United Kingdom
Debt Management Office

Annual Report & Accounts 2008-2009

of the UK Debt Management Office and the Debt Management Account

This publication is available in electronic form on the UK 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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UK Debt Management Office
Report and Accounts 2008 – 2009

Presented to the House of Commons in pursuance of
Section 7 of the Government Resources and Accounts Act 2000

and

Debt Management Account
Report and Accounts 2008 – 2009

Presented to the Houses of Parliament in pursuance of
Section 5A of the National Loans Act 1968

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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 the HM Government's financing needs and also acts as the Government's gateway to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objective of maintaining sound public finances.

Scope of Report

This report presents the Annual Report and Accounts of the UK Debt Management Office (DMO) and the Annual Report and Accounts of the Debt Management Account (DMA) for the year ended 31 March 2009.

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

- to carry out the Government's debt management policy of minimising its financing cost over the long-term, taking account of risk;
- to minimise the cost of offsetting the 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;
- to manage the funds of selected public sector bodies; and
- to advise and support HM Treasury's financial stability measures.

Its administrative expenses are funded through HM Treasury's Parliamentary Vote with disbursements associated with specific issues of debt being recharged to the National Loans Fund (NLF).

The **DMA** is one of the central Exchequer Fund accounts (others include the NLF 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 attributable to the DMO's debt management (except for gilts issued by the DMO, which are liabilities of the NLF), cash management and certain other activities.

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

The following sections are specific to the DMO:

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Chief Executive's Statement

2008-2009 provided the most challenging operational environment to date for the DMO. The requirements of the DMO this year have been greater than ever before and the market conditions in which the DMO has had to operate have been the most difficult in the organisation's eleven year history.

Nevertheless, the DMO successfully sold £146.5 billion of gilts during the year through 66 operations. This was by far the highest volume of gilt supply in a financial year and was delivered following two major revisions to the financing remit set by HM Treasury. The financial year began with planned gilt sales of £80.0 billion, which was a record amount at the time. In October 2008 this total was increased to £110.0 billion, principally reflecting the financing requirement for bank recapitalisations. The gilt sales target was further increased to £146.4 billion in the Pre-Budget Report in November 2008 due to a deterioration of the public finances. The need to meet such unprecedented financing requirements in a short timeframe compelled the DMO to access the short-dated sector of the gilt market to a greater than usual extent, since this is the most liquid sector of the market. Long-dated and index-linked gilts were also sold in record amounts, but constituted a lower than normal proportion of total issuance.

The DMO has also performed strongly this year in carrying out its cash management function. All cash management objectives have been successfully met. This is especially impressive due to the volatile and difficult credit conditions that prevailed in the market during the year.

The DMO has additionally undertaken a range of activities at the request of HM Treasury to help stabilise the financial markets and support the UK banking sector this year. This has resulted in the DMO playing a significant role in several of the schemes employed by HM Treasury and the Bank of England for these purposes, namely the Special Liquidity Scheme, Discount Window Facility, Credit Guarantee Scheme and Asset Purchase Facility. Support for the schemes will continue to form part of the DMO's activities in the future.

During the year, the Public Works Loan Board maintained its total lending at a record level of £51 billion. This incorporated over £6 billion of new loans in the year and a similar amount of loans either maturing or redeemed early.

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 over £62 billion as at 31 March 2009.

The flexibility and adaptability of the DMO has also been demonstrated this year by its successful execution of two auctions of EU Allowances for the UK's Emissions Trading System, following appointment to this role by the Department of Energy and Climate Change (formerly DEFRA) last year.

Looking forward, the DMO has received a remit for 2009-2010 which will again require a record level of gilt sales of £220 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 expanded operations. It is therefore with confidence that I can look forward to the challenges of 2009-2010, chief among them the record gilt sales target for the year. 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.

Robert Stheeman
Chief Executive
3 July 2009

Foreword

The DMO was established on 1 April 1998, with the following 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 UK 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 between HM Government and 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 its Chief Executive's roles and responsibilities 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. HM Treasury gives the DMO annual remits on debt 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 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.

The Government seeks to minimise the costs of servicing its debt over the long-term, rather than the debt interest bill in a single year 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 the 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 curve and the expected effects of issuance.

The DMO's main debt management activity is the issue of UK Government 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 announced. The remit also provides the basis for the conduct of any syndication, switch, conversion or buy-back operations in a particular year. The DMO decides the size of gilt auctions, the choice of gilts to be auctioned and the size and maturity breakdown of Treasury bill tenders.

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 prior to maturity at market rates.

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 within a risk appetite approved by Ministers."

Meeting these net cash flow requirements for the 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, operated by Computershare Investor Services PLC, as an agent 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 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. On behalf of NS&I, the DMA hedges the equity index exposure resulting from the sale of these products to investors 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, the Government has no material exposure to equity index risk.

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 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 faciltates this operation by purchasing gilts issued by the NLF and lending them to the Bank of England when required.

Guarantee Schemes

On 8 October 2008, HM Government announced a 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 meeting prescribed criteria. The DMO administers this operation on behalf of HM Treasury. The financial guarantee liability and its related fee income form part of HM Treasury's Acounts.

On 19 January 2009, HM Government announced the Asset-backed Securities Guarantee Scheme, which is also intended to support lending in the economy, and represents an extension of the 2008 Credit Guarantee Scheme. The DMO will administer this scheme when it comes into operation in 2009-2010.

Asset Purchase Facility

On 19 January 2009, HM Government announced that it was authorising the Bank of England to purchase a range of high quality assets as part of a package of measures to improve liquidity in credit markets. The DMA funded this facility for the Bank of England on behalf of HM Treasury until 5 March 2009.

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.

As part of both its debt and cash management operations, the DMA issues sterling Treasury bills. However, Treasury bills 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 needs. 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 transactions (repos) and reverse sale and repurchase transactions (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 comprising gilts bought mainly from the NLF.

The DMA actively manages its daily target float to ensure that cash in the NLF balances to nil 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. During 2008-2009, the advance has risen from £nil at the start of the year to £292 billion at the end of the year. This increase was driven by the DMA's need to purchase collateral from the NLF, principally to facilitate its role in the Special Liquidity Scheme and Discount Window Facility by buying from the NLF Treasury bills and gilts respectively. 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 pay all or part of the surplus from the DMA to the NLF thereby reducing the liability of the DMA. In the case of a retained deficit, HM Treasury may pay all or part of the deficit to the DMA from the NLF.

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

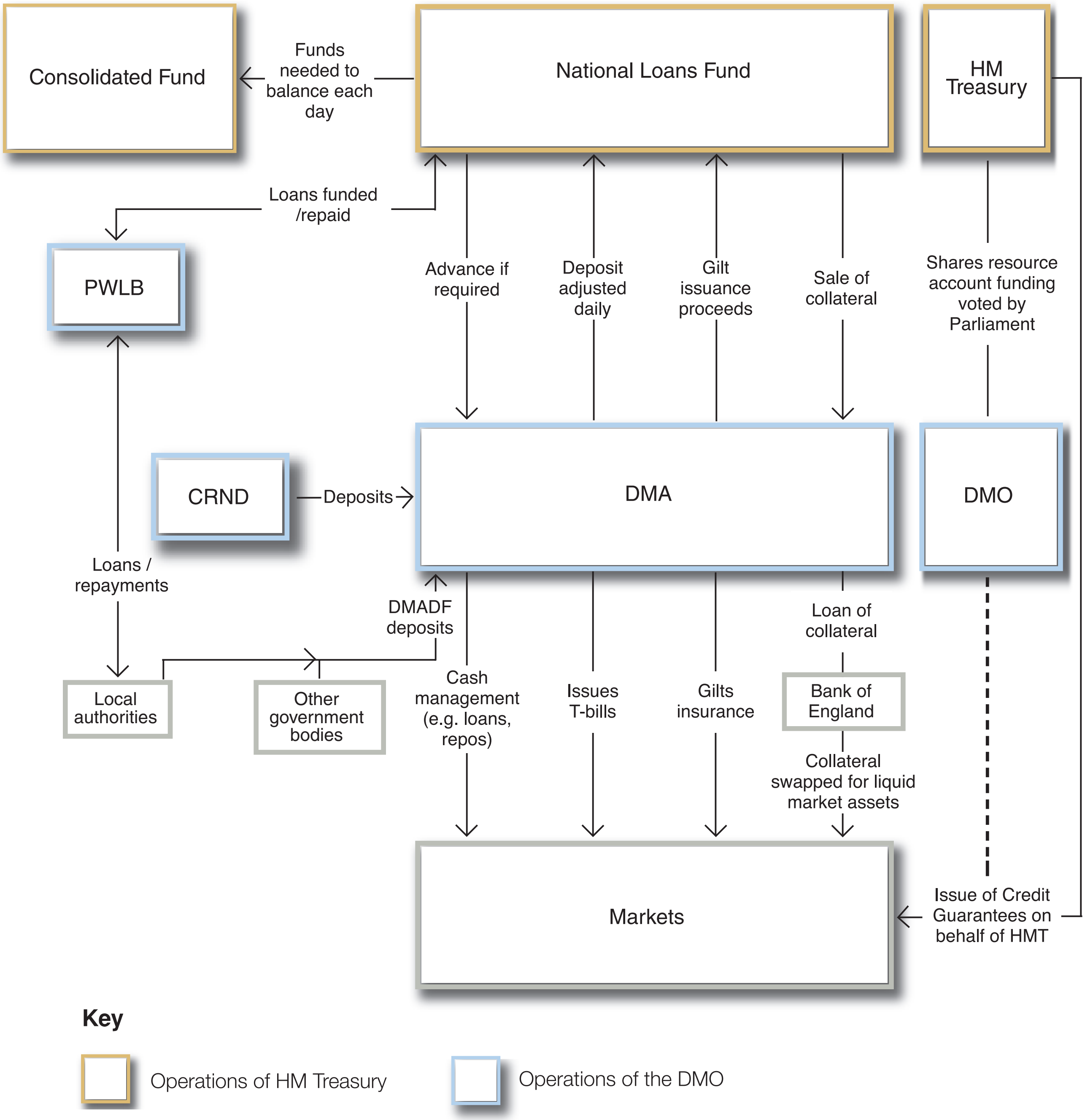
The Commissioners for the Reduction of the National Debt (CRND) is a statutory entity within the DMO that performs a fund management service for public sector clients.

The Comptroller General of CRND is also the Deputy Chief Executive of the DMO. CRND client mandates require the bulk of the funds under management to be invested in gilts or with the DMA Deposit Facility (DMADF). Surplus cash in CRND client accounts is regularly deposited with the DMADF. From time to time, the DMA transacts in marketable gilts with the CRND and trades these back-to-back with market counterparties. The DMA also transacts non-marketable gilts on behalf of the CRND 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 within DMADF at 31 March 2009 was £61.7 billion (31 March 2008: £60.2 billion).

Key relationships of the DMO and DMA

The diagram below 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.

3) The DMA also lent cash to the Bank of England to facilitate the Asset Purchase Facility.

Corporate governance

Throughout 2008-2009, ministerial responsibility for the DMO was vested in the Economic Secretary to HM Treasury by the Chancellor of the Exchequer. At the beginning of the year the post of Economic Secretary was held by Kitty Ussher MP. Since 3 October 2008, the post has been held by Ian Pearson MP. (On 16 June 2009, ministerial responsibility for the DMO was transferred to the Financial Services Secretary and Minister for the City, Paul Myners CBE.)

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 2008-2009 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
- **Colin Price**
  Non-executive Director
- **Brian Larkman**
  Non-executive Director

Colin Price was Finance Director of Shell Pensions Management Services Ltd between 1991 and 2001, a member of the Board of IMRO from 1996 to 2000 and Chairman of The Lord Chancellor's Strategic Investment Board from 2000 to 2006. 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 FSA until 2006.

The Managing Board has the following operational committees:

- Sub-committee of the Managing Board
- Debt Management Committee
- Cash Management Committee
- Fund Management Committee
- Risk Committee.

The Chief Executive is supported as Accounting Officer by two audit committees: the Exchequer Funds Audit Committee for the activities of the DMA, CRND and PWLB; and the Group Resources Audit Committee for the DMO as an executive agency. Further details are set out in the Statement on Internal Control on pages 48 to 53.

Risk management

The DMO has a range of risk policies and supporting processes in place in order 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 pages 48 to 53 and notes 22 to 24 of the DMA Accounts on pages 96 to 110.

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 which cannot be shown to be justifiable.

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 2008-2009 were 278.5 or 1.7% of the total available (2007-2008: 352.5 days or 2.2% of 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 pages 42 to 45. 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 on a systematic and rational basis 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, which is committed to the prompt payment of all invoices not in dispute.

Following an enhancement to government policy, the prompt payment target was reduced from 30 calendar days to 10 working days with effect from 1 December 2008. Across the department, HM Treasury achieved 95% of invoices paid within 30 calendar days and from 1 December, 92% of invoices within 10 working days.

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 a party to the Joint Sustainable Development Statement, signed by the then 'Green Minister' for the Chancellor of the Exchequer's Departments and Agencies, John Healey MP, and published on the DMO website.

The DMO is committed to contributing to the Government's objectives on Sustainable Development as contained in the Framework for Sustainable Development in the Government Estate.

Auditors

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

Reporting of personal data related incidents

The DMO had no protected personal data related incidents over the financial year, nor has the DMO had any incidents in previous financial years, which require reporting. During 2008-2009 the DMO has continued to implement the requirements of the Cabinet Office-led cross-Government data handling review.

Robert Stheeman
Chief Executive
3 July 2009

Management Commentary

2008-2009 has provided the most challenging operational environment to date for the DMO. The requirements on the DMO this year have been greater than ever before and the market conditions in which the DMO has had to operate have been the most difficult in the organisation's eleven year history.

