System.

Full cost recovery income is charged on the basis of staff-time and all direct external costs incurred for a given service, plus an apportioned share of overheads such as accommodation and IT infrastructure. This income is charged for either an agreed annual activity or delivery of specific service units, for example, auction of allowances under the Emissions Trading System.

Income is analysed between that which can be applied against associated expenditure (appropriations-in-aid) and that which is surrenderable to the Consolidated Fund (CFER).

The DMO is subject to net administration cost control provisions. For funding purposes, HM Treasury treats operating income as appropriations-in-aid.

(v) Non-current assets

Assets acquired for on-going use with a purchase cost in excess of £5,000 are capitalised. Profits or losses arising on the disposal of fixed assets are calculated by reference to the carrying value of the asset.

Any property, plant or equipment or intangible fixed assets, for which the value is high and / or the useful economic life is long, are revalued. Currently, the DMO has no assets that meet this criteria.

Software license purchases and internally developed software that meet the capitalisation criteria are classified as intangible assets.

(vi) Depreciation and amortisation

Depreciation is provided on a straight-line basis, calculated on revalued amounts to write off assets over their estimated useful lives. The useful lives of fixed assets have been estimated as follows:

• Information technology	3 years
• Plant and machinery	5 years
• Furniture and fittings	lesser of 10 years or outstanding lease term (where appropriate)
• Software licences	3 years or license duration up to 10 years
• Internally generated software	3 years

(vii) Operating leases

Amounts paid and received under the terms of operating leases are charged to the statement of comprehensive net expenditure on a straight-line basis over the term of the lease.

(viii) Notional charges

Certain costs are charged on a notional basis and included in the accounts. These charges relate to auditors' remuneration. Notional costs are charged to the statement of comprehensive net expenditure and recorded as a movement on the general fund.

(ix) Value added tax

Value added tax (VAT) on purchases is charged to the statement of comprehensive net expenditure, to the extent that it is irrecoverable and included under the heading relevant to the type of expenditure. Where VAT is recoverable in respect of DMO expenditure, it is recovered by HM Treasury. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

(x) Foreign exchange

Transactions with external suppliers that are denominated in foreign currencies are translated into sterling at the rates of exchange applicable when the liability is paid.

(xi) Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS), which are described in Note 3. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The DMO recognises as an administration cost the monthly charges made by the PCSPS to contribute to the schemes. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the DMO recognises the contributions payable for the year.

(xii) Early departure costs

The DMO is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The DMO provides for the cost when the early retirement is agreed, effectively charging the full cost at the time an obligation becomes binding on the DMO and holding this as a provision. The liability shown in the statement of financial position has been discounted using a real rate of 2.9 per cent (2009-2010: 1.8 per cent) in line with HM Treasury guidance.

(xiii) Financial assets

On initial recognition, financial assets are classified as loans and receivables. Loans and receivables are assets with fixed or determinable repayments that are not quoted in an active market. Loans and receivables are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method. De-recognition of financial assets only occurs when the obligation is settled.

(xiv) Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest method unless stated otherwise. Financial liabilities are derecognised when the obligation is discharged. Financial liabilities include trade and other payables and accruals.

2 Accounting policy change - restatement of prior year comparatives

In accordance with the FReM, the notional expenditure for cost of capital is no longer recorded.

The comparative figures for 2009-10 in the statement of comprehensive net expenditure, statement of cash flows and statement of changes in taxpayers' equity have been restated accordingly.

The cost of capital for 2009-2010 was negative because the relevant net assets on which the notional charge was calculated were negative. Consequently, the removal of the cost of capital increases the total cost in the statement of comprehensive net expenditure for 2009-2010.

Statement of comprehensive net expenditure	
Net operating cost	15,694
Adjustment for	
Cost of capital (other administration costs)	35
Restated net operating cost for 2009-2010	**15,729**

Statement of cash flows and statement of changes in taxpayers' equity	
Cost of capital	(35)
Adjustment for	
Cost of capital	35
Restated cost of capital for 2009-2010	**-**

The opening and closing balances for the statement of changes in taxpayers' equity remain unchanged as the net impact is £nil. Consequently, the statement of financial position has not been restated and a third year of comparative figures has not been disclosed.

3 Staff numbers and related costs

			2011
	Permanent staff	Others	Total
	£000	£000	£000
Salaries	5,235	2,458	7,693
Social security costs	473	45	518
Other pension costs	962	92	1,054
	6,670	**2,595**	**9,265**
Amounts charged to capital	-	(637)	(637)
Total operating staff costs	**6,670**	**1,958**	**8,628**
Less recoveries in respect of outward secondments	(76)	-	(76)
Total net costs	**6,594**	**1,958**	**8,552**
Average number of whole-time equivalent persons			
employed by the DMO	80	29	109
of which, staff employed on capital projects	-	4	4

			2010
	Permanent staff	Others	Total
	£000	£000	£000
Salaries	4,762	3,409	8,171
Social security costs	451	36	487
Other pension costs	936	45	981
	6,149	**3,490**	**9,639**
Amounts charged to capital	-	(952)	(952)
Total operating staff costs	**6,149**	**2,538**	**8,687**
Less recoveries in respect of outward secondments	(70)	-	(70)
Total net costs	**6,079**	**2,538**	**8,617**
Average number of whole-time equivalent persons employed by the DMO	80	32	112
of which, staff employed on capital projects	-	7	7

The recoveries of £76,206 (2009-2010: £69,734) are shown as administration income in the statement of comprehensive net expenditure.

In the permanent staff salaries for 2010-2011 are departure costs for one member of staff, who left the DMO under the the terms of a voluntary exit scheme. The associated costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. The costs are included in the note on exit packages disclosed in the HM Treasury Report and Accounts 2010-2011.

The Principal Civil Service Pension Schemes (PCSPS) is an unfunded multi-employer defined benefit scheme, but the DMO is unable to identify its share of the underlying assets and liabilities. The scheme Actuary valued the scheme as at 31 March 2007 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/my-civil-service/pensions).

For 2010–2011, employer contributions of £1,037,473 were payable to the PCSPS (2009–2010: £959,003) at rates in the range 16.7 per cent to 24.3 per cent (2009-2010: 16.7 to 24.3 per cent) of pensionable pay, based on salary bands. The scheme's actuary usually reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of the benefits accruing during 2010-2011 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £16,105 (2009-2010: £22,095) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 6.5 to 12.5 per cent (2009-2010: 6.5 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £2,000, 0.8 per cent of pensionable pay (2009-2010: £2,227, 0.8 per cent), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2011 were £2,223 (31 March 2010: £4,477). Contributions prepaid at that date were £nil.

4 Other administration costs

	2011 £000	Restated - see note 2 2010 £000
Rentals under operating leases		
Other operating leases	**1,319**	**1,319**
Non-cash items		
Depreciation and amortisation of non-current assets	1,017	1,009
Provision for early departure costs		
Provided in year	1	12
Unwinding of discount on provisions	1	5
External auditors' fee	40	45
	1,059	**1,071**
Other expenditure		
IT and telecommunications	1,433	1,721
Business and information services	752	681
Accommodation related costs	721	726
Recruitment	200	124
Training	189	124
Legal services	127	136
Travel, subsistence and hospitality	98	100
Printing and stationery	68	98
Consultancy	11	188
Other costs	210	204
	3,809	**4,102**
	6,187	**6,492**

£40,000 (2009-2010: £40,000) of the external auditors' fee relates to the audit of the annual accounts. During 2009-2010, £5,000 related to audit work associated with the implementation of International Financial Reporting Standards.

5 Programme costs

Programme costs relate to DMA transactions, NLF gilt issuance and the retail gilt purchase and sale service.

	2011 £000	2010 £000
DMA, CRND and PWLB transaction costs		
Settlement and custodial charges	2,672	3,349
Brokerage	1,071	1,546
	3,743	**4,895**
NLF gilt issuance costs (reimbursed – see note 6)		
Stock Exchange listing fees	591	579
Auction advertising	27	115
	618	**694**
Gilt purchase and sale service costs	169	131
	4,530	**5,720**

6 Operating income

(i) Analysis of operating income by activity

	2011 £000	2010 £000
Administration income		
Fees and charges to PWLB customers	1,869	1,816
Fees and charges to CRND customers	627	632
Rentals and other accommodation related income - internal to government	516	313
Emissions Trading Scheme cost recovery from DECC	240	453
Special Liquidity Scheme - Bank of England	90	201
Recharges to Gilt Edged Market Makers	66	94
Rentals and other accommodation related income - external to government	-	123
Other income	91	83
	3,499	**3,715**
Programme income		
Recharges to the National Loans Fund	618	694
Gilt purchase and sale service commission - Computershare	492	761
	1,110	**1,455**
	4,609	**5,170**

(ii) Analysis of operating income by type

	2011 £000	2010 £000
Appropriations-in-aid	**3,638**	**4,587**
Income received from within HM Treasury	**592**	**382**
Surrendered to the Consolidated Fund		
Excess appropriations-in-aid – administration	289	-
Special Liquidity Scheme	90	201
	379	**201**
	4,609	**5,170**

7 Analysis of fees and charges income for the year ended 31 March 2011

This analysis of fees and charges is provided as specified by the FReM and not for the disclosure requirements under IFRS 8 Segmental Reporting.