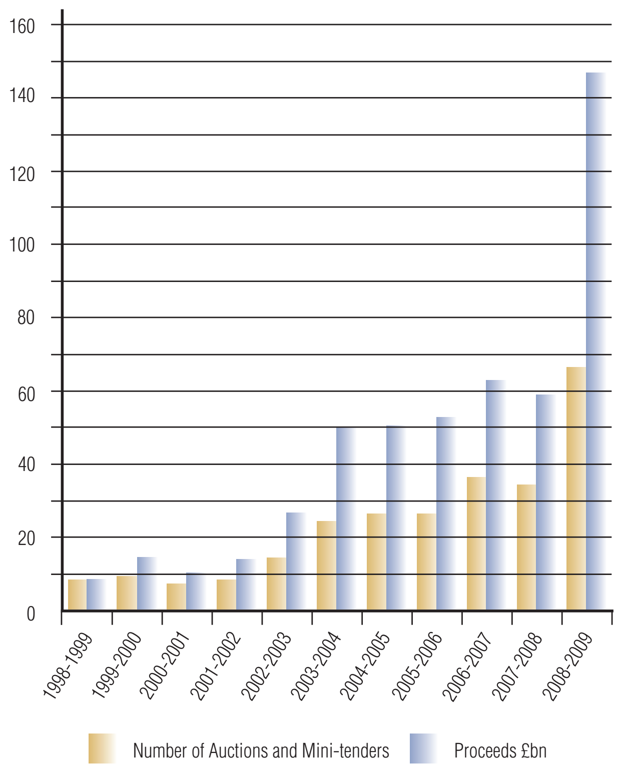
Review of activities in 2008-2009

2008-2009 was another successful year for the DMO. In another highly active year, it successfully met its debt and cash management remits, its strategic objectives and published targets. A full account of these is given on pages 26 to 32.

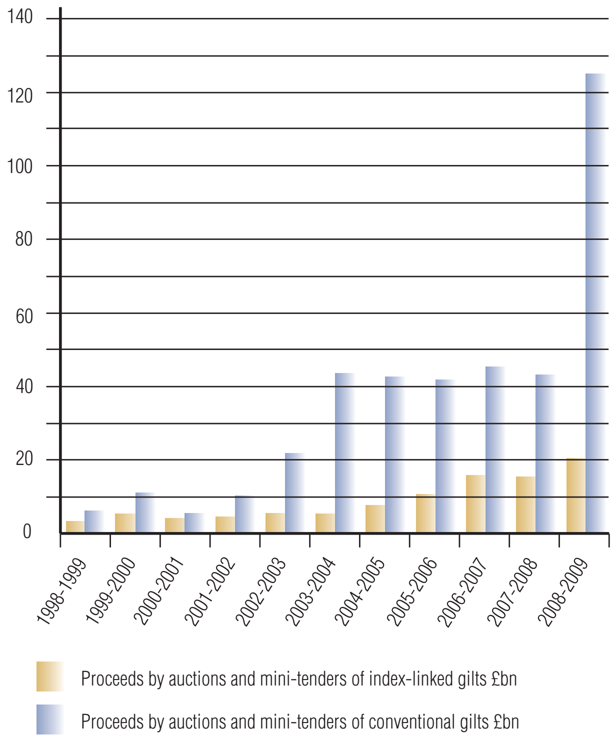
Debt management

Debt issuance

2008-2009 was an unprecedented year for the DMO as the turbulence in financial markets, slowing economic growth and the financial impact of HM Government's support for the banking sector served to significantly increase the DMO's financing requirement. The DMO began the financial year with a record gilt financing requirement of £80.0 billion; this was increased to £110.0 billion in an exceptional remit revision in October 2008, to help finance the Bank recapitalisation package and then again to £146.4 billion in a further revision to the remit in the Pre-Budget Report in November 2008. This challenging remit was successfully delivered, with overall gilt sales of £146.5 billion.



A record total of 58 gilt auctions were held in 2008-2009 (the previous record was 36 in 2006-2007) and, following the successful introduction of electronic bid capture in 2007-2008, the average release time for auction results fell from 9.6 minutes to 7.6 minutes in 2008-2009. Eight mini-tenders of gilts were also held.



One consequence of the sharp upward revisions to the financing requirement (which occurred relatively late in the financial year) on top of what was already a record total was that the debt issuance profile of the DMO changed markedly from that in 2007-2008. The need to raise a large amount of cash relatively quickly required the DMO to access the deepest and most liquid part of the market (and consequently that part with lower execution risk) – short-dated conventional gilts - to a far greater extent than in the recent past. The size and proportion of the short-dated gilt programme grew from £10 billion (17%) in 2007-2008 to £25 billion (31%) in the original remit for 2008-2009 and to £62.8 billion (43%) in the revised remit announced in the Pre-Budget Report.

As part of the exceptional remit revision in October 2008, mini-tenders of gilts were introduced to supplement sales at auctions and as a means of accessing pockets of demand with a much shorter period of pre-commitment than auctions. Eight such tenders were held between October 2008 and March 2009, raising £8.1 billion. Following the introduction of mini-tenders, the DMO launched a consultation exercise on supplementary gilt issuance methods in December 2008. In its response to the consultation published on 18 March the DMO indicated that it saw merit in continuing to use mini tenders in 2009-2010 and also that it saw merit in the use of syndicated offerings to sell larger volumes of long-dated and index-linked gilts than would be possible by auctions alone. In the 2009 Budget it was announced that in 2009-2010 the DMO would sell £25 billion of gilts in a programme of up to eight syndicated offerings and £12 billion of gilts in a series of mini-tenders. These programmes will support the £183 billion auction programme in 2009-2010.

Despite the increasingly difficult market environment, gilt market turnover and liquidity has been maintained in 2008-2009 with average daily turnover of £16.05 billion, up from £15.24 billion in 2007-2008, and more than twice that of 2001-2002. Maintaining market liquidity is a key factor in addressing the needs of a diversified investor base. In this context, 2008 saw a continuation of the trend of the previous five years, with another sharp increase (from £156.7 billion to £216.4 billion) in the estimated value of gilts held by overseas investors.

The DMO received a provisional remit for 2009-2010 on 18 March 2009, which showed planned gilt sales of £147.9 billion (based on the projections of the public finances published at the Pre-Budget Report). The publication of a provisional remit reflected the fact that the 2009 Budget was on 22 April 2009 and that HM Treasury was required, under the Code for Fiscal Stability, to publish a financing remit for 2009-2010 before the start of the 2009-2010 financial year.

The 2009-2010 remit was restated as part of the 2009 Budget announcements. Planned gilt sales rose to a record £220.0 billion with planned net Treasury bill sales of £21.6 billion.

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 - this portfolio of gilts (fair value of £24 million at 31 March 2009) is used for purchase and sale transactions with retail investors.
- Rump stocks - these are gilts (fair value of £8 million at 31 March 2009) 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 - this portfolio (fair value of £359 million at 31 March 2009) comprises a residual from each gilt auction. A small amount of each gilt auction may be retained due to rounding of the allotment to the successful bidders of the gilts in the auction. 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

The DMO met its cash management remit for 2008-2009 against a backdrop of difficult money market conditions characterised notably by lack of liquidity. In response to market conditions, and to factors relating to extraordinary short-term cash needs of the Exchequer largely associated with financial sector support schemes, the DMO modified its strategy in 2008-2009. Measures included reducing the maximum term of unsecured loans, a decision taken by the DMO's risk committee, and focussing lending on the secured reverse repo markets where liquidity was typically deeper for much of the year. To meet Exchequer borrowing needs, the DMO continued to raise cash principally through the sterling repo market, though during the most volatile periods in 2008-2009, there was a significant increase in market demand to buy Treasury bills both at tender and through bilateral agreement. In addition, use of 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, increased significantly as credit risk aversion rose.

Largely due to higher aggregate Exchequer borrowing requirements in 2008-2009 and a shorter average life of borrowing and lending transactions, trade volumes and average aggregate cash management balances in the DMA were markedly higher than in previous years. In addition to the increased turnover, a higher percentage of trades were passed via electronic and voice brokers to reflect the need to seek out the deepest pools of liquidity and finest rates in markets that, for protracted periods, were very thinly traded.

Repo and reverse repo was the DMO's main tool for carrying out its cash management operations. Throughout 2008-2009, 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, and was significantly increased during 2008-2009 with purchases of gilts from the National Loans Fund. At 31 March 2009, gilts held specifically for use as cash management collateral had a carrying value of £93,167 million.

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 2008-2009.

Hedging of NS&I's Guaranteed Equity Bonds

The DMA held a number of equity index / interest rate derivatives in the year (aggregate nominal value of £635 million at 31 March 2009), on behalf of NS&I. The net fair value of the derivatives was negative £103 million at 31 March 2009 (31 March 2008: positive £72 million).

PWLB

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

During 2008-2009, the lending arrangements under which local authorities may borrow from the PWLB did not change. In this period, the PWLB agreed 604 applications for loans totalling £6.360 billion (down from £10.000 billion during 2007-2008). The reduction in new advances was due to low rates for local authorities' cash investments and perceptions of heightened risk attaching to investment counterparties following the failure of the Icelandic banks. These factors caused local authorities to apply their cash investments to capital expenditure or debt redemption. The reduction in new advances resulted in a reduction in fee income from PWLB borrowers to £2.2 million 2008-2009, down from £3.5 million in 2007-2008. Of the total advanced, £5.207 billion was for major local authorities in England, £0.217 billion in Wales, £0.923 billion in Scotland and £0.013 billion to minor borrowers throughout the UK.

In total, 320 local authorities applied for advances, including 163 non-principal authorities.

At 31 March 2009, the overall level of outstanding debt to the PWLB amounted to £50.853 billion, an increase of £0.108 billion from the same point the previous year.

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

CRND

During the year, the 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 in the Debt Management Account, 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.

The initial purchase of Treasury bills by the DMA had a nominal value of £50 billion. Further purchases were made throughout 2008-2009. As at 31 March 2009, the nominal value of Treasury bills held on the DMA balance sheet for the purpose of providing collateral under the Special Liquidity Scheme was £205.7 billion.

Although the drawdown window to access the SLS has closed, the Scheme will remain in place for three years. During this time, participant banks may replace existing stock swaps under the Scheme with new ones 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 has loaned UK Government 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 £47,752 million were created by the NLF and sold to the DMA.

Guarantee Schemes

Since the commencement of the Credit Guarantee Scheme, the DMO has administered the operational requirements of the 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 and collecting fees payable by the participating banks.

The Asset-backed Securities Guarantee Scheme came into operation in 2009-2010 and the DMO is responsible for administering most aspects of the Scheme on behalf of HM Treasury.

Asset Purchase Facility

The DMO met all the funding requirements of the Bank of England to support its Asset Purchase Facility through a combination of Treasury bill sales and by borrowing as part of its regular cash management operations. The DMA is remunerated at the base rate by the Bank of England on monies provided to it for purchases under the facility. The DMA provided funding until 5 March 2009, after which the Asset Purchase Facility was financed from central bank reserves. As at 31 March 2009, the DMA had provided the Bank of England £985 million to purchase assets under the facility.

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 2008-2009, the DMO conducted two successful auctions of EU Allowances in the UK.

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 2008-2009 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 2008-2009, against a backdrop of ongoing structural demand for long-dated gilts (both conventional and index-linked) as evidenced both in representations received from gilt market participants and by the continued inversion of the nominal and real yield curves over the period. Demand for shorter-dated maturities was also manifesting itself in 'flight to quality flows' arising from the onset of financial market turbulence in the Autumn of 2007. Planned gilt sales of £80.0 billion were announced in the 2008 Budget, then a record in nominal terms.

Against this backdrop, it was considered that an appropriate balance of cost and risk would be achieved by biasing issuance towards short-dated (31%), long-dated (30%) and index-linked gilts (23%). Over the course of 2008-2009 however the volume of gilts that the DMO was required to issue was revised upward in October 2008 and also in the 2008 Pre-Budget Report. In October 2008, the Government announced that additional gilt sales of £30.0 billion were required to finance bank recapitalisation, taking total planned sales to £110.0 billion. In the 2008 Pre-Budget Report, planned gilt sales were revised upward again to £146.4 billion reflecting an increase in the net financing requirement.

The distribution of issuance by type of gilt changed following the announcement of significantly increased gilt issuance for 2008-2009 in October 2008 and in the 2008 Pre-Budget Report. In particular, the emphasis given to issuance of short maturity gilts increased significantly (to 43% at the Pre-Budget Report).

The operational requirement to raise a proportionately large amount of additional finance in a relatively short period of time led to the increased reliance on short-dated issuance, given the depth of the market in that sector, thereby allowing larger auctions to be scheduled. In addition, the increased proportion of short maturity gilts issued was influenced by the short-term nature of some of the items driving the increased net financing requirement.

The revised remit was met with outturn gilt sales of £146.5 billion relative to the £146.4 billion target.

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

The DMO successfully delivered its cash management objectives for 2008-2009 despite the difficult market conditions prevalent throughout the period.

The DMO monitored and assessed its overall performance in meeting HM Government's objectives in Exchequer active cash management using a number of key performance indicators. These indicators reflected the principles and objectives of HM Government for cash management and were qualitative and quantitative in nature.

A full account of cash management performance will be included within the DMO's Annual Review 2008-2009.

3. To advise HM Treasury on the development and implementation of strategies for managing HM Government's balance sheet to secure sound public finances.

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 introduction of HM Government's Credit Guarantee Scheme for the banking sector.

4. 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 (CRND). The DMO charged £0.7 million in 2008-2009 for services relating to the management of funds with a value exceeding £62.0 billion at 31 March 2009.

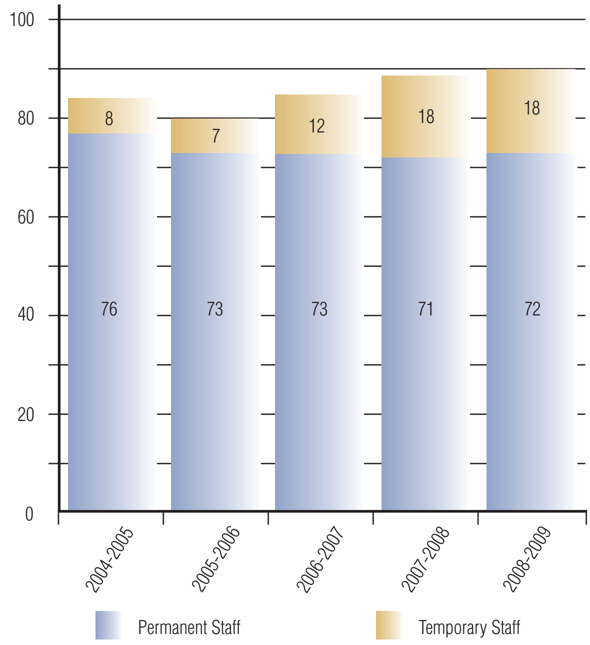
5. To provide a cost-effective lending service to local authorities through the Public Works Loan Board.

The Public Works Loan Board (PWLB) agreed over £6 billion of new loans to borrowers in 2008-2009. The rates applied to these loans by the PWLB continued to be at levels close to central government's own cost of borrowing for the year.

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

During 2008-2009, the DMO employed an average of 90 whole-time equivalent staff, of which 72 were permanent civil servants and 18 were short-term contract staff.

Average staff numbers employed by the DMO



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.

7. 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 pages 48 to 53.

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 2008-2009 but, in some areas, is subject to confidential parameters notified separately to the DMO).

The DMO complied fully with the financing remit in the financial year 2008-2009.

The gilt sales outturn was £146.5 billion (cash) relative to the final revised target of £146.4 billion as published at the 2008 Pre-Budget Report. Sales were achieved through the conduct of 58 auctions (39 conventional and 19 index-linked) and 8 mini-tenders.

Outright gilt sales of £80.0 billion were initially planned for the financial year 2008-2009 announced in the Budget on 12 March 2008. However, to help finance the re-capitalisation of the banking sector there was an exceptional intra-year revision to the DMO remit on 13 October and gilt sales were increased to £110.0 billion. These numbers were increased further at the Pre-Budget Report in November 2008, when planned gilt sales were increased to £146.4 billion. The gilt sales outturn was £146.5 billion (£126.5 billion from conventional gilts, £20.0 billion from index-linked gilts). There was one uncovered auction in the financial year of 4¼% Treasury Gilt 2049 on 25 March 2009, which was covered 0.93 times, but this did not prevent the delivery of the gilt sales target.
The 58 outright gilt auctions and 8 mini-tenders are shown in the table in Target 2, along with proceeds and the auction release times.

The auction results throughout the year were achieved despite extremely volatile market conditions. Except for the uncovered auction, cover at the auctions ranged from 1.10 times at the auction of 1⅛% Index-linked Treasury Gilt 2037 on 8 July 2008 to 2.72 times at the auction of 1⅞% Index-linked Treasury Gilt 2022 on 26 March 2009. Average cover at gilt operations in 2008-2009 was 1.83 times compared to 1.79 times in 2007-2008.

The stock of Treasury bills (in market hands) rose from £17.6 billion at the end of March 2008 to £44.0 billion at the end of March 2009, primarily as a result of debt adjustments to the DMO's financing remit during the financial year and bilateral sales of Treasury bills.

There were no credit breaches during the financial year.

	2008-2009 Gilt sales				
	Conventional gilts (£m)			Index-linked gilts (£m)	Total (£m)
	Short-term	Medium-term	Long-term		
Gilt programme at 2008 Budget	25,000	12,800	24,200	18,000	80,000
Gilt programme revision (October 2008)	46,000	19,800	25,200	19,000	110,000
Gilt programme revision (Pre-Budget Report 2008)	62,800	33,100	30,500	20,000	146,400
Gilt sales at 31 March 2009	**62,776**	**33,306**	**30,331**	**20,038**	**146,452**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2. To ensure that the maximum time taken to issue the results of gilt auctions and Treasury bill tenders (weekly and ad hoc) does not exceed 20 minutes – although the DMO will aim to publish the results of gilt auctions and Treasury bills within 10 minutes and 15 minutes respectively of the close of offer – whilst achieving complete accuracy.

Achieved. The gilt auction result release times during the year were:

Date	Gilt	Proceeds (£m)	Release time (mins)
3-Apr-08	4¾% Treasury Stock 2010	3,802	9
8-Apr-08	1¼% Index-linked Treasury Gilt 2017	1,308	7
17-Apr-08	4½% Treasury Gilt 2042	2,223	15
24-Apr-08	0¾% Index-linked Treasury Gilt 2047	693	7
15-May-08	5% Treasury Gilt 2018	2,516	9
22-May-08	1⅛% Index-linked Treasury Gilt 2037	1,032	6
3-Jun-08	4¼% Treasury Gilt 2055	2,183	8
10-Jun-08	1⅞% Index-linked Treasury Gilt 2022	1,222	7
12-Jun-08	4½% Treasury Gilt 2013	3,377	8
24-Jun-08	0¾% Index-linked Treasury Gilt 2047	739	7
2-Jul-08	4½% Treasury Gilt 2042	2,174	8
8-Jul-08	1⅛% Index-linked Treasury Gilt 2037	993	8
17-Jul-08	5% Treasury Stock 2012	3,758	15
24-Jul-08	1¼% Index-linked Treasury Gilt 2027	1,180	7
29-Jul-08	5% Treasury Gilt 2018	2,490	7
5-Aug-08	4¾% Treasury Gilt 2030	2,222	6
14-Aug-08	1⅛% Index-linked Treasury Gilt 2037	1,149	7
2-Sep-08	4¼% Treasury Gilt 2049	2,198	8
10-Sep-08	4½% Treasury Gilt 2013	3,510	7
23-Sep-08	1¼% Index-linked Treasury Gilt 2055	639	7
25-Sep-08	4½% Treasury Gilt 2019	2,450	8
1-Oct-08	4¼% Treasury Gilt 2049	2,129	9
7-Oct-08	1⅞% Index-linked Treasury Gilt 2022	1,264	8
16-Oct-08	4½% Treasury Gilt 2013	3,761	7
20-Oct-08	4% Treasury Stock 2009	1,003	N/A*
21-Oct-08	4¼% Treasury Gilt 2011	4,788	9
23-Oct-08	5% Treasury Gilt 2018	3,117	10
28-Oct-08	1¼% Index-linked Treasury Gilt 2032	995	7
30-Oct-08	4% Treasury Gilt 2016	3,927	8
4-Nov-08	4¾% Treasury Gilt 2030	2,190	7
5-Nov-08	1¼% Index-linked Treasury Gilt 2055	333	N/A*
11-Nov-08	4¾% Treasury Stock 2015	3,657	7
13-Nov-08	3¼% Treasury Gilt 2011	4,014	11
17-Nov-08	4¼% Treasury Gilt 2055	1,224	N/A*
20-Nov-08	4½% Treasury Gilt 2019	3,090	8
26-Nov-08	0¾% Index-linked Treasury Gilt 2047	690	6
27-Nov-08	5% Treasury Stock 2012	3,969	7
1-Dec-08	1¼% Index-linked Treasury Gilt 2055	326	N/A*
2-Dec-08	4¼% Treasury Gilt 2049	2,328	7
9-Dec-08	1¼% Index-linked Treasury Gilt 2032	1,192	8
11-Dec-08	4½% Treasury Gilt 2013	3,683	8
18-Dec-08	3¼% Treasury Gilt 2011	3,564	7

Date	Gilt	Proceeds (£m)	Release time (mins)
6-Jan-09	5¾% Treasury Stock 2009	1,566	N/A*
7-Jan-09	4¾% Treasury Stock 2038	2,267	7
13-Jan-09	4½% Treasury Gilt 2019	3,280	5
15-Jan-09	1¼% Index-linked Treasury Gilt 2032	1,099	5
19-Jan-09	4¼% Treasury Gilt 2027	1,232	N/A*
22-Jan-09	4½% Treasury Gilt 2013	3,783	8
27-Jan-09	0¾% Index-linked Treasury Gilt 2047	730	6
29-Jan-09	4¾% Treasury Stock 2020	2,923	6
3-Feb-09	3¼% Treasury Gilt 2011	3,861	6
4-Feb-09	4¼% Treasury Gilt 2049	1,876	7
10-Feb-09	4½% Treasury Gilt 2019	3,399	6
12-Feb-09	1¼% Index-linked Treasury Gilt 2027	1,205	6
17-Feb-09	4¼% Treasury Gilt 2055	1,035	N/A*
19-Feb-09	5¼% Treasury Gilt 2012	3,565	7
24-Feb-09	1⅛% Index-linked Treasury Gilt 2037	999	6
26-Feb-09	4% Treasury Gilt 2022	2,746	6
3-Mar-09	3¼% Treasury Gilt 2011	3,905	6
4-Mar-09	4¼% Treasury Gilt 2039	2,162	12
10-Mar-09	4½% Treasury Gilt 2019	3,367	6
12-Mar-09	1¼% Index-linked Treasury Gilt 2032	1,057	6
17-Mar-09	5% Treasury Stock 2025	1,400	N/A*
19-Mar-09	2¼% Treasury Gilt 2014	3,209	8
25-Mar-09	4¼% Treasury Gilt 2049	1,488	13
26-Mar-09	1⅞% Index-linked Treasury Gilt 2022	1,196	6
		146,452	

* Operations for which the release time is shown as N/A are mini-tenders which are not included in the release time target.

The release times for the 58 auctions held during the financial year ranged from 5 to 15 minutes and averaged 7.6 minutes.

The release times for the 51 weekly Treasury bill tenders conducted during the financial year ranged from 7 to 30 minutes and averaged 13.4 minutes. There were no ad hoc or other 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 or 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 2007-2008 financial statements of the DMO, the DMA, the PWLB, and the CRND each give a true and fair view.

4. To acknowledge all letters and e-mail enquiries from the public within four working days and for at least 95 per cent to be sent a substantive reply within two weeks. Furthermore, the DMO will respond to enquiries under the Freedom of Information Act within the statutory timeframe.

Partially achieved. Over the financial year there were 307 queries (of which 298 were emails). On eight occasions the initial response of four working days was breached due to the receipt of the email by an appropriate official being delayed by DMO e-mail security controls or being sent to an official who was out of the office. Upon discovery the enquiries were responded to immediately. The average response time was three working days.

5. To achieve less than five breaches of Operational market notices (excluding any breaches which HM Treasury accept were beyond the control of the DMO).

Achieved. There were no breaches of the operational market notices in the financial year.

6. To ensure that for cash management purposes, target weekly balances and expected daily variations are notified according 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 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 achieves at least 99 per cent (by value) successful settlement of agreed trades on the due date.

Achieved. No trades failed within the DMO's control. During the year trades with a value of £860m (under 0.1% by value) failed as a result of circumstances outside the DMO's control. All failed trades were due to market counterparties having insufficient securities to satisfy their delivery obligations to the DMO.

8. To release all market sensitive data and announcements in a timely manner and to aim to achieve no factual errors in material published by the DMO on its wire service pages, its web site or its printed documents (insofar as the material is under the control of the DMO and not third parties).

The target to release all market sensitive data and announcements in a timely manner was successfully achieved.

The target to achieve no factual errors in material published by the DMO was not achieved. The total number of errors for the financial year was four. Each error was corrected upon detection.

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

Achieved. During 2008-2009 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 sales service is operated according to its published terms and conditions.

Achieved. The gilt sale and purchase scheme during 2008-2009 was conducted fully in line with its terms and conditions. The pattern of sales and purchases through the financial year is shown in the table below.

	Sales	Purchases	Aggregate retail sales	Aggregate retail purchases
	(transactions)	(transactions)	£m	£m
Apr-Jun 2008	1,096	495	14.21	13.99
Jul-Sep 2008	1,028	1,730	7.25	39.61
Oct-Dec 2008	874	1,779	10.93	38.69
Jan-Mar 2009	1,029	1,398	12.71	43.90
Total	**4,027**	**5,402**	**45.10**	**136.19**

Financial results of the UK Debt Management Office

The DMO is financed through HM Treasury and operated under net cost arrangements, meaning that the control total for the DMO's annual expenditure agreed by Parliament comprises an aggregate of target expenditure and income.

The DMO's net operating cost for 2008-2009 was £12.0 million (2007-2008: £9.9 million). This increase of £2.1 million is due to:

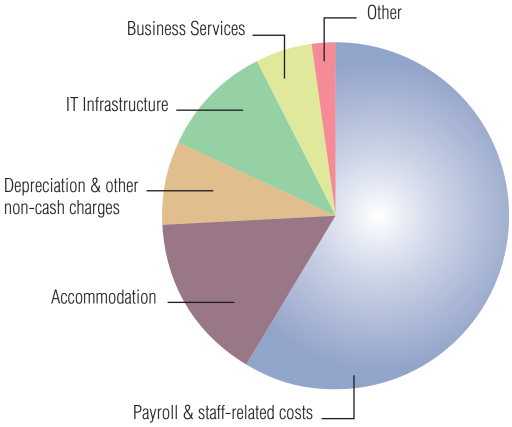
	£m
Increase in gross programme costs	1.9
Decrease in administration income	0.5
Increase in programme income	(0.1)
Decrease in gross administration costs	(0.2)
	2.1

These changes are explained below.

Administration

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

Analysis of administration expenditure



During 2008-2009, the gross administrative expenditure amounted to £12.9 million (2007-2008: £13.1 million). The **net decrease of £0.2 million** is due to a fall in other administrative costs offsetting increases in other areas. The fall in other administrative costs stems from:

- a reduction in costs associated with a major upgrade to the Agency's core trading systems, which included the migration of some business processes that had previously been undertaken on legacy systems. This upgrade was pre-agreed by HM Treasury and the majority of work on this project was completed during 2007-2008,
- lower notional costs being incurred for depreciation and amortisation as the total value of fixed assets reduced, and
- lower notional costs associated with provisions as no additional early retirements were confirmed.

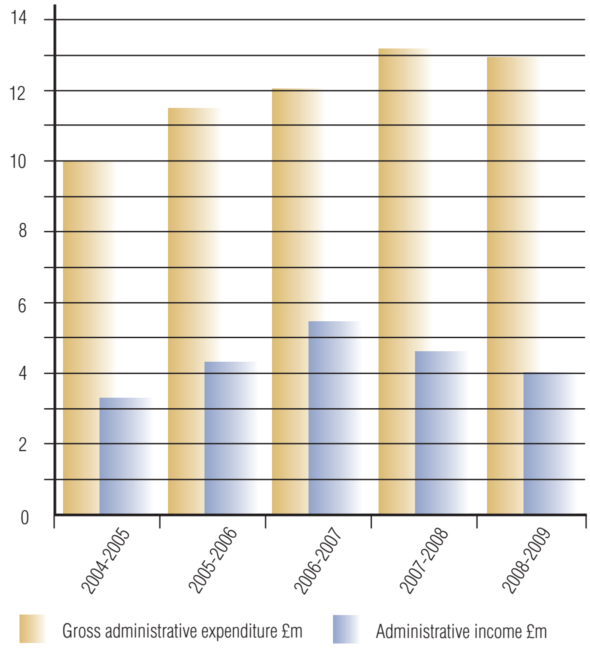
The DMO is able to offset its gross expenditure by applying operating income amounts as appropriations-in-aid, within Parliamentary approved limits. The income received principally comprised fees charged for issuing new loans to PWLB customers and provision of the fund management service to Government customers of the CRND and the recovery by the Agency of 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 2008-2009, **the administration income decreased by £0.5 million** to £4.1 million, from £4.6 million in 2007-2008. Although increased income was received from the DECC following the successful completion of the first two auctions of EC carbon allowances and the separate management of the Special Liquidity Scheme, these were off-set by a reduction in fees from PWLB customers to £2.2 million from £3.5 million in 2007-2008. The reduction in PWLB fees was the result of lower demand from PWLB customers for new loans in 2008-2009 relative to the previous year.