Analysis of net operating cost

	CRND £000	PWLB £000	Gilt purchase and sale service £000	Emissions Trading System £000
Full cost	698	1,606	474	240
Income	(627)	(1,869)	(492)	(240)
(Surplus) / deficit	**71**	**(263)**	**(18)**	**-**

Financial objective and performance:

- **CRND**: To invest and manage certain public funds and charge, where statute permits, an administrative cost calculated on a full-cost recovery basis. CRND also carries out other miscellaneous statutory functions for which there is no provision for recovering costs. This objective has been achieved in full.
- **PWLB**: To advance loans, primarily to local authorities, at a fee rate that is set by statute and designed to cover the cost of examining applications for loans, making advances and maintaining accounts. This objective has been achieved in full.
- **Gilt purchase and sale service:** To operate a gilt purchase and sale service for retail investors in the secondary market and charge the appropriate transactional cost as defined by statute. This objective has been achieved in full.
- **Emissions Trading Scheme:** To conduct the process of auction of emission allowances to industry on behalf of the Department of Energy and Climate Change (DECC) and to recover the full cost to the service from DECC. This objective has been achieved in full.

8 Non-current assets

(i) Property, plant and equipment:

	Information technology £000	Furniture and fittings £000	Plant and machinery £000	Total £000
Cost or valuation				
At 1 April 2010	1,746	906	38	2,690
Additions	118	-	-	118
Disposals	(298)	-	-	(298)
At 31 March 2011	**1,566**	**906**	**38**	**2,510**
Depreciation				
At 1 April 2010	1,596	784	29	2,409
Charged in year	152	95	3	250
Disposals	(298)	-	-	(298)
At 31 March 2011	**1,450**	**879**	**32**	**2,361**
Net book value				
At 31 March 2011	**116**	**27**	**6**	**149**
At 31 March 2010	**150**	**122**	**9**	**281**

	Information technology £000	Furniture and fittings £000	Plant and machinery £000	Total £000
Cost or valuation				
At 1 April 2009	2,413	906	29	3,348
Additions	110	-	9	119
Disposals	(777)	-	-	(777)
At 31 March 2010	**1,746**	**906**	**38**	**2,690**
Depreciation				
At 1 April 2009	2,170	690	25	2,885
Charged in year	203	94	4	301
Disposals	(777)	-	-	(777)
At 31 March 2010	**1,596**	**784**	**29**	**2,409**
Net book value				
At 31 March 2010	**150**	**122**	**9**	**281**
At 31 March 2009	**243**	**216**	**4**	**463**

(ii) Intangible assets

	Software licences £000	Internally generated software £000	Assets under construction £000	Total £000
Cost or valuation				
At 1 April 2010	1,939	3,696	349	5,984
Additions	235	444	147	826
Transfer on completion	-	349	(349)	-
Disposals	-	(36)	-	(36)
At 31 March 2011	**2,174**	**4,453**	**147**	**6,774**
Amortisation				
At 1 April 2010	1,818	3,150	-	4,968
Charged in year	174	592	-	766
Disposals	-	(36)	-	(36)
At 31 March 2011	**1,992**	**3,706**	**-**	**5,698**
Net book value				
At 31 March 2011	**182**	**747**	**147**	**1,076**
At 31 March 2010	**121**	**546**	**349**	**1,016**

	Software licences £000	Internally generated software £000	Assets under construction £000	Total £000
Cost or valuation				
At 1 April 2009	1,954	3,289	-	5,243
Additions	19	655	349	1,023
Disposals	(34)	(248)	-	(282)
At 31 March 2010	**1,939**	**3,696**	**349**	**5,984**
Amortisation				
At 1 April 2009	1,548	2,993	-	4,541
Charged in year	304	405	-	709
Disposals	(34)	(248)	-	(282)
At 31 March 2010	**1,818**	**3,150**	**-**	**4,968**
Net book value				
At 31 March 2010	**121**	**546**	**349**	**1,016**
At 31 March 2009	**406**	**296**	**-**	**702**

9 Trade receivables and other current assets

(i) Analysis by type

	2011 £000	2010 £000
Amounts falling due within one year		
Prepayments and accrued income	1,456	1,010
Other receivables	234	528
	1,690	**1,538**
Amounts falling due after more than one year		
Prepayments and accrued income	133	7
	1,823	**1,545**

(ii) Analysis by relationship with HM Government

	Amounts falling due within one year		Amounts falling due after more than one year	
	2011 £000	2010 £000	2011 £000	2010 £000
Intra-government balances: balances with other central government bodies	393	440	-	-
Balances with bodies external to government	1,297	1,098	133	7
	1,690	**1,538**	**133**	**7**

10 Cash and cash equivalents

	2011 £000	2010 £000
Balance at 1 April	15	185
Net change – (outflow)	-	(170)
Balance at 31 March	**15**	**15**
The following balances were held at 31 March		
Bank of England	14	14
Cash in hand	1	1
Balance at 31 March	**15**	**15**

11 Trade payables and other current liabilities

(i) Analysis by type

	2011 £000	2010 £000
Amounts falling due within one year		
Trade payables	128	110
Taxation and social security	277	251
Accruals and deferred income	2,005	3,053
Payable to the Consolidated Fund		
Excess appropriations-in-aid	289	-
Other payments due to be paid to the Consolidated Fund	89	201
	2,788	**3,615**

Reflected within the amounts falling due within one year is a decrease of £34,763 (2009-2010: decrease of £74,378) of capital expenditure payables and accruals, which is an adjustment to the movements in working capital recorded in the statement of cash flows.

(ii) Analysis by relationship with HM Government	2011 £000	2010 £000
Intra-government balances: balances with other central government bodies	473	215
Balances with bodies external to government	2,315	3,400
	2,788	**3,615**

All amounts fall due within one year.

12 Provisions for liabilities and charges

(i) Analysis by type	2011 £000	2010 £000
Balance at 1 April	185	247
Provided in the year	1	12
Provisions utilised in the year	(74)	(79)
Unwinding of discount	1	5
Balance at 31 March	**113**	**185**

Provisions are for the costs of funding the early departure of certain staff.

A statement on early departure and pension commitments is given in the statement of accounting policies on page 65.

(ii) Maturity analysis	2011 £000	2010 £000
Within one year	57	72
Between two and five years	56	113
	113	**185**

13 Commitments under operating leases

(i) At 31 March 2011, the total future minimum lease payments under non-cancellable operating leases are as follows:

	Buildings £000	Other £000	2011 Total £000	2010 Total £000
Lease maturing				
Less than one year	1,300	27	1,327	1,269
Between two and five years	4,723	78	4,801	4,623
Over five years	5,749	-	5,749	6,759
	11,772	**105**	**11,877**	**12,651**

14 Capital commitments

	2011 £000	2010 £000
Contracted capital commitments at 31 March not otherwise included in these financial statements		
Software licenses	13	-

15 Contingent assets and liabilities

The DMO had no contingent assets or liabilities at 31 March 2011 (31 March 2010: £nil).

16 Related party transactions

HM Treasury

The DMO is an executive agency of HM Treasury. HM Treasury is a related party. During the year HM Treasury has provided various business services to the DMO as listed in the Resources section of the Annual Report.

Commissioners for the Reduction of the National Debt

Commissioners for the Reduction of the National Debt (CRND) is an entity within the DMO that performs a fund management service for a small number of public sector clients. CRND client mandates are kept distinct from other DMO business. CRND client mandates require the bulk of the funds to be invested in gilts or with the DMA. The DMO received payment from Court Funds Investment Account and Northern Ireland Courts and Tribunals Service Investment Account for fund management services of £109,000 and £78,000 respectively (2009-2010: £109,000 and £78,000).

Public Works Loan Board

PWLB is also operated within the DMO and subject to the same operational controls as applied to the DMO's operations as a whole, but charges to PWLB clients are set by statute and the Public Works Loan Commissioners retain their statutory role.

Bank of England

The Bank of England provides the DMA with banking and settlement agency services, the costs of which are borne by the DMO.

National Savings & Investments

The DMO has undertaken various transactions with National Savings & Investments relating to the recovery of external costs incurred by the DMO in hedging the guaranteed equity bonds issued by the NS&I, totalling £13,033 (2009-2010: £13,561).

Asset Protection Agency

The DMO has undertaken various transactions with the Asset Protection Agency (APA). These relate to the recharge of accommodation expenditure initially incurred by the DMO, and to the cost of providing various services during 2010-2011. This amounted to £493,126 (2009-2010: £312,581).

The APA was created as a separate executive Agency of HMT and became a legal entity from 7 December 2009. The APA is located in the same building as the DMO and occupies floor space that the DMO leases from the building landlord. Under the terms of a Memorandum of Terms of Occupation (MOTO) agreement, all accommodation expenditure relating to APA office space, and which is paid initially by the DMO, is recovered.

The DMO also provides on-going services to the APA by providing facilities management and IT services. The costs and charging for these services are governed by a service level agreement.

Independent Commission on Equitable Life Payments

The DMO has undertaken various transactions with the Independent Commission on Equitable Life Payments (ICELP). These relate to the recharge of accommodation expenditure initially incurred by the DMO and the cost of providing various services during 2010-2011. This amounted to £22,557 (2009-2010: nil).

The ICELP was established by HM Treasury as an independent commission. Between August 2010 and

February 2011, ICELP were located in the same building as the DMO and occupied floor space that the DMO leases from the building landlord. Under the terms of a MOTO agreement, all accommodation expenditure relating to ICELP office space, and which is paid initially by the DMO is recovered.

The DMO also provided facilities management and IT services to ICELP during their period of co-occupancy. The costs and charging for these services were governed by the MOTO agreement.

Royal Bank of Scotland Group plc

During the year, HM Government was the ultimate controlling party of a number of financial institutions. HM Government's investments are managed by UK Financial Investments Limited, which is wholly owned by HM Government.

The DMO has had transactions with one of these entities, the Royal Bank of Scotland Group plc that relates to the recharge of costs of the shared usage of an information network for Gilt-Edged Market Makers. The recharge for Royal Bank of Scotland plc was £4,412 for 2010-2011 (2009-2010: £5,889).

Department of Energy and Climate Change

The DMO has had transactions during the year with the Department of Energy and Climate Change (DECC) relating to recovery of costs incurred by the DMO in conducting auctions of emission allowances totalling £240,118 (2009-2010: £452,902).

Ministers and Managing Board

During the year, no Minister or DMO Managing Board member has undertaken any material transactions with the DMO.

17 Financial instruments

All cash requirements of the DMO are met through the Parliamentary Estimate process. In these circumstances, financial instruments play a limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the DMO's expected purchase and usage requirements.

Therefore, at 31 March 2011, the DMO had no material exposure to liquidity risk, interest rate risk or currency risk.

All material assets and liabilities were denominated in sterling.

18 Events after the end of the reporting period

There were no events that had a material effect on the accounts after the end of the reporting period.

19 Preparation of accounts

The accounts were authorised for issue on 4 July 2011.

Accounts Direction given by HM Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000

1. The UK Debt Management Office shall prepare accounts for the year ended 31 March 2011 in compliance with the accounting principles and disclosure requirements of the Government Financial Reporting Manual issued by HM Treasury ("the FReM)") which is in force for 2010-2011.

2. The accounts shall be prepared so as to:

   (a) give a true and fair view of the state of affairs as at 31 March 2011 and of the income and expenditure (or, as appropriate, net resource outturn), changes in taxpayers' equity (or, as appropriate, recognised income and expense), and cash flows of the DMO for the financial year then ended; and

   (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

3. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

Chris Wobschall

Head of Assurance and Financial Reporting Policy Team
HM Treasury
22 December 2010

Accounts of the Debt Management Account

Year ended 31 March 2011
Presented to Parliament 18 July 2011

Debt Management Account: 2010-2011 Accounts

Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Debt Management Account for the year ended 31 March 2011 under the National Loans Act 1968. These comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in net funding by National Loans Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Loans Act 1968. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Debt Management Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Debt Management Account; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Introduction, Foreword, Management commentary, Statement of Accounting Officer's responsibilities and Statement on Internal Control, to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Debt Management Account's affairs as at 31 March 2011 and of its total comprehensive income for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion, the information given in the Chief Executive's Statement, Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP

4 July 2011

Debt Management Account
Income statement

For the year ended 31 March 2011

	Note	2011 £m	2010 £m
Interest income	3	7,065	7,506
Interest expense	4	(1,946)	(2,205)
Net interest income		**5,119**	**5,301**
Other gains and losses	5	(3)	20
Fee income	6	44	63
Surplus for the year	7	**5,160**	**5,384**

All income and expenditure arose from continuing operations.

The notes on page 87 to 116 are an integral part of these accounts.

Debt Management Account
Statement of comprehensive income

For the year ended 31 March 2011

	2011 £m	2010 £m
Surplus for the year from the income statement	**5,160**	**5,384**
Gains/(losses) taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	1,642	(3,691)
Net income/(expense) recognised directly in total funding by National Loans Fund	**1,642**	**(3,691)**
Transfers		
Transferred to income statement on disposal of investment securities classified as available-for-sale	-	(16)
Net transfers within total funding by National Loans Fund	**-**	**(16)**
Total comprehensive income	**6,802**	**1,677**

The notes on page 87 to 116 are an integral part of these accounts.

Debt Management Account
Statement of financial position

At 31 March 2011	Note	2011 £m	2010 £m
Assets			
Cash and balances at the Bank of England		868	420
Loans and advances to banks	8	17,324	44,187
Securities held for trading	9	3,313	924
Derivative financial instruments	10	22	58
Investment securities classified as available-for-sale			
UK Government gilt-edged securities for use as collateral subject to sale and repurchase agreements		12,946	20,814
UK Government gilt-edged securities for use as collateral not pledged		64,957	65,685
		77,903	**86,499**
Other UK Government gilt-edged securities		49,241	52,275
Treasury bills		122,832	176,108
	11	**249,976**	**314,882**
Other assets	12	10	18
Total assets before deposit at National Loans Fund		**271,513**	**360,489**
Deposit at National Loans Fund		30,546	28,511
Total assets		**302,059**	**389,000**
Liabilities			
Deposits by banks	13	10,988	15,355
Due to government customers	14	51,040	56,478
Derivative financial instruments	10	53	27
Treasury bills in issue	15	63,574	62,973
Other liabilities	16	590	128
Total liabilities before funding by National Loans Fund		**126,245**	**134,961**
Advance from National Loans Fund		157,100	242,127
Revaluation reserve		5,779	4,137
Income and expenditure account		12,935	7,775
Total funding by National Loans Fund		**175,814**	**254,039**
Total liabilities		**302,059**	**389,000**

The notes on page 87 to 116 are an integral part of these accounts.

Robert Stheeman
Chief Executive
30 June 2011

Debt Management Account Statement of cash flows

For the year ended 31 March 2011

	Note	2011 £m	Restated 2010 £m
Net cash (outflow)/inflow from operating activities	17	**15,451**	**(10,431)**
Investing activities			
Interest received on investment securities classified as available-for-sale		7,359	9,942
Sales of investment securities classified as available-for-sale arising from auctions and secondary market activities		297,763	373,374
Purchases of investment securities classified as available-for-sale arising from auctions and secondary market activities		(232,028)	(342,368)
Net cash from/(used in) investing activities		**73,094**	**40,948**
Financing activities			
Interest received on deposit at National Loans Fund		292	322
Interest paid on advance from National Loans Fund		(1,363)	(1,570)
Increase in net funding by National Loans Fund		332,691	356,107
Decrease in net funding by National Loans Fund		(419,717)	(385,670)
Net cash (used in)/from financing activities		**(88,097)**	**(30,811)**
(Decrease)/increase in cash		**448**	**(294)**

The notes on page 87 to 116 are an integral part of these accounts.

Debt Management Account
Statement of changes in net funding by National Loans Fund

	Deposit at National Loans Fund £m	Advance from National Loans Fund £m	Revaluation reserve £m	Income and expenditure account £m	Total funding by National Loans Fund £m	Net Funding £m
At 1 April 2009	**48,967**	**292,166**	**7,844**	**2,391**	**302,401**	**253,434**
Surplus for the year	-	-	-	5,384	5,384	5,384
Transferred to income statement on disposal of investment securities classified as available-for-sale	-	-	(16)	-	(16)	(16)
Losses taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	-	-	(3,691)	-	(3,691)	(3,691)
Change in advance from National Loans Fund	-	(50,039)	-	-	(50,039)	(50,039)
Change in deposit at National Loans Fund	(20,456)	-	-	-	-	20,456
At 31 March 2010	**28,511**	**242,127**	**4,137**	**7,775**	**254,039**	**225,528**
Surplus for the year	-	-	-	5,160	5,160	5,160
Transferred to income statement on disposal of investment securities classified as available-for-sale	-	-	-	-	-	-
Gains taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	-	-	1,642	-	1,642	1,642
Change in advance from National Loans Fund	-	(85,027)	-	-	(85,027)	(85,027)
Change in deposit at National Loans Fund	2,035	-	-	-	-	(2,035)
At 31 March 2011	**30,546**	**157,100**	**5,779**	**12,935**	**175,814**	**145,268**

Each day, the DMA deposits any surplus cash with the NLF. The DMA receives interest on this deposit at the Bank Rate.

A DMA surplus or deficit is an asset or liability respectively of the NLF. HM Treasury may pay from the DMA to the NLF all or part of any DMA surplus. In the case of a retained deficit, HM Treasury may pay all or part of the deficit to the DMA from the NLF.

Notes to the accounts

For the year ended 31 March 2011

1 Accounting policies

(i) Basis of preparation

The accounts have been prepared in accordance with the Accounts Direction given by HM Treasury, in accordance with International Financial Reporting Standards (IFRS) in so far as they are appropriate to the DMA, and under the historical cost convention. In particular, the following standards have been applied:

- IAS 1 Presentation of Financial Statements (revised 2007)
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 18 Revenue
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 7 Financial Instruments: Disclosures

Certain IFRS have been issued or revised, but are not yet effective, and will be applied in subsequent reporting periods. These are:

- IFRS 9 Financial Instruments, which will replace IAS 39. IFRS 9 is expected to improve and simplify the reporting of financial instruments. Application of this standard is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. It is planned that IFRS 9 will be applied initially in 2013-2014. The impact of initial application of IFRS 9 is expected to be significant. The DMA's assets that are classified as available-for-sale will be reclassified and may be measured at amortised cost. This may reduce the impact on reserves of changes in the value of such assets.