Expenditure associated with an increased gilt issuance programme also rose with the requirement to hold a larger number of gilt auctions and mini-tenders in order to meet the Government's greater borrowing needs.

The DMO also has Parliamentary approval to off-set Programme expenditure with associated income. During 2008-2009, the DMO received an amount equal to the income target and has been able to apply this total in full.

Administrative expenditure and income

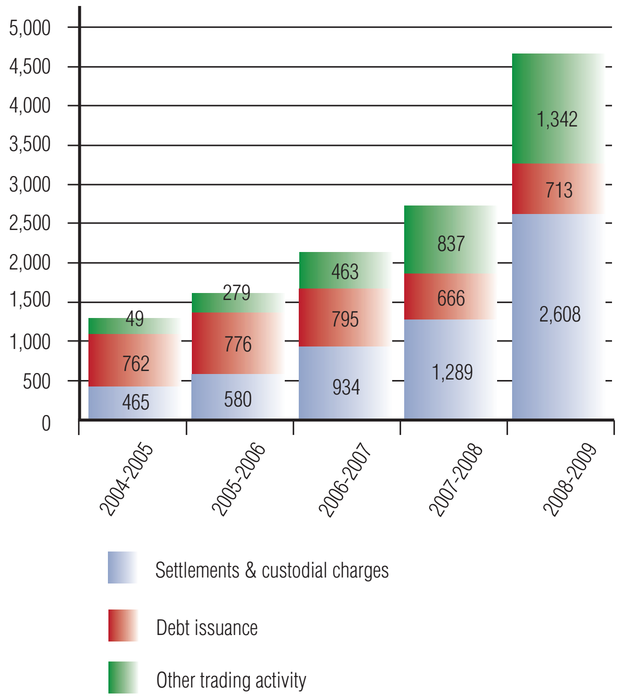


Programme

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.

Gross programme expenditure increased by £1.9 million to £4.7 million, from £2.8 million in 2007-2008. This mainly related to the DMO's increased trading activity in the latter half of the financial year as the Agency responded to severe liquidity problems in the money markets and sought to enable parts of the Governments financial sector intervention package.

Programme Expenditure (£000s)



The chart does not include gilt syndication expenditure incurred in 2005-2006.
Debt issuance costs are recovered from the National Loans Fund and are included in reported programme income.

Balance Sheet

At 31 March 2009, the DMO's balance sheet showed a deficit. This is a product of the relationship between the DMO and HM Treasury as its parent department. The DMO is an executive agency operating at arm's length from ministers, but its funding is an allocation of the total voted by Parliament to HM Treasury. The DMO has no operating capital or cash of its own (apart from a deposit held for a sub-tenant); its liabilities are paid by HM Treasury. The cash funding thus provided by HM Treasury to the DMO does not equate to the net operating cost recorded by the DMO on an accrual basis. As required by the Government Financial Reporting Manual, funding is recorded in the general fund within Taxpayers' Equity, along with net operating cost.

The balance of Taxpayers' Equity can therefore be particularly affected by:

- Unpaid and accrued liabilities recognised as an expense by the DMO but not yet funded by HM Treasury
- Outstanding receivables
- Income recognised in the operating cost statement in excess of what can be appropriated in aid, which is recorded as a liability and must be paid over to the Consolidated Fund.

A balance sheet deficit therefore reflects the DMO's net operating funding requirement at that date rather than operating performance or solvency.

Financial results of the Debt Management Account

Income and expenditure account

The DMA's operations for the financial year 2008-2009 gave rise to net interest income of £2,678 million (2007-2008: net interest expense of £193 million), net trading expense of £130 million (2007-2008: £71 million), and gains from investment securities of £7 million (2007-2008: £2 million). This resulted in an income and expenditure account surplus for the year of £2,587 million (2007-2008: deficit of £262 million). Net unrealised gains on investment securities recorded in the revaluation reserve were £6,759 million (2007-2008: £1,108 million).

Net interest income

Net interest income was generated mainly by the DMA's involvement in the Special Liquidity Scheme (£1,626 million) and the Discount Window Facility (£754 million). This 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 Special Liquidity Scheme or the Discount Window Facility, was greater than the interest expense on the liabilities that funded these assets. Interest income on the gilts and Treasury bills reflects the yields available when they were purchased from the NLF. Critically, these historic yields were greater than the average prevailing rates paid on the relevant liabilities during 2008-2009. 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 during the year, from 5.25% to a historic low of 0.5%. The funding cost of the gilts and Treasury bills fell in line with the decrease in the Bank Rate, while the interest income they generated was unaffected. The impact of this interest rate differential was greater than during 2007-2008 due to the significantly increased volume of gilts and Treasury bills relative to previous years. The total carrying value of these assets at 31 March 2009 was £352,595 million (31 March 2008: £29,163 million).

The DMA does not seek to achieve a particular yield by timing its purchase of gilts and Treasury bills, for use as collateral or for lending to the Bank of England to facilitate the Special Liquidity Scheme or Discount Window Facility. Similarly, the DMA also does not seek to affect its funding rate – it incurs the Bank Rate. 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 is internal to Government, so Government incurs net interest income of zero from these operations.

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 achieve these. The size and composition of the DMA's balance sheet 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 2008-2009.

Net trading expense

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 a net trading expense of £139 million (2007-2008: £73 million) in the DMA largely due to a reduction in the FTSE 100 index in the year to 31 March 2009. The loss incurred by the DMA is mirrored by cheaper borrowing costs achieved by NS&I. Taking account of the positions of both the DMA and NS&I the Government incurred no material gain or loss.

Unrealised gains on investment securities

Falling yields on gilts, held by the DMA for use as collateral in its Exchequer cash management operations and for use in the Discount Window Facility, and falling yields on Treasury bills, used in the Special Liquidity Scheme, are reflected in increases in the value of these instruments. The market value of these gilts and Treasury bills tends to increase when market interest rates fall. Additionally, market fears during 2008-2009 of systemic liquidity and credit problems drove a 'flight to quality', with investors seeking securities with the best credit ratings. This resulted in a greatly increased demand for HM Government gilts and Treasury bills, which caused the price of these instruments to rise.

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 and expenditure account, but in the revaluation reserve. The revaluation reserve increased by £6,759 million during 2008-2009 (2007-2008: increased by £1,108 million).

Fee income

The DMA earned fee income in 2008-2009 from activities that included lending Treasury bills to the Bank of England to facilitate the Special Liquidity Scheme. The DMA also earned fee income from HM Treasury for the provision of funding to the Bank of England for its Asset Purchase Facility.

Balance sheet composition

Investment securities classified as available-for-sale had a carrying value of £352,595 million at 31 March 2009 (31 March 2008: £29,163 million) inclusive of accrued interest. This increase was principally due to the purchase of gilts and Treasury bills as follows.

During the year, gilts with a nominal value of £55,600 million (2008: £3,890 million) were created by the NLF and sold to the DMA for use as collateral in its Exchequer 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 are used only in delivery by value (DBV) transactions. At 31 March 2009, such gilts acquired during the year and in prior years had a total carrying value of £ 93,167 million.

During the year, gilts with a nominal value of £47,752 million (2008: £nil) were created by the NLF and sold to the DMA in connection with the Bank of England's Discount Window Facility (DWF). At 31 March 2009, such gilts had a carrying value of £53,914 million. Gilts issued in this way will be lent to the Bank of England on an 'as needed' basis, but will not be sold outright to the market.

During the year, Treasury bills were sold by the NLF to the DMA for use in the Special Liquidity Scheme. As at 31 March 2009, the DMA's balance sheet still included such Treasury bills with a nominal value of £205,694 million, and a carrying value of £205,147 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.

The increase in asset holdings above was funded largely by incremental increases in the advance from the NLF to the DMA throughout the year. As at 31 March 2009, the carrying value of the NLF advance was £292,166 million (2008: nil).

The holdings the DMA used in its cash management operations changed in response to funding requirements from the National Loans Fund, which reflect HM Government's daily cash flows. Securities held for trading, loans and advances to banks, and deposits by banks, are particularly affected in this respect. For much of 2008-2009, the DMA held larger balances of assets and liabilities related to its cash management operations than in previous years, as it sought to manage higher aggregate Exchequer borrowing requirements. As at 31 March 2009, the DMA held loans and advances to banks of £36,355 million (2008: £14,206 million) and deposits by banks of £30,809 million (2008:£14,400 million).

Issuance of Treasury bills by the DMA

During the year, the DMA issued Treasury bills with a nominal value of £165.4 billion (2008: £85.7 billion) of which £44.0 billion was still in issue at 31 March 2009 (31 March 2008: £17.6 billion). Such Treasury bills had a carrying value of £43.9 billion (31 March 2008: £17.4 billion).

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

The DMO's strategic objectives for 2009-2010

The DMO's strategic objectives for 2009-2010 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 HM Government departments on wholesale market-related issues and activities (e.g. Credit Guarantee Scheme, Emissions Trading System, etc).

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.

In the delivery of these objectives, the DMO seeks to support primarily HM Treasury's objective to 'maintain sound public finances.'

The DMO's operational targets for 2009-2010

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 2009-2010).

The planned gilt sales from the DMO's 2009-2010 remit are:

- £74.0 billion of short-dated conventional gilts in 15 auctions;
- £70.0 billion of medium-dated conventional gilts in 19 auctions;
- £27.0 billion of long-dated conventional gilts in 12 auctions;
- £19.0 billion of long-dated conventional gilts in a combination of syndicated offerings and mini-tenders;
- £12.0 billion of index-linked gilts in 12 auctions;
- £18.0 billion of index-linked gilts in a combination of syndicated offerings and mini-tenders.

2. To ensure that the maximum time taken to issue the results of auctions and mini-tenders of gilts, Treasury bill tenders (weekly and ad hoc) and EU ETS auctions does not exceed 20 minutes – although the DMO will aim to publish the results of gilt and EU ETS auctions/mini-tenders within 10 minutes and Treasury bill tenders within 15 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 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 Public Works Loan Board and the Commissioners for the Reduction of the National Debt.

4. To acknowledge all letters and e-mail enquiries from the public within four working days and for at least 95 per cent to be sent a substantive reply within two weeks. Furthermore, the DMO will respond 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 avoid factual errors 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, together with the Asset-backed Securities component, on behalf of HM Treasury in accordance with the relevant Scheme's published rules.

The DMO's key planning themes for the period to 2011-2012

The key planning themes reflect the need for the DMO to continue to deliver its core operational objectives to the highest standards; to develop further initiatives that advance its effectiveness and reduce cost and risk; and to continue to be efficient in the stewardship of the agency. The objectives within each key planning theme are set out below.

To continue to deliver the DMO's core operations and activities to the excellent standard required.

This will include the following:

- Delivering the debt and cash management remits for 2009-2010 adapting as necessary to changes in market and other conditions;
- Developing in due course the debt and cash management remits for 2010-2011;
- Delivering the Public Works Loan Board's lending objectives for local authorities; developing and refining where appropriate efficiencies and enhancements to the service; and, where feasible, and desirable, reducing cost and risk to the Exchequer;
- Managing the funds of the Commissioners for the Reduction of the National Debt in accordance with the mandates from clients;
- Delivering the gilt purchase and sale service for retail investors efficiently and effectively;
- Managing the registration contract with Computershare, on behalf of HM Treasury, in an effective and efficient way;
- Continuing to manage hedging transactions to meet NS&I's requirements in respect of its financing programme;
- Delivering the ongoing capability to execute and develop Emissions Trading System auctions on behalf of the Department of Energy & Climate Change;
- Managing the administration of the Credit Guarantee Scheme, together with the Asset-backed Securities component, on behalf of HM Treasury, in an effective and efficient way;
- Producing the report and accounts for the DMO as an agency, the DMA, the Public Works Loan Board and Commissioners for the Reduction of the National Debt funds to the highest standards of quality and timeliness; and
- Ensuring that the DMO's website, publications and information are managed effectively and are available to stakeholders when required.

To further the development of debt and cash management strategy and contribute to initiatives that support the objectives of HM Treasury and HM Government.

This will include the following:

- Where necessary, working with HM Treasury on the development of pragmatic solutions relating to HM Government schemes and initiatives;
- Developing further analytical expertise, tools and techniques that help inform and contribute to the delivery of the debt and cash management remits;
- Developing further our understanding of the composition of, drivers for and issues relating to the investor base for gilts and Treasury bills; and
- Developing enhancements to the delivery and measurement of the effectiveness of cash management operations.

To improve efficiency and to reduce operational risk where possible.

This will include the following:

- Delivering the DMO's operations within the budget "envelope" agreed with HM Treasury;
- Reviewing further the DMO's banking and settlement arrangements with the intention of identifying efficiencies and where possible advances in operational effectiveness;
- Reviewing and implementing any necessary changes to banking and operational arrangements arising from the transfer of certain payment processing responsibilities from the Bank of England as part of the Government Banking Service;
- Developing and enhancing the DMO's business delivery capability to improve the operational efficiency of the agency;
- Enhancing the DMO's risk management analytical and reporting framework and capability;
- Reviewing and where necessary enhancing business continuity arrangements to develop further the DMO's operational resilience;
- Continuing to implement a programme of strategic Information Technology work to enhance the DMO's core infrastructure and applications;
- Developing further the management information produced to support the DMO's business and agency functions; and
- Continuing to manage information effectively and efficiently taking due account of the Freedom of Information Act requirements.

To ensure the core values of the DMO continue to make it an excellent place to work

This will include the following:

- As accredited Investors in People, continuing to develop the DMO staff's skills to meet the DMO's business needs and to maximise their professional potential;
- Continuing to integrate and embed the DMO's core values into all aspects of the DMO's operations;
- Developing further the use of the DMO's Staff Council as a means of enhancing communication with DMO staff; and
- Identifying and implementing where appropriate more effective ways of working.

Remuneration Report

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

Remuneration Report

The DMO has a Pay Committee, which during 2008-2009 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
- **Colin Price**
  Non-executive Director
- **Brian Larkman**
  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 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.

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

Non-executive Directors

Colin Price was originally contracted for an initial 3-year period from 21 February 2001. Upon completion, his contract was extended to 20 February 2007 and has been further extended for an additional 3-year term to February 2010.

Brian Larkman's contract was originally for a period of 3 years from 1 January 2005 until 31 December 2007. Upon completion, his contract was extended for a further 3 years until 31 December 2010.

Both contracts are subject to a one-month notice requirement. Contracts will automatically terminate on the date stated unless a further extension has been agreed. As office holders there is no provision for compensation for early termination.

Remuneration received

	2008-2009 Salary £000	2007-2008 Salary £000
Senior DMO Staff		
Robert Stheeman - Chief Executive	140-145	135-140
Jo Whelan - Deputy Chief Executive and Joint Head of Policy and Markets *	105-110	95-100
Full time equivalent salary	*140 - 145*	*130 – 135*
Jim Juffs - Chief Operating Officer	135 – 140	130 - 135
Joanne Perez – Joint Head of Policy and Markets ** (from 1 February 2008)	105 - 110	15 – 20
Full time equivalent salary	*125 – 130*	*110 – 115*
Non-executive Directors		
Colin Price	15 - 20	15 - 20
Brian Larkman	15 - 20	15 - 20

The amounts of remuneration received have 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 2008-2009 (0.72 in 2007-2008).

** The salary disclosed reflects a full-time salary from 1 April to 30 November 2008 and part-time hours for the remainder of the reporting period. The part-time hours are calculated on a pro rata basis from a full-time equivalent of 0.50 in 2008-2009 (not applicable in 2007-2008).

'Salary' includes gross salary, performance pay or bonuses, overtime and any other allowance to the extent that it is subject to UK taxation.

This report is based on payments made by the Agency and thus recorded in the accounts of the DMO.

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

In addition, Non-executive Directors entitled to remuneration from HM Treasury for their service during the year on the Exchequer Funds Audit Committee were Colin Price (chairman, £0 - £5,000) and Brian Larkman (independent member, £0 - £5,000).

Pension benefits

	Accrued pension at age 60 at 31 March 2009 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31 March 2009	CETV at 31 March 2008*	Real increase in CETV*
				Restated	
	£000	£000	£000	£000	£000
Robert Stheeman	10 – 15	0 – 2.5	179	140	24
Jo Whelan	5 – 10	0 – 2.5	100	75	15
Jim Juffs	50 – 55	5 – 7.5	221	181	22

* The CETV figure at 31 March 2008 is different from the closing figures reported in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

CETV is an abbreviation for 'Cash Equivalent Transfer Value'. This measure of value is explained on page 45.

Joanne Perez has chosen to join a partnership pension scheme rather than the Principal Civil Service Pension Scheme (PCSPS). The total employer's contribution paid to the partnership pension provider amounts to £14,700 (2007-2008: £2,800 from 1 February 2008).

The pension benefits information has been audited.

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 changes in the Retail Prices Index (RPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant 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, immediately after the scheme year end, the accrued pension is uprated in line with RPI. 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-pensions.gov.uk

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 individual 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 with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 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.

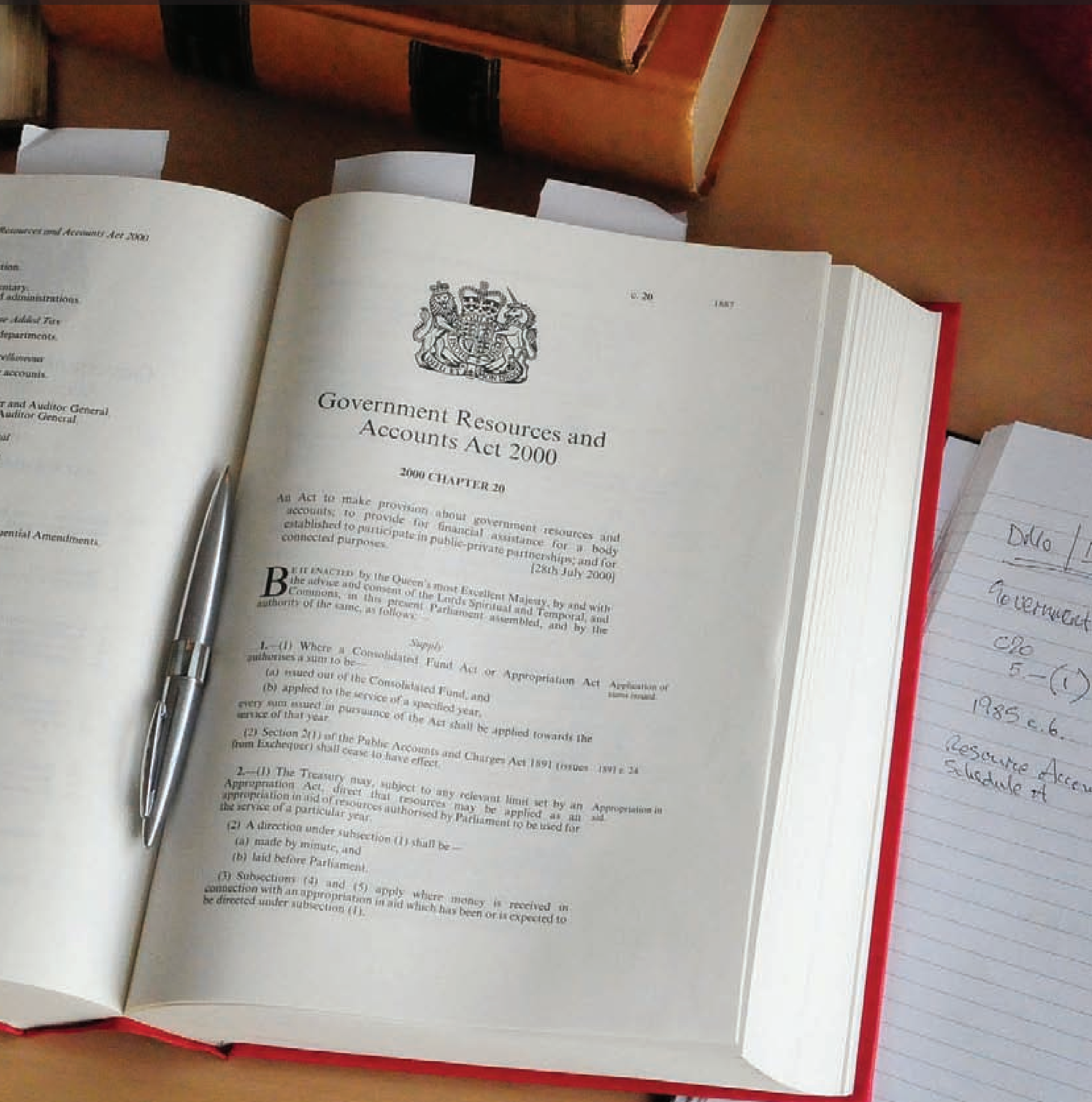
Real increase in CETV

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
3 July 2009

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 75.

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 pages 111 to 112.

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 and of the related net resource outturn, income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing both accounts, the DMO is required to:

- observe the relevant Accounts Direction issued by HM Treasury, including 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.

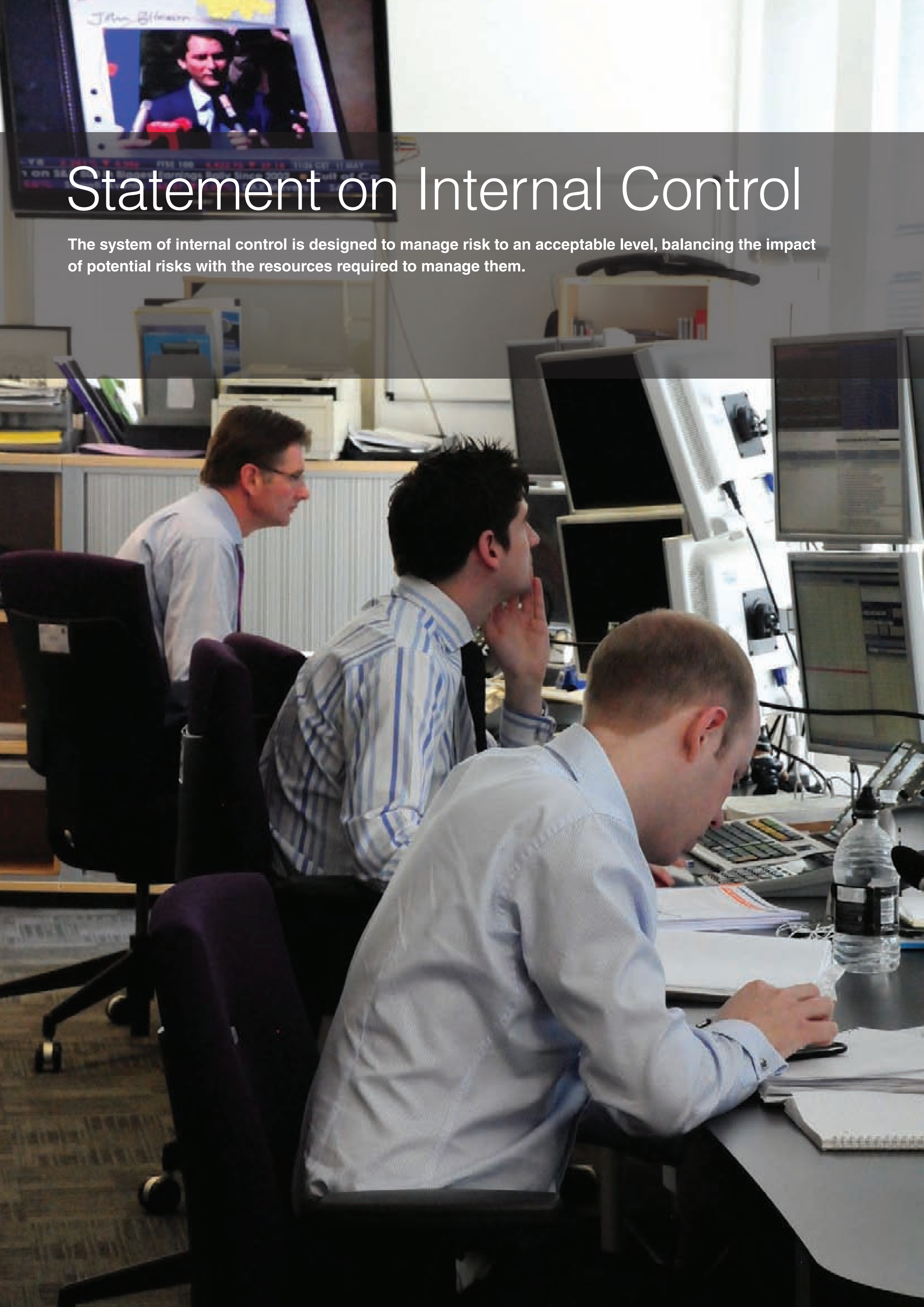
In addition, in preparing the agency accounts of the DMO, the Accounting Officer is required to comply with the accounting and other requirements of the Government Financial Reporting Manual (FReM).

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

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the UK 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 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. The Secretary of the PWLB and the Secretary and Comptroller General of the CRND are roles that are analogous to acting as an Accounting Officer. Each is 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 the 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 that 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.

During the course of 2008-2009, the DMO has taken responsibility for new initiatives in response to the unprecedented economic conditions. These initiatives have either been accounted for within the DMA or undertaken by the DMO in its capacity as agent for HM Treasury.

2. The purpose of the system of 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, rather than eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on a process designed to identify and prioritise risks to the achievement of 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 2009 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

3. Capacity to handle risk

The DMO has a formal risk management strategy and policy set by the Managing Board. This includes an outline of the DMO's capacity to handle risk. The DMO has 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 the period of increased 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 generally meets weekly. Attendance at these weekly meetings includes certain senior managers, who support the executive members of the Managing Board. The terms of reference of this management committee and those of the Cash Management, Debt Management, Fund Management and Risk Committees clearly set out their roles and responsibilities for providing the organisational capacity to consider issues and make relevant decisions at the appropriate level.

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, including specific key risks they are expected to manage.

Management in each business function is responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation. Functional managers are responsible for maintaining compliance arrangements across the DMO in their area of specialism. The Risk Management Unit (RMU) has issued guidance on those sections of the Financial Services Authority handbook, which are most pertinent to the DMO's business, to all relevant business areas to support managers in meeting this responsibility.

4. The risk and control framework

The DMO has 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.

The DMO's 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 obtained 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 against agreed deadlines.

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 Risk Committee, which acts as an enabler in the management and escalation of risk issues. The Risk Committee meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. The Risk Committee monitors and reviews key business risks, including market, credit, and liquidity risk.
- 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 comprises representatives of the DMO teams responsible for finance, risk, control, compliance and internal audit.
- A regular Operational Risk report is published to promote awareness of operational risk issues that the DMO faces, and to facilitate the escalation of issues where appropriate. The report ordinarily contains commentary on key risks, progress on treatment actions and exception reporting, and is produced by the RMU for SROs and the Managing Board.
- 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 for review on a regular basis. The frequency of review of this reporting has increased over the period in response to an increased risk focus by Senior Management in light of the uncertainty in the financial markets.

The DMO has policies on anti-fraud measures, money laundering and whistle blowing. The DMO has its own anti-money laundering handbook and staff report on any anti-money laundering developments and processes to the Managing Board.

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 acts as an advocate for information assurance at the Board and through internal discussions.