- IAS 24 Related Party Disclosures, which has been revised. The revisions to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled, or significantly influenced by a government. Application of the revised IAS 24 is required for reporting periods beginning on or after 1 January 2011. Earlier application is permitted. It is planned that IAS 24 will be applied initially in 2011-2012. Initial application of the revised IAS 24 will result in partial exemption from the disclosure requirements of IAS 24, and the relevant disclosures may be reduced from those presented in 2010-2011.

(ii) Financial assets

The DMA classifies financial assets, on initial recognition, as securities held for trading or as securities classified as available-for-sale. The DMA also holds loans and receivables. All financial assets are recognised initially at fair value. Financial assets are derecognised when the rights to receive cash flows from them have expired or where the DMA has transferred substantially all the risks and rewards of ownership. Loaned securities are not derecognised when no asset has been received as part of the loan.

At the end of each reporting period, DMO management assess whether there is any objective evidence that a financial asset is impaired and hence whether any reduction in the carrying amount of the asset, or any impairment allowance, is required.

(a) Financial assets at fair value through profit and loss

Debt securities are classified as held for trading if they have been acquired principally for the purpose of selling in the short term, or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets are recognised on trade date, when the DMA enters into contractual arrangements with counterparties to purchase securities, and are derecognised when the DMA enters into contractual arrangements to sell them or when they are redeemed. Following initial recognition, fair values are re-measured, and gains and losses from changes therein are recognised as other gains and losses.

The treatment of derivatives is described in section (iv).

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, comprising cash and balances at central banks, and loans and advances to banks. Loans and advances to banks comprise deposits and reverse sales and repurchase agreements, where the DMA purchases securities and agrees to sell them back at a specified time and price. Securities pledged to the DMA as collateral via reverse repos are not included on the statement of financial position. Other assets comprise accrued fees receivable and amounts due from counterparties.

Loans and receivables are recognised at settlement date. If the transaction is regular way (where a transaction settles within a timeframe established by convention in the market) then no change in fair value is recognised between trade date and settlement date. If the transaction is non-regular way, a derivative is recognised at trade date. Both regular way and non-regular way transactions are recognised as loans and receivables from settlement date, and are derecognised when borrowers repay their obligations. Following recognition as loans and receivables such assets are subsequently measured at amortised cost using the effective interest rate method.

(c) Financial assets classified as available-for-sale

Debt securities are classified as available-for-sale where they are expected to be held for an indefinite period of time. However, they may be sold in response to changes in factors such as collateral requirements, liquidity needs, and interest rate movements.

These financial assets are recognised on trade date, when the DMA enters into contractual arrangements with counterparties (primarily the National Loans Fund) to purchase securities.

Following initial recognition, fair values are re-measured, and gains or losses from changes therein are recognised in the revaluation reserve until the securities are derecognised, at which point cumulative gains or losses previously recognised in this reserve are recognised as other gains and losses.

(iii) Financial liabilities

The DMA classifies its financial liabilities in the following categories: financial liabilities at fair value through profit and loss, and financial liabilities at amortised cost. DMO management determines the classification at initial liability recognition.

All financial liabilities are recognised initially at fair value.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(a) Financial liabilities at fair value through profit and loss
This category comprises derivatives, the treatment of which is described in section (iv) below.

(b) Financial liabilities at amortised cost
Following initial recognition, deposits by banks, amounts due to government customers, and Treasury bills in issue are measured at amortised cost using the effective interest rate. Deposits by banks include sales and repurchase agreements, where the DMA sells securities and agrees to buy them back at a specified time and price. Securities that are pledged by the DMA as collateral via sales and repurchase agreements remain on the statement of financial position.

Deposits by banks and amounts due to government customers are recognised at settlement date. If the transaction is regular way (where a transaction settles within a timeframe established by convention in the market) then no change in fair value is recognised between trade date and settlement date. If the transaction is non-regular way, a derivative is recognised at trade date. Both regular way and non-regular way transactions are recognised as deposits by banks and amounts due to government customers from settlement date, and are derecognised when obligations are repaid.

Treasury bills in issue are recognised on trade date, when the DMA enters into contractual arrangements with counterparties to sell securities, and are derecognised when redeemed.

(iv) Derivatives

The DMA enters into forward foreign exchange contracts, equity index / interest rate swaps, and forward starting repos and reverse repos.

Forward foreign exchange contracts are used to hedge the risk arising from movements in foreign exchange rates.

Equity index / interest rate swaps are entered into to hedge an equity index exposure of the Government that is external to the DMA. The nature of this relationship is explained on page 13.

Forward starting repos and reverse repos are used as part of the DMO's cash management operations.

Derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative.

All derivatives are classified as held for trading. They are initially recognised at fair value when the DMA enters into contractual arrangements with counterparties and are subsequently re-measured at fair value. All gains and losses from changes in the fair values of derivatives are recognised in the income statement as they arise. These gains and losses are reported as other gains and losses except where derivatives are managed in conjunction with euro denominated sale and repurchase agreements, in which case gains and losses are reported in interest income within reverse sale and repurchase agreements.

The DMA does not apply hedge accounting.

(v) Determination of fair value

The fair value of a financial instrument on initial recognition is normally the transaction price.

Following initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities. Such instruments are classified as level 1 in the fair value hierarchy defined by IFRS 7.

When active market prices are not available (for example, for the equity leg of equity index / interest rate swaps), fair values are determined by using valuation techniques that refer to observable market data. Such instruments are classified as level 2 in the fair value hierarchy defined by IFRS 7.

If the fair value of a financial asset becomes negative, it is recorded as a financial liability until its fair value becomes positive.

(vi) Offsetting financial assets and financial liabilities

Financial assets and liabilities (including derivatives) are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. When the DMA holds Treasury bills that it has issued, no financial asset or liability is disclosed, as no external transaction has occurred, so neither a financial asset nor liability exists.

(vii) Interest income and expense

Interest income and expense for all interest-bearing financial instruments including those classified as held for trading are recognised in interest income and interest expense in the income statement using the effective interest rate method of allocating interest over the relevant period. Interest income and expense is recognised from settlement date.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument. The calculation includes all amounts paid or received that are an integral part of the effective interest rate, such as premiums or discounts on acquisition or issue.

(viii) Other gains and losses

Other gains and losses comprises all gains and losses from changes in the fair value of financial instruments held for trading, excluding interest income on securities held for trading.

(ix) Fee Income

Fee income comprises net fees receivable. When the DMA is not entitled to all fees receivable (because a proportion will be payable after receipt) fee income is the net of the receivable and the related payable.

(x) Transaction costs

Transaction costs are paid and accounted for by the DMO.

(xi) Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are retranslated into sterling at the rates prevailing at the end of the reporting period.

Forward foreign exchange contracts are used to hedge the risk arising from movements in foreign exchange rates. These derivatives are accounted for at sterling fair value using the rates prevailing at the end of the reporting period.

Exchange differences arising on settlement, and those arising on retranslation, are recognised in interest income.

2 Accounting policy change - restatement of prior year comparatives

In 2010-2011, the DMA changed its accounting policy for the treatment of cash flows that do not result in the recognition of an asset. This was done in accordance with amendments to IAS 7, issued in April 2009 and applicable for periods beginning on or after 1 January 2010.

Previously, the DMA recognised cash flows from gilt auctions, mini tenders, and syndications as cash flows arising from investing activities in its statement of cash flows. The amendments to IAS 7 require that such cash flows be disclosed as arising from operating activities, as they do not result in the recognition of an asset by the DMA.

This change in accounting policy has been accounted for retrospectively and the comparative statement of cash flows for 2009-2010 has been restated. The effect of the change on 2009-2010 is tabulated below.

Statement of cash flows	
Decrease in cash	(294)
Adjustment for	
Sales of investment securities classified as available-for-sale arising from auctions and secondary market activities	(228,871)
Purchases of investment securities classified as available-for-sale arising from auctions and secondary market activities	228,871
Restated decrease in cash for 2009-2010	**(294)**

The net cash flow for 2009-2010 is unchanged as the net impact is £nil.