Over the year 2008-2009, the DMO has continued to implement requirements of the Cabinet Office-led cross-Government Data Handling review, in particular providing office wide presentations, making known the content of the draft pocket guide and recently deploying the Government wide e-Learning package – Protecting Government Information. Whilst the majority of the mandates of the Security Policy Framework are in place, the DMO is undergoing an independent review of the network and web security as part of CESG accreditation and developing the record management file structure to ensure that all aspects of this revised policy can be fully implemented.

A key component of the DMO's control framework is the segregation of duties to promote 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.

Within the DMO, individual teams maintain the controls focus and review of a number of these controls has been undertaken throughout 2008-2009 by internal audit for the settlements and dealing areas. In addition, checks are carried out on each auction, and on daily trading activity. Compliance testing also occurs on a monthly basis, covering activities relating to trading and settlements.

The DMO's Business Continuity Plan (BCP), including Disaster Recovery (DR) site and other arrangements is subject to continual review and update with the SROs taking an active role during the year in progressing BCP improvements. A phased delivery of improvements was implemented over the period, including relocation of the DR site to a higher category data centre, and an increase of services available at the DR site. The DMO ensured 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.

Responsibility for supporting me as Accounting Officer in matters relating to governance, internal control and risk management processes rests with the Exchequer Funds Audit Committee and the Group Resource Audit Committee.

The Exchequer Funds Audit Committee performs this role for the Accounting Officers of each of the Exchequer Funds, which are the Debt Management Account, Public Works Loan Board, Exchange Equalisation Account, National Loans Funds, Consolidated Fund, Contingencies Fund and the transactions of the Commissioners for the Reduction of the National Debt. The Chair of the Committee reports to me on matters relating to the Debt Management Account, Public Works Loan Board and Commissioners for the Reduction of the National Debt. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period. The membership of the Committee during 2008-2009 was:

Colin Price, Committee Chair, non-executive Director of the DMO's Managing Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;

Brian Larkman, non-executive Director of the DMO's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland plc; and

Mark Clarke, formerly Director General (Finance and Strategy) at the Department for Business, Enterprise and Regulatory Reform.

The Exchequer Funds Audit Committee meets quarterly.

The Group Resource Audit Committee supports HM Treasury's Permanent Secretary and the Treasury Additional Accounting Officers in their responsibilities concerning the Treasury Group's processes for risk, internal control and governance related to the Group's Resource Accounts. The Chair of the Committee reports to me on matters relating to the DMO Agency account and the operational arrangements for the Credit Guarantee Scheme. HM Treasury's Permanent Secretary appoints members of the Committee for periods of up to three years, extendable by no more than two additional three-year periods. The membership of the Committee during 2008-2009 was:

Michael O'Higgins, Committee Chair (from 1 October 2008) and independent member of HM Treasury Board;

Sir William Sargent, Committee Chair (until 30 September 2008) and independent member of HM Treasury Board;

Stella Manzie (until 27 June 2008), independent member of HM Treasury Board; and

Colin Thwaite, former Finance Director and Chief Executive of Littlewoods Organisation plc, Leisure Division.

The Group Resource Audit Committee met four times in 2008-2009.

The Chair of each Committee is entitled to attend meetings of the other Committee.

5. Review of effectiveness

As Accounting Officer, my review of the effectiveness of the system of internal control is informed by the work of executive managers in the DMO, who have been delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the internal and external auditors. I have been supported by the Audit Committees and risk owners in addressing weaknesses and ensuring that continuous improvement of the system is in place.

The Exchequer Funds Audit Committee considered the 2008-2009 DMA accounts in draft and provided me with its views before I formally signed the accounts. The Group Resource Audit Committee considered the DMO Agency accounts as part of its consideration of the Treasury Group Resource Account.

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 Risk Committee has advised me during the year on significant current and emerging risk issues and actions taken to mitigate such risks.
- 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 DMO's Risk Management Unit conducts monthly controls and compliance testing, providing the executive sub-committee of the Managing Board with independent assurance on the effectiveness of operational controls and compliance with relevant Financial Services Authority rules in the dealing and settlements areas. 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 Committees 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 Internal Audit work programme is approved by the Audit Committees at the start of the year.
- Internal Audit attended each meeting of the Audit Committees to report the results of audit work and the results of follow-up work on management action to address audit recommendations.
- Internal Audit's view was that assurance could be given over the risk management, control and governance arrangements relevant to the accounts, and 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 2008-2009

No significant internal control issues in the DMO were identified in 2008-2009.

In my opinion, the DMO's system of internal control was effective throughout the financial year 2008-2009 and remains so on the date I sign this statement.

Robert Stheeman
Chief Executive
3 July 2009

Accounts of the UK Debt Management Office

Year ended 31 March 2009
Presented to the House of Commons 13 July 2009

United Kingdom Debt Management Office: 2008-2009 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 Debt Management Office for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement 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 Agency, the Chief Executive and auditor

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information, which comprises the Foreword and Management Commentary included in the Annual Report, is consistent with the financial statements. I also report whether 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.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chief Executive's Statement and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2009, and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information, which comprises the Foreword and Management Commentary included within the Annual Report, is consistent with the financial statements.

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.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

7 July 2009

UK Debt Management Office
Operating cost statement

For the year ended 31 March 2009

	Note	2009 £000	2008 £000
Administration costs			
Staff costs	2	7,289	7,149
Other administration costs	3	5,637	5,948
Gross administration costs		**12,926**	**13,097**
Administration income	5	(4,077)	(4,610)
Net administration costs		**8,849**	**8,487**
Gross programme costs	4	4,663	2,792
Programme income	5	(1,500)	(1,380)
Net programme costs		**3,163**	**1,412**
Net operating cost		**12,012**	**9,899**

All income and expenditure are derived from continuing operations.

No separate statement of recognised gains and losses has been prepared as there are no material recognised gains and losses other than those in the operating cost statement.

The notes on pages 60 to 74 form part of these accounts.

UK Debt Management Office
Balance sheet

As at 31 March 2009

	Note	2009 £000	2008 £000
Fixed assets			
Tangible assets	6 (i)	612	547
Intangible assets	6 (ii)	553	905
		1,165	**1,452**
Debtors (amounts falling due after more than one year)	7	9	10
Current assets			
Debtors	7	2,374	1,821
Cash at bank and in hand	8	185	333
		2,559	**2,154**
Current liabilities			
Creditors (amounts falling due within one year)	9	(5,122)	(2,716)
Net current liabilities		**(2,563)**	**(562)**
Total assets less current liabilities		**(1,389)**	**900**
Creditors (amounts falling due after more than one year)	9	-	(167)
Provisions for liabilities and charges	10	(247)	(305)
Total net (liabilities) / assets		**(1,636)**	**428**
Represented by:			
Taxpayers' (deficit) / equity			
General fund	11	(1,723)	341
Revaluation reserve	12	87	87
Total net taxpayers' (deficit) / equity		**(1,636)**	**428**

The notes on pages 60 to 74 form part of these accounts.

Robert Stheeman
Chief Executive
3 July 2009

UK Debt Management Office
Cash flow statement

For the year ended 31 March 2009

	Note	2009 £000	2008 £000
Net cash outflow from operating activities	13 (i)	(10,003)	(9,085)
Capital expenditure and financial investment	13 (ii)	(894)	(1,134)
Net cash outflow before financing		**(10,897)**	**(10,219)**
Payment of amounts due to the Consolidated Fund		(250)	(2,143)
Financing	13 (iii)	10,999	12,523
(Decrease) / increase in cash in the period		**(148)**	**161**

The notes on pages 60 to 74 form part of these accounts.

Notes to the accounts

For the year ended 31 March 2009

1 Statement of accounting policies

(i) Basis of preparation

These financial statements have been prepared in accordance with the 2008–2009 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The DMO's financial statements have been prepared in accordance with the Accounts Direction given by HM Treasury as set out on page 75.

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

(ii) Accounting convention

These accounts have been prepared under the historical cost convention.

(iii) Administration and programme expenditure and income

The operating cost statement is analysed between administration and programme income and expenditure.

Administration costs reflect the cost of running the Agency. These include both administrative costs and associated operating income. Income is analysed between that which can be applied against associated expenditure (Appropriations-in-Aid) and that which is surrenderable to the Consolidated Fund as extra receipts.

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

Operating income for the DMO relates to: cost recoveries on a full cost basis for services provided to external clients and the direct costs when acting as an agent for the National Loans Fund; and fees received from PWLB customers and the management of the gilt purchase and sale service set by statute.

As the Agency is subject to net administration cost control provisions, for funding purposes, HM Treasury treats operating income amounts as Appropriations-in-Aid. The operating income is principally:

- Recoveries of costs associated with the DMO acting as an agent for the National Loans Fund regarding stock listing, settlement and gilt auction advertising.
- Charges, where statute permits, for the investment management and administration of public funds by the Commissioners for the Reduction of the National Debt.
- Fees for loans advanced to local authorities by the Public Works Loan Board.
- Fees for secondary market purchase and sale transactions in gilts conducted by members of the public, under a DMO managed contract with Computershare.
- Recoveries of costs associated with the DMO acting as an agent for the Department for Environment and Climate Change for auction of allowances under the Emissions Trading System.

(iv) Fixed 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.

The DMO has continued to adopt the provisions of the FReM. Any furniture, office equipment, IT equipment and software licences, for which the value is low and/or the useful economic life is short, are not revalued.

Internal staff costs for IT development work are capitalised as tangible assets when a distinct asset for on-going use is created or significantly developed.

Software purchases that meet the capitalisation criteria are classified as intangible assets.

(v) Depreciation and amortisation

Depreciation and amortisation are 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:

IT equipment and software	3 years
Development costs	3 years
Office and other non IT equipment	5 years
Furniture, fixtures and fittings	10 years
Licence software	license duration up to 10 years
Leasehold improvements	lesser of 10 years or outstanding lease term

(vi) Operating leases

Amounts paid and received under the terms of operating leases are charged to the operating cost statement on a straight-line basis over the term of the lease. Operating leases are accounted for in accordance with SSAP 21.

(vii) Notional charges

Central HM Treasury costs and other overheads are charged on a notional basis and included in the accounts. These charges include auditors' remuneration and centrally provided support services for payroll, procurement, finance, security, health and safety and legal services. Notional costs are charged to the operating cost statement and credited as a movement on the general fund.

(viii) Value added tax

Value added tax (VAT) on purchases is charged to the operating cost statement, 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.

(ix) Capital charge

A charge reflecting the cost of capital utilised by the Agency is included within the operating cost statement. The charge is calculated at the real rate set by HM Treasury, currently 3.5 per cent (2007-2008: 3.5 per cent) on the average carrying amount of all assets less liabilities except for assets and liabilities in respect of amounts due from, or due to be surrendered to, the Consolidated Fund, where the charge is nil.

(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 2. 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 on a systematic and rational basis 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.

(xii) Provisions - early departure costs

The Agency is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Agency provides for the cost when the early retirement is agreed, effectively charging the full cost at the time an obligation becomes binding on the Agency and holding this as a provision. A provision has been established for the total liability falling on the Agency for all agreed early retirement cases. The liability shown in the balance sheet has been discounted using a rate of 2.2 per cent (2007-2008: 2.2 per cent) in real terms in line with HM Treasury guidance.

(xiii) Financial instruments

The DMO has adopted Financial Reporting Standard (FRS) 26 in accordance with FReM guidelines with effect from 1 April 2008. FRS 26 sets out the requirements for measurement, recognition and derecognition of financial instruments. From the effective date, all derivatives identified are included on the balance sheet at their fair value.

The DMO does not have any material derivatives.

2 Staff numbers and related costs

(i) Aggregate staff costs comprise:

	Permanent staff £000	Others £000	2009 Total £000	2008 Total £000
Wages and salaries	4,198	2,034	**6,232**	5,970
Social security costs	393	11	**404**	386
Other pension costs	872	5	**877**	851
Total costs	**5,463**	**2,050**	**7,513**	**7,207**
Amounts charged to capital	-	(224)	**(224)**	(58)
Total operating staff costs	**5,463**	**1,826**	**7,289**	**7,149**

The Principal Civil Service Pension Scheme (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-pensions.gov.uk).

For 2008–2009, employer contributions of £848,712 were payable to the PCSPS (2007–2008: £819,023) at one of four rates in the range 17.1 per cent to 25.5 per cent (2007-2008: 17.1 to 25.5 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. From 2009-2010, the rates will be in the range 16.7% to 24.3%.

The contribution rates are set to meet the cost of the benefits accruing during 2008-2009 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 £23,300 (2007-2008: £29,628) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8 to 12.5 per cent (2007-2008: 10 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 £1,449, 0.8 per cent of pensionable pay (2007-2008: £2,034, 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 the balance sheet date were £1,723 (2007-2008: £2,047). Contributions prepaid at that date were £nil.

(ii) The average number of whole-time equivalent persons employed by the DMO during the year was as follows:

	2009	2008
Permanent staff	**72**	71
Others	**18**	18
	90	**89**

All staff are engaged in meeting HM Treasury objective 1e: Managing government cash, debt and reserves.

(iii) During 2008-2009, no staff (2007-2008: 1) retired early on the grounds of ill-health. The total additional accrued pension liabilities payable by the Civil Service Pension arrangements amounted to £nil (2007-2008: £12,764).

3 Other administration costs

	2009 £000	2008 £000
Rentals under operating leases:		
Other operating leases	**1,288**	**1,196**
Non-cash items		
Depreciation and amortisation of fixed assets	949	1,031
Provision for early-departure costs:		
Provided in year	11	149
Unwinding of discount on provisions	5	4
External auditors' fee	40	22
Cost of capital charge	(7)	7
	998	**1,213**
Other expenditure		
IT and telecommunications	1,343	1,401
Accommodation related costs	732	676
Business and information services	592	605
Training	143	111
Travel, subsistence & hospitality	89	96
Recruitment	72	116
Consultancy	75	229
Printing and stationery	64	61
Legal services	43	57
Other costs	198	187
	3,351	**3,539**
	5,637	**5,948**

Rentals under operating leases include £1,250,418 for rent of office accommodation.

£35,000 of the external auditors' fee relates to audit work and £5,000 relates to other review services associated with the implementation in 2009-2010 of International Financial Reporting Standards.