3 Interest income

	2011 £m	2010 £m
Investment securities classified as available-for-sale		
UK Government gilt-edged securities	5,480	5,066
Treasury bills	1,067	1,859
	6,547	**6,925**
Loans and advances to banks		
Reverse sale and repurchase agreements	189	224
Deposits	5	5
	194	**229**
Securities held for trading		
UK Government gilt-edged securities	1	13
Other securities	24	35
	25	**48**
Deposit at National Loans Fund	299	304
	7,065	**7,506**

4 Interest expense

	2011 £m	2010 £m
Deposits by banks		
Sale and repurchase agreements	(40)	(86)
Deposits	-	(2)
	(40)	**(88)**
Due to government customers		
Deposits	(249)	(300)
Treasury bills in issue	(321)	(285)
Advance from National Loans Fund	(1,336)	(1,532)
	(1,946)	**(2,205)**

5 Other gains and losses

	2011 £m	2010 £m
Gains/(losses) on disposal:		
Derivative financial instruments held for trading		
Equity index / interest rate derivatives	(12)	(67)
Investment securities classified as available-for-sale		
UK Government gilt-edged securities	-	16
Securities held for trading		
UK Government gilt edged securities	-	-
Other securities	(6)	(11)
	(6)	**(11)**
Change in the fair value of derivative financial instruments held for trading and held at year end:		
Equity index / interest rate derivatives	18	93
	18	**93**
Change in the fair value of securities held for trading and held at year end:		
UK Government gilt-edged securities	-	(9)
Other securities	(3)	(2)
	(3)	**(11)**
	(3)	**20**

6 Fee income

	2011 £m	2010 £m
Net fee income	**44**	**63**

The DMO earned fee income from lending Treasury Bills to the Bank of England. The total fee payable by the Bank of England was shared between the DMA and the NLF.

7 Surplus for the year

Surplus for the year has been arrived at after charging net foreign exchange gains of £11 million (2010: losses of £2 million). These losses arose from the DMA's foreign currency assets. The losses were offset by fair value gains in forward foreign exchange contracts used to hedge the risk arising from movements in foreign exchange rates. The gains are recognised in interest income with the income arising from the underlying assets.

8 Loans and advances to banks

	2011 £m	2010 £m
Reverse sale and repurchase agreements		
Due in not more than 3 months	14,423	41,955
Due in more than 3 months but not more than 1 year	2,387	2,107
	16,810	**44,062**
Fixed term deposits		
Due in not more than 3 months	6	-
Call notice deposits		
Due in not more than 3 months	508	125
	17,324	**44,187**

Reverse sale and repurchase agreements are valued daily, and collateral will be returned to the provider of collateral, or additional securities requested from the provider of collateral, depending on whether the value of the collateral has risen or fallen.

Reverse sale and repurchase agreements included euro denominated transactions. The associated foreign currency risk was fully hedged through forward foreign exchange contracts (see note 10).

9 Securities held for trading

	2011 £m	2010 £m
Carrying value		
UK Government gilt-edged securities	20	409
Other securities	3,293	515
	3,313	**924**

	2011 Nominal £m	2011 Fair value £m	2010 Nominal £m	2010 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	1,100	1,100	888	897
In more than 3 months but not more than 1 year	2,190	2,200	4	4
	3,290	**3,300**	**892**	**901**
Due after 1 year				
In more than 1 year but not more than 5 years	7	7	14	16
In more than 5 years	6	6	7	7
	13	**13**	**21**	**23**
	3,303	**3,313**	**913**	**924**

10 Derivative financial instruments

	2011 Assets £m	2011 Liabilities £m	2010 Assets £m	2010 Liabilities £m
Equity index / interest rate derivatives	20	12	10	20
Forward foreign exchange contracts	2	41	48	7
Unsettled sale and repurchase agreements	-	-	-	-
	22	**53**	**58**	**27**

	2011 Nominal £m	2011 Fair value £m	2010 Nominal £m	2010 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	6,126	(39)	17,340	47
In more than 3 months but not more than 1 year	60	(6)	2,136	(15)
	6,186	**(45)**	**19,476**	**32**
Due after 1 year				
In more than 1 year but not more than 5 years	230	14	292	(1)
In more than 5 years	-	-	-	-
	230	**14**	**292**	**(1)**
	6,416	**(31)**	**19,768**	**31**

Equity index / interest rate derivatives hedge the Government's exposure to the equity index risk resulting from the Guaranteed Equity Bond products issued by National Savings & Investments.

The instruments are valued daily and collateral is requested from the counterparty, or returned to the counterparty, depending on whether the value of the contract has risen or fallen.

11 Investment securities classified as available-for-sale

	2011 Nominal £m	2011 Fair value £m	2010 Nominal £m	2010 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	41,626	41,594	114,252	114,278
In more than 3 months but not more than 1 year	92,280	92,384	74,795	74,964
	133,906	**133,978**	**189,047**	**189,242**
Due after 1 year				
In more than 1 year but not more than 5 years	23,765	26,605	26,531	29,319
In more than 5 years	79,764	89,393	87,070	96,321
	103,529	**115,998**	**113,601**	**125,640**
	237,435	**249,976**	**302,648**	**314,882**

12 Other assets

	2011 £m	2010 £m
Accrued fees	10	18
Due from counterparties	-	-
	10	**18**

13 Deposits by banks

	2011 £m	2010 £m
Sale and repurchase agreements		
Due in not more than 3 months	10,988	14,561
Due in more than 3 months but not more than 1 year	-	636
	10,988	**15,197**
Fixed term deposits		
Due in not more than 3 months	-	158
	10,988	**15,355**

All repo transactions are valued daily. Securities will be returned to the provider of collateral, or additional securities requested from the provider of collateral, depending on whether the value of the collateral has risen or fallen.

14 Due to government customers

	2011 £m	2010 £m
Counterparty analysis		
Commissioners for the Reduction of the National Debt		
Call notice deposits	49,294	53,130
	49,294	**53,130**
Other government counterparties		
Fixed term deposits	1,746	3,348
	51,040	**56,478**
Maturity analysis		
In not more than 3 months		
Fixed term deposits	1,733	3,343
Call notice deposits	49,294	53,130
	51,027	**56,473**
In more than 3 months but not more than 1 year		
Fixed term deposits	13	5
	51,040	**56,478**

Call notice deposits are repayable on demand.

15 Treasury bills in issue

	2011 £m	2010 £m
Carrying value		
Due in not more than 3 months	43,768	44,000
Due in more than 3 months but not more than 1 year	19,806	18,973
	63,574	**62,973**
Fair value	**63,572**	**62,977**

16 Other liabilities

	2011 £m	2010 £m
Accrued stock lending fees	5	11
Due to counterparties	573	109
Cash collateral	12	8
	590	**128**

17 Analysis of cash flow

	2011 £m	2010 £m
Reconciliation of operating profit to net cash (outflow)/inflow from operating activities		
Operating surplus	**5,160**	**5,384**
Less: investment revenues		
Interest on investment securities classified as available-for-sale	(6,547)	(6,925)
Less: other gains and losses		
Profit on disposal of investment securities classified as available-for-sale	-	(16)
Less: financing costs		
Interest income on deposit at National Loans Fund	(299)	(304)
Interest expense on advance from National Loans Fund	1,336	1,532
	1,037	**1,228**
(Increase) in loans and advances to banks	26,863	(9,323)
Decrease/(increase) in securities held for trading	(2,389)	3,916
(Increase)/decrease in derivative assets	35	(57)
Decrease in other assets	8	53
(Decrease)/increase in deposits by banks	(4,366)	(13,989)
(Decrease)/increase in amounts due to government customers	(5,437)	(9,670)
(Decrease) in derivative liabilities	26	(230)
Increase in Treasury bills in issue	600	19,078
Increase in other liabilities	461	120
Net cash (outflow)/inflow from operating activities	**15,451**	**(10,431)**

18 Fair value hierarchy

IFRS 7 defines three classifications of fair value measurement, using a fair value hierarchy. At 31 March 2011 the DMA held assets and liabilities in level 1 and level 2 of the fair value hierarchy, as defined in note 1 (v), and as shown below.

	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	Total £m
Fair value at 31 March 2011			
Assets			
Securities held for trading	570	2,743	3,313
Derivative financial instruments	-	22	22
Investment securities classified as available-for-sale	249,976	-	249,976
Liabilities			
Derivative financial instruments	-	53	53
Fair value at 31 March 2010			
Assets			
Securities held for trading	425	499	924
Derivative financial instruments	-	58	58
Investment securities classified as available-for-sale	314,882	-	314,882
Liabilities			
Derivative financial instruments	-	27	27

19 Gilt issuance

	2011 £m	2010 £m
Nominal value of gilts issued on behalf of National Loans Fund	158,829	224,064
Proceeds paid to National Loans Fund	166,404	227,482

During the year, there were no uncovered gilt auctions (2010: none).

During the year, no gilts (2010: none) were created by the NLF and sold to the DMA for use as collateral in its cash management operations. Specific gilts issued in this way are not available to the repo market until three months after their creation. However, during this period, these gilts may be used in delivery by value (DBV) transactions.

20 Events after the end of the reporting period

There were no events that had a material effect on the accounts after the end of the reporting period.

21 Related party transactions

HM Treasury

The DMO is an executive agency of HM Treasury. As the DMO controls the DMA, HM Treasury is regarded as a related party of the DMA.

As detailed below, the DMA gave funding to the Bank of England in relation to the Bank of England's Asset Purchase Facility. The DMO and HM Treasury have agreed that, when the Asset Purchase Facility is closed, HM Treasury will reimburse the DMA for any accumulated net interest loss arising from this funding, or the DMA will transfer to HM Treasury any accumulated net interest surplus. The amount receivable or payable by the DMA cannot be reliably estimated, but it is unlikely to be material to the accounts of the DMA. The DMA has recognised an amount receivable from HM Treasury of £50,439 (2010: £382,616).

During the year, the DMA had a significant number of material transactions with the following entities, for which HM Treasury is regarded as the parent department or sponsor, and which are regarded as related parties:

Commissioners for the Reduction of the National Debt

Commissioners for the Reduction of the National Debt (CRND) is an entity within the DMO that performs a fund management service for a small number of public sector clients. CRND client mandates are kept distinct from other DMO business. CRND client mandates require the bulk of the funds to be invested in gilts or with the DMA. Surplus cash in CRND client accounts is regularly deposited with the DMA.

National Loans Fund

The DMA's principal role is to meet the financing needs of the National Loans Fund (NLF). At the end of each day, any surplus balance on the DMA (less a varying target float) is returned to the NLF as a deposit. This is the means by which the DMA balances the daily financing needs of the NLF. Under the terms of the Finance Act 1998, the NLF made a cash advance of £6 billion to the DMA at inception in order to establish the account. Subsequent cash advances and repayments have been made from time to time.

Bank of England

The Bank of England provides the DMA with banking and settlement agency services, the costs of which are borne by the DMO. The DMA lent to the Bank of England Treasury bills and gilts in relation to the Bank of England's Special Liquidity Scheme and Discount Window Facility respectively. The DMA gave funding to the Bank of England in relation to the Bank of England's Asset Purchase Facility. Interest on this loan is payable at the Bank Rate. The DMA also lent gilts to the Bank of England in delivery by value (DBV) transactions, and borrowed specific gilts of the same value.

National Savings & Investments

National Savings & Investments issues guaranteed equity bonds to retail investors on behalf of the National Loans Fund. The DMA hedges the equity index exposure resulting from the sale of these products using equity index / interest rate derivatives.

During the year, HM Government was the ultimate controlling party of a number of financial institutions. HM Government's investments are managed by UK Financial Investments Limited, which is wholly owned by HM Government. As a result, the following financial institutions are regarded as related parties:

- **Bradford and Bingley**
- **Kaupthing Singer & Friedlander Limited**
- **Lloyds Banking Group plc**
- **Northern Rock plc**
- **Royal Bank of Scotland Group plc**

Royal Bank of Scotland Group plc acted as lead manager in two out of five syndicated gilt offerings conducted by the DMO in 2010-2011 and as a co-lead in the remaining transactions, for which it earned total management fees of £4.3 million.

The volume and diversity of any transactions with these entities were such that it would be impractical to disclose the amounts in the period for which each entity was a related party. All transactions with these entities were conducted on an arm's length basis.

In addition, the DMA has had various transactions with other government entities. Most of these transactions have been with the following entities, which are regarded as related parties:

Various departments, other central government bodies, and local authorities

Various government departments, other central government bodies, and local authorities deposit cash with the DMADF.

At 31 March 2011 amounts due to or from related parties were:

	Central govt £m	Local govt £m	Public corporation £m	Financial institution £m	Total £m
Assets					
Cash and balances at the Bank of England	-	-	-	868	868
Loans and advances to banks	-	-	-	561	561
Securities held for trading	20	-	-	2,144	2,164
Investment securities classified as available-for-sale					
UK Government gilt-edged securities for use as collateral	77,093	-	-	-	77,093
Other UK Government gilt-edged securities	49,241	-	-	-	49,241
Treasury bills	122,832	-	-	-	122,832
Other assets	-	-	-	9	9
Deposit at National Loans Fund	30,546	-	-	-	30,546
Liabilities					
Deposits by banks	-	-	-	48	48
Due to government customers	49,519	729	792	-	51,040
Derivative financial instruments	-	-	-	3	3
Other liabilities	5	-	-	300	305
Advance from National Loans Fund	157,101	-	-	-	157,101

During the year, the DMA sold Treasury bills via tender and bilaterally. Any such sales by the DMA to related parties represented amounts due to related parties upon that sale. However, the relevant Treasury bills may have been sold by the related parties subsequently, so the DMA cannot quantify the amount of Treasury bills in issue that were due to related parties at 31 March 2011.

Ministers and DMO Managing Board

During the year, no Minister or DMO Managing Board member has undertaken any transactions with the DMA.

22 Credit risk

Credit risk is the risk that a counterparty, or security issuer, will fail to discharge a contractual obligation resulting in financial loss to the DMA. Credit risk is monitored daily by the DMO's Risk Management Unit.

Exposure is primarily to financial institutions (mainly banks), non-UK sovereign-related entities and central clearing counterparties. Intra-HM Government balances are not considered to give rise to credit exposure.

Activities that give rise to credit risk include:

- placing cash deposits with banks;
- providing collateral for borrowings from banks;
- exchanging cash and stock in buying and selling financial assets; and
- entering into derivative contracts.

Methods used to measure and manage credit risk in the year ended 31 March 2011 were the same as in the prior year, although more focus was given this year to the analysis of how developments in the eurozone might affect the DMA's risk profile.

(i) Credit risk limits and measurement

The DMO has adopted a policy of the DMA dealing only with highly creditworthy counterparties and issuers. Credit exposure is controlled by the application of limits for each counterparty and issuer that are approved by the Credit and Market Risk Committee. These limits are absolute limits and are set for both individual entities and groups of related entities. Separate limits are set for different transaction types.

Credit risk measurement takes into account both current fair value and a risk weighting based on an estimate of potential future changes in value; in measuring credit exposure, different risk weightings are applied to different transaction types. The DMO monitors the DMA's exposure against limits on a daily basis and breaches are reported to the Credit and Market Risk Committee.

The Credit and Market Risk Committee reviews the concentrations of the DMA's credit exposure to individual banking groups and countries on a monthly basis.

The DMO analyses the creditworthiness of potential counterparties and security issuers using various information sources including the information provided by three external credit assessment institutions: Standard and Poor's, Moody's Investors Service, and Fitch Ratings. Information from these sources is monitored continuously for subsequent changes.

The DMA transacts only with counterparties who meet a minimum long-term credit rating requirement, and purchases securities issued only by issuers who meet such a requirement. Each counterparty and issuer must meet this requirement for each external credit rating available at the time the transaction is entered into.

(ii) Other risk mitigation policies

In addition to the use of credit limits, exposure to credit risk is managed through other specific control and mitigation measures, as outlined below.

(a) Netting agreements

The DMO further restricts the DMA's exposure to credit losses by entering into master netting arrangements with counterparties. These arrangements do not result in an offset of statement of financial position assets and liabilities. However, if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

Netting agreements normally incorporate collateral terms, including provision for additional margin to be called in response to changes in fair values of underlying transactions.

(b) Collateral

The DMA takes stock collateral when entering reverse sale and repurchase contracts to reduce its exposure to credit losses.

Collateral is required to be in the form of securities issued or guaranteed by HM Government or certain other governments in the European Economic Area with a long-term rating equal to or above AA- (Standard and Poor's), Aa3 (Moody's), and AA- (Fitch). Other highly-rated securities may be accepted, as agreed from time to time. All collateral is held in the CREST, Euroclear and Clearstream systems.

The DMA also receives cash collateral in the form of margin calls under certain derivative contracts and repo and reverse repo contracts novated to central clearing counterparties.

(c) Settlement processes

Transactions in financial assets (gilts, Treasury bills, certificates of deposit, and commercial paper) are settled primarily through the CREST, Euroclear, and Clearstream systems, making use of settlement and custody accounts operated by the Bank of England on the DMO's behalf.

The CREST and Euroclear systems are owned by Euroclear Bank S.A., which had a Standard and Poor's credit rating of AA+ at 31 March 2011. The Clearstream system is owned by Clearstream Banking S.A., which had a Standard and Poor's credit rating of AA at 31 March 2011.

Wherever possible, trades are settled as delivery versus payment, with simultaneous exchange of cash and stock, or settlement whereby the DMA receives cash or stock from the counterparty before delivering stock or cash in return.

Daily settlement limits are also used to control settlement risk.

(iii) Impairment and provisioning policies

Counterparties and issuers are monitored for deterioration of credit worthiness or late settlements and collateral is valued on a daily basis.

There were no assets considered impaired, nor whose terms had been renegotiated, at 31 March 2011 (31 March 2010: nil).

No credit related losses were incurred by the DMA during the year (2010: £nil), and no provisions were considered necessary at 31 March 2011 (31 March 2010: nil).

(iv) Gross exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures on statement of financial position assets at 31 March were:

	Internal to government		External to government		Total	
			Financial institutions			
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Cash and balances at the Bank of England	-	-	868	420	868	420
Loans and advances to banks						
Reverse repos	-	-	16,810	44,062	16,810	44,062
Fixed term deposits	-	-	6	-	6	-
Asset Purchase Facility (deposit at Bank of England)	-	-	508	125	508	125
Securities held for trading	20	409	3,293	515	3,313	924
Derivative financial instruments	-	-	22	58	22	58
Investment securities classified as available-for-sale						
UK Government gilt-edged securities for use as collateral	77,903	86,499	-	-	77,903	86,499
Other UK Government gilt-edged securities	49,241	52,275	-	-	49,241	52,275
Treasury bills	122,832	176,108	-	-	122,832	176,108
Other assets	-	-	10	18	10	18
Deposit at National Loans Fund	30,546	28,511	-	-	30,546	28,511
Total gross exposure	**280,542**	**343,802**	**21,517**	**45,198**	**302,059**	**389,000**

The external to government balances above represent credit risk exposure without taking into account any collateral held or other credit enhancements attached. The exposures set out above are based on the carrying value, as reported in the statement of financial position.