4 Programme costs

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

	2009 £000	2008 £000
DMA, CRND and PWLB transaction costs		
Settlement and custodial charges	2,608	1,289
Brokerage costs	1,198	678
	3,806	**1,967**
NLF gilt issuance costs (reimbursed – see note 5)		
Stock Exchange listing fees for gilt issuance	581	588
Auction advertising costs for gilt issuance	132	78
	713	**666**
Gilt purchase and sale service costs	144	159
	4,663	**2,792**

5 Operating income

(i) Analysis of operating income by activity

	2009 £000	2008 £000
Administration income		
Fees and charges to PWLB customers	2,200	3,500
Emissions Trading System cost recovery	659	102
Fees and charges to CRND customers	656	675
Special Liquidity Scheme	250	-
Rentals receivable in respect of operating leases	149	179
Recharges to gilt-edged market makers	92	96
Other accommodation related income	59	45
Other income	12	13
	4,077	**4,610**
Programme income		
Gilt purchase and sale service commission	787	714
Recharges to the National Loans Fund	713	666
	1,500	**1,380**
	5,577	**5,990**

Recharges to gilt-edged market makers relate to trading system costs.

All rentals receivable in respect of operating leases are from external organisations.

Recharges to the National Loans Fund relate to gilt issuance charges.

(ii) Analysis of operating income by type

	2009 £000	2008 £000
Appropriations-in-Aid	**4,493**	**5,990**
Surrendered to Consolidated Fund		
Excess Appropriations-in-Aid – administration	834	-
Special Liquidity Scheme	250	-
	1,084	**-**
	5,577	**5,990**

Analysis of fees and charges income for the year ended 31 March 2009

This analysis of fees and charges is provided as specified by the FReM and not for the disclosure requirements under SSAP 25 – Segmental Reporting.

Analysis of net operating cost

	CRND £000	PWLB £000	Gilt purchase and sale service £000	Emissions Trading System £000
Full cost	706	1,778	586	659
Income	(656)	(2,200)	(787)	(659)
(Surplus) / deficit	**50**	**(422)**	**(201)**	**-**

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. The 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 System:** 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 of the service from DECC. This objective has been achieved in full.

6 Fixed assets

(i) Tangible fixed assets

	Leasehold improvements £000	IT equipment £000	Telecoms £000	Office furniture and equipment £000	Total £000
Cost or valuation					
At 1 April 2008	862	2,993	146	74	4,075
Additions	-	313	140	-	453
At 31 March 2009	**862**	**3,306**	**286**	**74**	**4,528**
Depreciation					
At 1 April 2008	594	2,759	146	29	3,528
Charged in year	88	248	47	5	388
At 31 March 2009	**682**	**3,007**	**193**	**34**	**3,916**
Net book value					
At 31 March 2009	**180**	**299**	**93**	**40**	**612**
At 31 March 2008	**268**	**234**	**-**	**45**	**547**

(ii) Intangible fixed assets

	Software £000
Cost or valuation	
At 1 April 2008	3,909
Additions	209
Disposals	(55)
At 31 March 2009	**4,063**
Amortisation	
At 1 April 2008	3,004
Charged in year	561
Disposals	(55)
At 31 March 2009	**3,510**
Net book value	
At 31 March 2009	**553**
At 31 March 2008	**905**

7 Debtors

(i) Analysis by type

	2009 £000	2008 £000
Amounts falling due within one year		
Prepayments and accrued income	1,453	1,279
Other trade debtors	921	542
	2,374	**1,821**
Amounts falling due after more than one year		
Prepayments and accrued income	9	10
	2,383	**1,831**

(ii) Analysis by relationship with HM Government

	Amounts falling due within one year		Amounts falling due after more than one year	
	2009 £000	2008 £000	2009 £000	2008 £000
Intra-government balances - balances with other central government bodies	1,066	447	-	-
Balances with bodies external to government	1,308	1,374	9	10
	2,374	**1,821**	**9**	**10**

8 Cash at bank and in hand

	2009 £000	2008 £000
Balance at 1 April 2008	333	172
Net change in cash balances – (outflow) / inflow	(148)	161
Balance at 31 March 2009	**185**	**333**
The following balances were held at 31 March 2009:		
Bank of England	184	332
Cash in hand	1	1
Balance at 31 March 2009	**185**	**333**

9 Creditors

(i) Analysis by type

	2009 £000	2008 £000
Amounts falling due within one year		
Trade creditors	499	111
Taxation and social security creditors	238	204
Accruals and deferred income	3,368	2,390
Deposit advance held as a creditor bond	167	-
Creditor bond interest	16	11
Payable to the Consolidated Fund		
Excess Appropriations-in-Aid	834	-
	5,122	**2,716**
Amounts falling due after more than one year		
Deposit advance held as a creditor bond	-	167
	5,122	**2,883**

Reflected within the amounts falling due within one year is an increase of £0.232m (2007-2008: decrease of £0.040 million) of capital expenditure creditors and accruals, which is an adjustment to the movements in working capital in note 13 (i).

(ii) Analysis by relationship with HM Government

	Amounts falling due within one year		Amounts falling due after more than one year	
	2009 £000	2008 £000	2009 £000	2008 £000
Intra-government balances - balances with other central government bodies	851	19	-	-
Balances with bodies external to government	4,271	2,697	-	167
	5,122	**2,716**	**-**	**167**

10 Provisions for liabilities and charges

(i) Analysis by type	2009 £000	2008 £000
Balance at 1 April 2008	305	213
Provided in the year	11	149
Provisions utilised in the year	(74)	(61)
Unwinding of discount	5	4
Balance at 31 March 2009	**247**	**305**

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 62.

(ii) Maturity analysis	2009 £000	2008 £000
Within one year	75	72
Between two and five years	172	221
Beyond five years	-	12
	247	**305**

11 General fund

Reconciliation of net operating cost to changes in general fund	2009 £000	2008 £000
Balance at 1 April 2008	341	(2,312)
Net Parliamentary Funding:		
Drawn down	10,999	12,523
Net transfer from operating activities:		
Net operating cost	(12,012)	(9,899)
Amounts repayable to the Consolidated Fund	(1,084)	-
Non-cash charges:		
Auditors' remuneration	40	22
Cost of capital	(7)	7
Balance at 31 March 2009	**(1,723)**	**341**

At 31 March 2009, the DMO's balance sheet showed a deficit. Where an agency's liabilities are paid by a parent department and the agency's fixed assets are relatively low value, this can give rise to a position where total net liabilities are reported. Under these circumstances, a balance sheet deficit is no reflection on operating performance.

12 Revaluation reserve

	2009 £000	2008 £000
Balance at 1 April 2008	87	87
Movement in revaluation reserve during the year	-	-
Balance at 31 March 2009	**87**	**87**

13 Analysis of cash flow

(i) Reconciliation of operating costs to operating cash flows

	2009 £000	2008 £000
Net operating cost	**(12,012)**	**(9,899)**
Adjust for non-cash transactions:		
Depreciation and amortisation of fixed assets	949	1,031
Provision for early-departure costs	16	153
Auditors' fee	40	22
Notional interest on capital	(7)	7
	998	**1,213**
Adjust for movements in working capital other than cash:		
Decrease / (increase) in debtors	(553)	(323)
Increase / (decrease) in current creditors	1,406	25
Less: items not passing through the operating cost statement	232	(40)
Use of provisions	(74)	(61)
	1,011	**(399)**
Net cash outflow from operating activities	**(10,003)**	**(9,085)**

(ii) Analysis of capital expenditure

	2009 £000	2008 £000
Tangible fixed asset additions	(475)	(147)
Intangible fixed asset additions	(419)	(987)
Net cash outflow from investing activities	**(894)**	**(1,134)**

(iii) Analysis of financing

	2009 £000	2008 £000
Net financing		
From Consolidated Fund (Supply) – current year	**10,999**	**12,523**

14 Operating leases

(i) At 31 March 2009 the commitments under operating leases to pay rentals during the year to 31 March 2010 are shown below, analysed according to the period in which the lease expires:

	Land and Buildings £000	Other £000	2009 Total £000	2008 Total £000
Operating leases which expire within one year	-	2	2	-
Operating leases which expire beyond one year but not more than five years	147	34	181	156
Operating leases which expire beyond five years: Premises lease	1,112	-	1,112	1,130
	1,259	**36**	**1,295**	**1,286**

(ii) At 31 March 2009 amounts receivable by the DMO under operating leases in the year to 31 March 2010 are shown below, analysed according to the period in which the lease expires:

	2009 Land and Buildings £000	2008 Total £000
Operating leases which expire beyond one year but not more than five years:		
Premises lease	**63**	**156**

15 Capital commitments

The DMO had no capital commitments at 31 March 2009 (31 March 2008: nil).

16 Contingent assets and liabilities

The DMO had no contingent assets or liabilities at 31 March 2009 (31 March 2008: nil).

17 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.

During the year, the DMO 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 were related parties:

Commissioners for the Reduction of the National Debt

The 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. The CRND client mandates are kept distinct from other DMO business. The CRND client mandates require the bulk of the funds to be invested in gilts or with the DMA Deposit Facility (DMADF). The DMO has received payment from each of the National Savings Bank Fund, Court Fund Investment Account and Northern Ireland Court Service for management services in 2008-2009 amounting to £29,000, £109,000 and £78,000 respectively.

Public Works Loan Board

The PWLB is also operated within the DMO and subjected 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.

Consolidated Fund and National Loans Fund

The Consolidated Fund and the National Loans Fund are central government borrowing and expenditure accounts under the control of HM Treasury. The DMO has had transactions with both accounts. Its transactions with the Consolidated Fund were to surrender excess Appropriations-in-Aid and similar income in accordance with government accounting rules totalling £1,087,880 (2007-2008: £nil). Its transactions with the National Loans Fund were to recover external charges incurred by the DMO directly relating to gilt issuance totalling £713,000 (2007-2008: £666,000).

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.

During the year, the following entity, for which HM Treasury is regarded as the parent department, was a related party:

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.

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

Royal Bank of Scotland Group plc – from 3 November 2008

During the year the DMO has had transactions with the Royal Bank of Scotland Group plc relating to recharge of costs relating to shared usage of an information network for gilt-edged market makers. The recharge for Royal Bank of Scotland plc was £5,883 for 2008-2009 (2007-2008: £5,752).

In addition, the DMO had various transactions with other government entities. Most of these transactions were with the following entities, which were related parties:

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 £659,000 (2007-2008: £102,000).

Ministers and Managing Board

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

18 Financial instruments

At the balance sheet date, the DMO Agency account had no material exposure to liquidity risk, interest rate risk or currency risk. All material assets and liabilities were denominated in sterling.

19 Preparation of accounts

As far as the Accounting Officer is aware, there is no relevant audit information of which the Agency's 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 Agency's auditors are aware of that information.

The accounts were authorised for issue on 7 July 2009.

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 2009 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury ("the FReM") which is in force for 2008-2009.

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 2009 and of the income and expenditure (or, as appropriate, net resource outturn), total recognised gains and losses (or, as appropriate, recognised gains and losses), and cash flows of the agency 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.

Ken Beeton
Director, Financial Management and Reporting,
Her Majesty's Treasury
18 December 2008

Accounts of the Debt Management Account

Year ended 31 March 2009
Presented to the Houses of Parliament 13 July 2009

Debt Management Account: 2008-2009 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 2009 under the National Loans Act 1968. These comprise the Income and Expenditure Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow statement 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

The Accounting Officer is responsible for preparing the Annual Report which includes the financial statements in accordance with Section 15(1) of the National Loans Act 1968 and the Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the National Loans Act 1968 and Treasury directions made thereunder. I report whether, in my opinion, the information which comprises the Foreword and Management Commentary, included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the financial transactions of the Debt Management Account have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

In addition, I report to you if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit, or if other information specified by the relevant authorities regarding other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Debt Management Office's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Debt Management Office's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chief Executive's Statement. I consider the implications for my report if I become aware of apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Debt Management Account's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that, in all material respects, the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Loans Act 1968 and directions made thereunder by Treasury, of the state of affairs of the Debt Management Account as at 31 March 2009 and of its surplus, recognised gains and losses and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and directions made by Treasury thereunder; and
- information which comprises the Foreword and Management Commentary, included within the Annual Report is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

7 July 2009

Debt Management Account
Income and expenditure account

For the year ended 31 March 2009

	Note	2009 £m	2008 £m
Interest income	2	11,210	4,308
Interest expense	3	(8,532)	(4,501)
Net interest income/(expense)		**2,678**	**(193)**
Net trading expense	4	(130)	(71)
Gains from investment securities	5	7	2
Fee income	6	32	-
Surplus/(deficit) for the year	7	**2,587**	**(262)**

All income and expenditure arose from continuing operations.

The notes on pages 82 to 110 are an integral part of these accounts.

Debt Management Account
Statement of total recognised gains and losses

For the year ended 31 March 2009

		2009 £m	2008 £m
Net unrealised gains on investment securities in the revaluation reserve		6,759	1,108
Surplus/(deficit) for the year from the income and expenditure account		2,587	(262)
Total recognised gains for the year		**9,346**	**846**

The notes on pages 82 to 110 are an integral part of these accounts.

Debt Management Account
Balance sheet

As at 31 March 2009

	Note	2009 £m	2008 £m
Assets			
Cash and balances at the Bank of England		714	500
Loans and advances to banks	8	36,355	14,206
Securities held for trading	9	4,841	17
Derivatives	10	-	81
Investment securities classified as available-for-sale			
UK Government gilt-edged securities for use as collateral		93,167	29,040
Other UK Government gilt-edged securities		54,280	123
Treasury bills		205,148	-
	11	**352,595**	**29,163**
Other assets	12	1,539	2,245
Total assets before deposit at National Loans Fund		**396,044**	**46,212**
Deposit at National Loans Fund	13	48,967	49,140
Total assets		**445,011**	**95,352**
Liabilities			
Deposits by banks	14	30,809	14,400
Due to government customers	15	66,148	62,287
Derivatives	10	257	331
Treasury bills in issue	16	43,895	17,441
Other liabilities	17	1,501	4
Total liabilities before funding by National Loans Fund		**142,610**	**94,463**
Advance from National Loans Fund	13	292,166	-
Revaluation reserve	13	7,844	1,085
Income and expenditure account	13	2,391	(196)
Total funding by National Loans Fund	13	**302,401**	**889**
Total liabilities		**445,011**	**95,352**

The notes on pages 82 to 110 are an integral part of these accounts.