The DMA has not issued any financial guarantees and has no off-statement of financial position financial commitments.

(v) Collateral

(a) Sale and repurchase agreements (repos) and reverse sales and repurchase agreements (reverse repos)

Repos and reverse repos with collateral backing were as follows:

Settled transactions:

	2011 Carrying value* £m	2011 Fair value of securities collateral £m	2010 Carrying value* £m	2010 Fair value of securities collateral £m
Reverse repos (within loans and advances to banks)	16,810		44,062	
Repos (within deposits by banks)	10,988		15,197	
Net fair value of collateral		5,780		28,825
Collateral shortfall		36		103
Collateral surplus		34		23

Unsettled transactions:

	2011 Carrying value* £m	2011 Weighted average days to settlement	2010 Carrying value* £m	2010 Weighted average days to settlement
Reverse repos (within loans and advances to banks)	1,170	8	12,958	7
Repos (within deposits by banks)	1,798	3	1,583	22

* Carrying value per the statement of financial position

All repo and reverse repos are with banks (or bank subsidiaries) and central clearing counterparties. Collateral surplus and shortfall have been calculated at the level of individual counterparties. Collateral to the value of the unsettled cash amounts is taken upon settlement.

(b) Derivative financial instruments

	2011 Carrying value* £m	2011 Fair value of securities collateral £m	2010 Carrying value* £m	2010 Fair value of securities collateral £m
Assets	22		58	
Liabilities	53		27	
Collateral shortfall		-		41
Collateral surplus		13		5

* Carrying value per the statement of financial position

Derivative assets include equity index/interest rate derivatives and foreign exchange contracts transacted under bilateral netting agreements (ISDA). Collateral held may be in mitigation of both types of derivative contract. Collateral surplus and shortfall have been calculated at the level of individual counterparties.

(vi) Repos – analysis by credit rating

Repos and reverse repos, by Standard and Poor's long-term designation of the counterparty at 31 March based on rating individual contracting entities rather than ultimate parent entities, were:

	Reverse repos		Repos	
	2011 £m	2010 £m	2011 £m	2010 £m
AAA	-	-	-	-
AA- to AA+	4,467	5,425	187	198
A- to A+	12,343	38,637	10,801	14,999
	16,810	**44,062**	**10,988**	**15,197**

(vii) Cash, fixed term deposits, Asset Purchase Facility deposit and securities held for trading - analysis by credit rating

Non-HM Government deposits and debt securities, by Standard and Poor's long-term rating of the counterparty or (for trading assets) issuer at 31 March, were:

	Cash and balances at the Bank of England		Fixed term deposits		Asset Purchase Facility deposit		Securities held for trading	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
AAA	868	420	-	-	508	125	3,293	515
A- to A+	-	-	6	-	-	-	-	-
	868	**420**	**6**	**-**	**508**	**125**	**3,293**	**515**

(viii) Derivative financial instruments – analysis by credit rating

Derivative net assets by counterparty, by Standard and Poor's long-term rating of the counterparty at 31 March, were:

	2011 £m	2010 £m
AA- to AA+	9	20
A- to A+	3	32
	12	**52**

(ix) Other assets – analysis by credit rating

Other assets by Standard and Poor's long-term rating designation of the counterparty at 31 March, were:

	2011 £m	2010 £m
AAA	10	18
AA- to AA+	-	-
A- to A+	-	-
Unrated	-	-
	10	**18**

(x) Concentration of exposures

Credit exposures were spread across financial institutions, primarily in the United Kingdom and the rest of the European Economic Area.

Credit exposures at 31 March by geographical region, based on the country of domicile of the ultimate parent entities of the counterparty or (for trading assets) issuer were:

(a) Geographical sectors – assets excluding sale and repurchase agreements

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Cash and balances at the Bank of England	868	420	-	-	-	-	-	-	868	420
Fixed term deposits	6	-	-	-	-	-	-	-	6	-
Asset Purchase Facility deposit	508	125	-	-	-	-	-	-	508	125
Securities held for trading	549	-	2,394	515	-	-	349	-	3,292	515
Derivatives	-	19	9	32	3	1	-	-	12	52
Other assets	10	18	-	-	-	-	-	-	10	18
	1,941	**582**	**2,403**	**547**	**3**	**1**	**349**	**-**	**4,696**	**1,130**

Investment securities classified as available-for-sale have been excluded from the above table, as they are issued by HM Government.

(b) Geographical sectors – sale and repurchase agreements

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Reverse repos (within loans and advances to banks)	11,151	39,670	3,977	4,189	671	203	1,011	-	16,810	44,062
Repos (within deposits by banks)	10,683	14,999	129	198	176	-	-	-	10,988	15,197

23 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk.

The DMA's exposure is primarily to interest rate risk.

The DMO manages the DMA's exposure to market risk in three main areas:

- interest rate risk from bank loans and advances and from debt securities (comprising the cash management portfolio of trading and non-trading assets and liabilities);
- interest rate and other price risk from the derivatives hedging the Guaranteed Equity Bonds issued by National Savings & Investments; and
- interest rate risk from the retail gilts book.

The scope of market risk monitoring excludes interest rate risk arising from cash at the Bank of England, gilts and Treasury bills for use as collateral or for lending to the Bank of England, amounts due to the funds managed by CRND and all balances with the National Loans Fund.

(i) Market risk measurement

The primary sensitivity analysis techniques used to measure and monitor market risk are outlined below.

Interest rate risk derives from the DMA's activity of addressing its cash flow profile throughout the year.

Interest rate risk limits are in place, expressed in present value of a basis point (rather than value at risk) terms.

The Credit and Market Risk Committee reviews the DMA's market risk exposure on a monthly basis, with the Cash Management Committee reviewing certain aspects weekly.

(a) Value at risk
Value at risk (VaR) is a method which estimates the potential mark to market loss over a target horizon given a level of confidence. The DMO uses a time horizon of one day and a confidence level of 90 per cent and anticipates no portfolio changes over the time horizon. The model reflects interdependencies and benefits of diversification between risk factors such as interest rates, currency rates and equity indices. VaR is calculated daily on the basis of exposures outstanding at the close of business. If a portfolio has a one-day 90 per cent VaR of, say, £1 million, it can be expected to lose or gain more than £1 million on only one trading day out of 10. Calculation of the worst possible loss is outside the scope of VaR. For interest rate risk, DMO uses the variance-covariance parametric VaR methodology. Assumptions as to how data will be distributed are based on historical data. Additionally, stress-testing is performed for the cash management portfolio to describe the possible scenarios falling outside the 90 per cent confidence limits.

b) Present value of a basis point
Present value of a basis point (PV01) is a standard sensitivity measure used to measure sensitivity to a 0.01 per cent parallel shift in interest rates when all other risk factors are held constant. The parallel shift in interest rates has been defined as the movement in the relevant zero coupon curve used to estimate fair value. The impact on yield curves of other factors, including extreme events, is outside the scope of PV01.

Interest rate limits set in PV01 terms were in place throughout the year and the prior year. Limits used operationally are set lower than those agreed with HM Treasury, in order to safeguard against breach of the latter should an operational error arise. Monitoring against these limits is performed daily and any breaches are reported to the Credit and Market Risk Committee.

(ii) VaR summary

VaR at 31 March:

	2011 £m	2010 £m
Interest rate risk and currency risk - cash management	0.45	0.17
Interest rate risk - retail gilts	0.05	0.06

VaR is not aggregated across activities, as different VaR methodologies are used as described in (i) (a) above.

VaR is calculated daily for both retail gilt and cash management exposures.

The range of end-of-day VaR in the year ended 31 March was:

(a) Interest rate risk and currency risk – cash management

	2011 £m	2010 £m
Highest	2.56	4.96
Average	1.01	1.36
Lowest	0.16	0.11

(b) Interest rate risk – retail gilts

	2011 £m	2010 £m
Highest	0.11	0.25
Average	0.07	0.11
Lowest	0.05	0.06

Exposures to risk from trading and non-trading activities are measured together as they arise from economic environments that are not significantly different.

(iii) Interest rate risk

The DMA enters primarily into cash and securities contracts at fixed interest or discount rates.

The exceptions to this at 31 March 2011 were: index-linked gilts, with a carrying value of £15,650 million (31 March 2010: £14,948 million); the deposit at the National Loans Fund, with a carrying value of £30,546 million (31 March 2010: £28,511 million); and call notice deposits from customers, with a carrying value of £49,294 million (31 March 2010: £53,129 million). The index-linked gilts are linked to the General Index of Retail Prices in the UK (RPI).

(a) Interest rate risk profile

The DMA's interest rate risk profile based on the earliest possible repayment date at 31 March was:

	Fixed rate instruments Weighted average interest rate	Fixed rate instruments Weighted average period	Fixed rate instruments	Floating rate instruments
			Statement of financial position carrying value	
	2011	2011	2011	2011
	%	Years	£m	£m
Sterling				
Assets	2.75	6.34	254,456	46,723
Liabilities (before funding by National Loans Fund)	0.53	0.17	76,308	49,306

	2010	2010	2010	2010
	%	Years	£m	£m
Sterling				
Assets	2.26	4.93	344,920	43,595
Liabilities (before funding by National Loans Fund)	0.47	0.16	81,677	53,149

The DMA is charged interest on the advance from the National Loans Fund at the Bank Rate. The benchmark rate for determining the interest payments on other floating rate borrowings is LIBOR.

The DMA held undated gilts with a carrying value of £27 million as at 31 March 2011 (31 March 2010: £27 million). These are included in the above interest rate disclosures except the weighted average period, as these gilts have no maturity date.

(b) Interest rate sensitivity – PV01 summary

PV01 at 31 March was:

	2011 £m	2010 £m
Interest rate risk - cash management	(0.13)	(0.43)
Interest rate risk - retail gilts	(0.01)	(0.01)

The range of end-of-day PV01 exposure in the year ended 31 March was:

Cash management

	2011 £m	2010 £m
Highest positive	(0.10)	0.14
Average	(0.48)	(0.39)
Highest negative	(0.85)	(0.73)

Retail gilts

	2011 £m	2010 £m
Highest positive	(0.01)	-
Average	(0.01)	(0.01)
Highest negative	(0.01)	(0.02)

A positive PV01 indicates exposure to a parallel fall in relevant yield curves while a negative PV01 indicates exposure to a rise in the curves.

(iv) Currency risk

The DMA enters transactions in instruments denominated in euros, for diversification purposes, with currency exposure hedged via foreign exchange swaps.

A foreign exchange risk limit constrains the extent to which the DMO may incur a net exposure to foreign currency movements when it purchases or sells foreign currency assets. The policy in force during the year (and during the prior year) was to match all currency cash flows. This hedging is monitored daily and any breaches are reported to the Credit and Market Risk Committee.

Forward foreign currency contracts outstanding are disclosed in note 10 and 24(iii).

The DMA has no foreign operations and hence no structural foreign exchange exposures.

(v) Other price risk

The DMA is exposed to risk arising from derivative transactions (equity index swaps) entered into to hedge the risk arising to National Savings & Investments from Guaranteed Equity Bonds in issue (see note 10). Returns on these Bonds are linked to the performance of the FTSE 100 UK equity index (FTSE 100). The net risk exposure of the hedging derivatives comprises exposure to the FTSE 100 market value and implied volatility as well as to LIBOR interest rates. There is a limit on the amount of National Savings & Investments' exposure from Guaranteed Equity Bonds that may remain unhedged by the DMA. Monitoring against this limit is performed daily and any breaches are reported to the Credit and Market Risk Committee.

24 Liquidity risk

Liquidity risk is the risk that the DMA will encounter difficulty in meeting obligations associated with financial liabilities.

The DMO manages the DMA's liquidity primarily by:

- monitoring cash flows to ensure that daily cash requirements are met;
- holding sufficient financial assets for which there is an active market and which can readily be sold or used as collateral against cash borrowings; and
- arranging the issue of Treasury bills and gilts to raise funds.

Management does not expect customers to call amounts repayable on demand simultaneously or without notice.

The DMA and the NLF are under common influence. It is not expected that liabilities of the DMA to the NLF would be required to be paid without warning.

(i) Maximum cumulative flow

A daily liquidity risk limit constrains the extent to which the DMO may leave an expected cash flow to be dealt with on the day it occurs.

The liquidity risk limit is measured by the Maximum Cumulative Flow over one day, which is the maximum permitted amount of any net expected cash inflow or outflow for the following day, assuming normal operating conditions.

A limit was in place throughout the year and acted as a liquidity risk trigger. Limits used operationally are set lower than those agreed with HM Treasury, in order to safeguard against breach of the latter should an operational error arise. These limits are monitored daily and any breaches are reported to the Credit and Market Risk Committee.

(ii) Non-derivative cash flows

The contractual undiscounted cash flows of the DMA's liabilities, other than the cash flows under derivative contracts, including interest that will accrue to these liabilities, were:

At 31 March 2011	On demand £m	0-6 months £m	7-12 months £m	Total flows (not dis-counted) £m	Adjustment for discount £m	Carrying value* £m
Deposits by banks	-	10,990	-	**10,990**	(2)	**10,988**
Due to government customers	49,294	1,746	-	**51,040**	-	**51,040**
Treasury bills in issue	-	63,647	-	**63,647**	(73)	**63,574**
Other liabilities	204	386	-	**590**	-	**590**
Total non-derivative liabilities before funding by National Loans Fund	**49,498**	**76,769**	**-**	**126,267**	**(75)**	**126,192**

* Carrying value per the statement of financial position

At 31 March 2010	On demand £m	0-6 months £m	7-12 months £m	Total flows (not dis-counted) £m	Adjustment for discount £m	Carrying value* £m
Deposits by banks	-	14,720	637	**15,357**	(2)	**15,355**
Due to government customers	53,129	3,349	-	**56,478**	-	**56,478**
Treasury bills in issue	-	63,035	-	**63,035**	(62)	**62,973**
Other liabilities	127	1	-	**128**	-	**128**
Total non-derivative liabilities before funding by National Loans Fund	**53,256**	**81,105**	**637**	**134,998**	**(64)**	**134,934**

* Carrying value per the statement of financial position

At 31 March 2011 there were no liabilities that the DMA intended to repay before maturity (31 March 2010: nil).

Management expects actual undiscounted cash flows in relation to liabilities to be the same as contractual undiscounted cash flows, except in the case of amounts repayable on demand.

The DMA holds deposits at the Bank of England and other financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs.

(iii) Derivative cash flows

The contractual undiscounted cash flows of the DMA's assets and liabilities under derivative contracts were:

(a) Derivatives settled on a gross basis

At 31 March 2011

	0-6 months £m	Total undiscounted flows £m
Sterling		
Forward foreign exchange contracts, unsettled reserve sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	1,170	**1,170**
Inflow	4,800	**4,800**

	€m	€m
Euro		
Forward foreign exchange contracts, unsettled reserve sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	3,441	**3,441**
Inflow	-	**-**

At 31 March 2010

	0-6 months £m	Total undiscounted flows £m
Sterling		
Forward foreign exchange contracts, unsettled reserve sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	13,225	**13,225**
Inflow	5,780	**5,780**

	€m	€m
Euro		
Forward foreign exchange contracts, unsettled reserve sale and repurchase agreements, and unsettled sale and repurchase agreements		
Outflow	4,661	**4,661**
Inflow	299	**299**

Carrying values are shown in note 10.

(b) Derivatives settled on a net basis

At 31 March 2011	0-6 months £m	6-12 months £m	1-5 years £m	Total undis-counted flows £m	Adjustment for discount £m	Balance sheet carrying value £m
Sterling						
Equity index derivatives						
Outflow	6	-	6	**12**	-	**12**
Inflow	-	-	21	**21**	(1)	**20**

At 31 March 2010	0-6 months £m	6-12 months £m	1-5 years £m	Total undis-counted flows £m	Adjustment for discount £m	Balance sheet carrying value £m
Sterling						
Equity index derivatives						
Outflow	8	-	12	**20**	(1)	**19**
Inflow	-	-	11	**11**	(1)	**10**

There were no derivative contracts that the DMA intended to terminate before maturity at 31 March 2011 (or 31 March 2010). Management expects actual undiscounted cash flows in relation to derivatives to be the same as contractual undiscounted cash flows.

25 Preparation of accounts

The accounts were authorised for issue on 4 July 2011.

Accounts Direction given by HM Treasury under the National Loans Act 1968

1. This direction applies to the United Kingdom Debt Management Office.

2. The United Kingdom Debt Management Office shall prepare accounts for the Debt Management Account (the Account) for the year ending 31 March 2010 and each subsequent financial year, which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.

3. The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.

4. The accounts shall present an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows, and a statement of changes in net funding by National Loans Fund. The statement of financial position shall present assets and liabilities in order of liquidity.

5. The notes to the accounts shall include disclosure of assets and liabilities, and of income and expense, relating to other central government funds including the National Loans Fund.

6. The report shall include:

(i) a brief history of the Account, and its statutory background;
(ii) an outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management arrangements;
(iii) information on targets set by HM Treasury and their achievement;
(iv) a management commentary, including information on financial performance and financial position, which reflects the relationship between the Account and other central funds; and
(v) a statement on internal control.

7. This accounts direction shall be reproduced as an appendix to the accounts.

8. This accounts direction supersedes that issued on 12 July 2007.

Chris Wobschall
Head, Assurance and Financial Reporting Policy
HM Treasury
17 February 2010

This publication is available in electronic form on the United Kingdom Debt Management Office (DMO) website www.dmo.gov.uk.

All the DMO's publications and a wide range of data are available on its website including:

- the Annual Review, which covers the main developments for the financial year;
- the Quarterly Review, which highlights more recent developments in the DMO's gilt and cash market activities;
- the DMO's Annual Report and Accounts for its administrative expenditure and for the operation of the Debt Management Account;
- current and historical gilt prices and yields;
- press releases, gilt auction announcements and gilt auction results;
- detailed Treasury bill tender results; and
- current and historical interest rates for loans from the Public Works Loan Board.

Alternatively, publications can be obtained from the DMO by telephoning 0845 357 6501.

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