Robert Stheeman
Chief Executive
3 July 2009

Debt Management Account
Cash flow statement

For the year ended 31 March 2009

	Note	2009 £m	2008 £m
Net cash inflow from operating activities	18	**18,747**	**13,299**
Returns on investments and servicing of finance			
Interest received on investment securities		6,315	1,121
Interest received on deposit at National Loans Fund		1,121	2,002
Interest paid on advance from National Loans Fund		(4,381)	-
Net cash inflow from returns on investments and servicing of finance		**3,055**	**3,123**
Financial investments			
Gilt auctions and secondary market sales of investment securities		732,734	61,318
Purchases of investment securities for auction and for secondary market activities		(1,046,367)	(63,911)
Net cash outflow from financial investments		**(313,633)**	**(2,593)**
Net cash (outflow) / inflow before financing		**(291,831)**	**13,829**
Financing			
Increase in net funding by National Loans Fund		639,807	169,969
Decrease in net funding by National Loans Fund		(347,762)	(183,725)
Net cash inflow / (outflow) from financing		**292,045**	**(13,756)**
Increase in cash		**214**	**73**

The notes on pages 82 to 110 are an integral part of these accounts.

Notes to the accounts

For the year ended 31 March 2009

1 Accounting policies

(i) Basis of preparation

The financial statements have been prepared under the historical cost convention, except for re-measurement at fair value of financial assets classified as available-for-sale, financial assets held for trading, and all derivative contracts. The DMA's financial statements have been prepared in accordance with the Accounts Direction given by HM Treasury as set out on pages 111 to 112.

(ii) Financial assets

The DMA holds financial assets that have been classified as securities held for trading, and other securities classified as available-for-sale. DMO management determines the classification or designation on initial recognition of the asset. The DMA also holds financial assets that are loans and receivables. The DMA does not hold any financial investments that it positively intends, and is independently able, to hold until maturity.

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 each balance sheet date, DMO management assess whether there is any objective evidence that a financial asset classified as available-for-sale, or a loan or receivable, 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

This category includes certain debt securities and derivatives.

Debt securities held for trading

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 subsequently re-measured, and all gains and losses from changes therein are recognised in the income and expenditure account in net trading income as they arise.

Derivatives

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 repos (which are a purchase of securities with an agreement to resell them at a higher price at a specific future date). Securities pledged to the DMA as collateral via reverse repos are not included on the balance sheet. Other assets comprise accrued fees receivable and amounts due from counterparties upon settlement of an earlier transaction.

The DMA does not sell such financial assets and so does not designate any loans and receivables as held for trading.

Loans and receivables are recognised at trade date and are derecognised when borrowers repay their obligations. Following initial recognition, loans and receivables 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 subsequently re-measured, and all 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 in the income and expenditure account as gains from investment securities.

(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 repos, which are instruments where the seller of securities agrees to buy them back at a specified time and price. Securities that are pledged by the DMA as collateral via sale and repurchase agreements continue to be included on the balance sheet.

Deposits by banks and amounts due to government customers are recognised at trade 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 and equity index / interest rate swaps.

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.

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 and expenditure account as they arise. These gains and losses are reported in net trading expense 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. 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.

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 balance sheet 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 and expenditure account 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) Net trading expense

Net trading expense 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 accounted for in the accounts of the UK Debt Management Office.

(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 balance sheet date.

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 balance sheet date.

Exchange differences arising on settlement, and those arising on retranslation, are recognised in the income and expenditure account as they arise.

2 Interest income

	2009 £m	2008 £m
Reverse sale and repurchase agreements	793	823
Other deposits	22	86
UK Government gilt-edged securities held for trading	12	6
Other securities held for trading	40	107
UK Government gilt-edged securities classified as available-for-sale	3,230	1,238
Treasury bills classified as available-for-sale	6,120	-
Deposit at National Loans Fund	993	2,048
	11,210	**4,308**

3 Interest expense

	2009 £m	2008 £m
Sale and repurchase agreements	(576)	(476)
Other deposits	(2,332)	(3,107)
Treasury bills in issue	(1,077)	(918)
Advance from National Loan Fund	(4,547)	-
	(8,532)	**(4,501)**

4 Net trading expense

	2009 £m	2008 £m
Trading assets		
UK Government gilt-edged securities	9	1
Other securities	-	1
	9	**2**
Derivatives		
Equity index / interest rate derivatives	(139)	(73)
	(130)	**(71)**

5 Gains from investment securities

	2009 £m	2008 £m
UK Government gilt-edged securities	**7**	**2**

6 Fee income

	2009 £m	2008 £m
Net fee income	**32**	**-**

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. Fees were also receivable from HM Treasury for the provision of funding to the Bank of England for its Asset Purchase Facility.

7 Surplus/(deficit) for the year

Surplus/(deficit) for the year has been arrived at after (charging)/crediting:	2009 £m	2008 £m
Net foreign exchange (losses)/gains	**(35)**	**32**

8 Loans and advances to banks

	2009 £m	2008 £m
Reverse sale and repurchase agreements		
Due in not more than 3 months	32,616	14,198
Due in more than 3 months but not more than 1 year	2,753	-
	35,369	**14,198**
Fixed term deposits		
Due in not more than 3 months	-	8
Call notice deposits		
Due in not more than 3 months	986	-
	36,355	**14,206**

All reverse repo transactions are under the provisions of a TBMA/ISMA Global Master Repurchase Agreement. The agreement contains provisions that allow the collateral securities to be 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.

Reverse sale and repurchase agreements included euro denominated transactions as at 31 March 2009. The associated foreign currency risk was fully hedged through forward foreign exchange contracts (see note 10).

9 Securities held for trading

	2009 £m	2008 £m
Carrying value		
UK Government gilt-edged securities	2,391	17
Other securities	2,450	-
	4,841	**17**

	2009 Nominal £m	2009 Fair value £m	2008 Nominal £m	2008 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	3,373	3,436	-	-
In more than 3 months but not more than 1 year	1,381	1,385	-	-
	4,754	**4,821**	**-**	**-**
Due after 1 year				
In more than 1 year but not more than 5 years	9	10	7	8
In more than 5 years	9	10	9	9
	18	**20**	**16**	**17**
	4,772	**4,841**	**16**	**17**

10 Derivatives

	2009 Assets £m	2009 Liabilities £m	2008 Assets £m	2008 Liabilities £m
Equity index / interest rate derivatives	-	103	81	9
Foreign exchange derivatives	-	154	-	322
	-	**257**	**81**	**331**

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. As at 31 March 2009, the contracts have maturities of between 48 days and five years.

All equity index / interest rate derivatives are under the provisions of an ISDA Master Agreement with an English Law Credit Support Annex. The Annex contains provisions that allow the contracts to be valued daily. Collateral securities will be requested from the counterparty, or given / returned to the counterparty, depending on whether the value of the contract has risen or fallen.

11 Investment securities classified as available-for-sale

	2009 Nominal £m	2009 Fair value £m	2008 Nominal £m	2008 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	56,336	56,313	-	-
In more than 3 months but not more than 1 year	153,475	153,138	905	907
	209,811	**209,451**	**905**	**907**
Due after 1 year				
In more than 1 year but not more than 5 years	34,539	37,743	6,200	6,595
In more than 5 years	91,983	105,401	18,625	21,661
	126,522	**143,144**	**24,825**	**28,256**
	336,333	**352,595**	**25,730**	**29,163**

During the year, gilts were created by the NLF and sold to the DMA for use as collateral. During the year, gilts were also created by the NLF and sold to the DMA in connection with the Bank of England's Discount Window Facility. (See note 19.)

12 Other assets

	2009 £m	2008 £m
Accrued fees	18	-
Due from counterparties	1,521	2,245
	1,539	**2,245**

13 Reconciliation of movements in total 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 2007	**35,339**	**-**	**(39)**	**83**	**44**	**(35,295)**
Surplus for the year	-	-	-	(262)	(262)	(262)
Reserves transfer	-	-	17	(17)	-	-
Released to income and expenditure for the year on disposal of investment securities classified as available-for-sale	-	-	(2)	-	(2)	(2)
Other gains for the year	-	-	1,109	-	1,109	1,109
Change in advance from National Loans Fund	-	-	-	-	-	-
Change in deposit at National Loans Fund	13,801	-	-	-	-	(13,801)
At 31 March 2008	**49,140**	**-**	**1,085**	**(196)**	**889**	**(48,251)**
Surplus for the year	-	-	-	2,587	2,587	2,587
Released to income and expenditure for the year on disposal of investment securities classified as available-for-sale	-	-	(7)	-	(7)	(7)
Other gains for the year	-	-	6,766	-	6,766	6,766
Change in advance from National Loans Fund	-	292,166	-	-	292,166	292,166
Change in deposit at National Loans Fund	(173)	-	-	-	-	173
At 31 March 2009	**48,967**	**292,166**	**7,844**	**2,391**	**302,401**	**253,434**

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.

14 Deposits by banks

	2009 £m	2008 £m
Sale and repurchase agreements		
Due in not more than 3 months	23,751	14,216
Due in more than 3 months but not more than 1 year	3,390	-
	27,141	**14,216**
Fixed term deposits		
Due in not more than 3 months	3,668	184
	30,809	**14,400**

All repo transactions are under the provisions of a TBMA/ISMA Global Master Repurchase Agreement. The agreement contains provisions that allow the collateral securities to be 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. (See note 22 (v) (a) for the year end value of collateral.)

15 Due to government customers

	2009 £m	2008 £m
Counterparty analysis		
Funds managed by the Commissioners for the Reduction of the National Debt		
Fixed term deposits	-	497
Call notice deposits	61,732	59,721
	61,732	**60,218**
Other government counterparties		
Fixed term deposits	4,416	2,069
	66,148	**62,287**
Maturity analysis		
In not more than 3 months		
Fixed term deposits	4,325	2,133
Call notice deposits	61,732	59,721
	66,057	**61,854**
In more than 3 months but not more than 1 year		
Fixed term deposits	91	433
	66,148	**62,287**

Call notice deposits are repayable on demand.

16 Treasury bills in issue

	2009 £m	2008 £m
Carrying value		
Due in not more than 3 months	32,059	14,108
Due in more than 3 months but not more than 1 year	11,836	3,333
	43,895	**17,441**
Fair value	**43,931**	**17,441**

17 Other liabilities

	2009 £m	2008 £m
Accrued fees	8	-
Due to counterparties	1,492	4
Cash collateral	1	-
	1,501	**4**

18 Analysis of cash flow

	2009 £m	2008 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating surplus/(deficit)	2,587	(262)
Less: interest income on deposit at National Loans Fund	(993)	(2,048)
Less: interest expense on advance from National Loans Fund	4,547	-
Less: interest on investment securities classified as available-for-sale	(9,350)	(1,238)
Less: gains on investment securities classified as available-for-sale	(7)	(2)
(Increase) in loans and advances to banks	(22,148)	(3,953)
(Increase)/decrease in securities held for trading	(4,824)	3,120
Decrease in derivative assets	81	131
Decrease in other assets	706	560
Increase in deposits by banks	16,410	3,567
Increase in amounts due to government customers	3,860	12,387
(Decrease)/increase in derivative liabilities	(74)	331
Increase in Treasury bills in issue	26,455	731
Increase/(decrease) in other liabilities	1,497	(25)
Net cash inflow from operating activities	**18,747**	**13,299**

19 Gilt issuance

	2009 £m	2008 £m
Nominal value of gilts issued on behalf of National Loans Fund	142,650	57,850
Proceeds paid to National Loans Fund	146,689	58,514
Nominal value of uncovered stock purchased from National Loans Fund	188	-

During the year, there was one uncovered gilt auction (2007-2008: nil).

During the year, gilts with a nominal value of £55,600 million (2007-2008: £3,890 million) were created by the NLF and sold to the DMA for use as collateral in its Exchequer 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 are used only in delivery by value (DBV) transactions.

During the year, gilts with a nominal value of £47,752 million (2008: £nil) were created by the NLF and sold to the DMA in connection with the Bank of England's Discount Window Facility. Gilts issued in this way will be lent to the Bank of England on an 'as needed' basis, but will not be sold outright to the market.

20 Events after the balance sheet date

There were no material events after the balance sheet date.

21 Related party transactions

The following entities and funds are considered to be related parties.

Commissioners for the Reduction of the National Debt

The 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 Deposit Facility (DMADF). Surplus cash in CRND client accounts is regularly deposited with the DMADF.

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.

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 became the ultimate controlling party of a number of financial institutions. Where appropriate, 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 were classified as related parties:

- **Bradford and Bingley plc** – from 29 September 2008
- **Kaupthing Singer & Friedlander Limited** – from 8 October 2008
- **Lloyds Banking Group plc** – from 7 March 2009
- **Northern Rock plc** – from 22 February 2008
- **Royal Bank of Scotland Group plc** – from 1 December 2008

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.

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 2009 amounts due to or from related parties were:

	Central Government £m	Local government £m	Financial institutions £m	Total £m
Assets				
Cash and balances at the Bank of England	-	-	714	714
Loans and advances to banks	-	-	2,665	2,665
Securities held for trading	2,391	-	2,015	4,406
Investment securities classified as available-for-sale:				
UK Government gilt-edged securities for use as collateral	93,167	-	-	93,167
Other UK Government gilt-edged securities	54,280	-	-	54,280
Treasury bills	205,148	-	-	205,148
Other assets	-	-	18	18
Deposit at National Loans Fund	48,967	-	-	48,967
Liabilities				
Due to government customers	63,490	2,658	-	66,148
Other liabilities	8	-	-	8
Advance from National Loans Fund	292,166	-	-	292,166

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 2009.

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) as intra-HM Government balances are not considered to give rise to 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 2009 were the same as in the prior year.

(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 counterparty and issuer limits that are approved by the DMO's 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 any breaches are reported to the Risk Committee.

The 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 the information provided by three external credit assessment institutions: Standard and Poor's, Moody's Investors Service, and Fitch Ratings. Information from these and other information 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 of their three external credit ratings at the time the transaction is entered into.

There are limits on total unsecured lending and on holdings of debt securities issued by financial institutions and corporate entities. There are also limits on the maximum maturity of loans made and securities held.

(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 balance sheet 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

For funds advanced under reverse repo contracts, the DMA takes stock collateral as a means of mitigating risk; additionally, the DMA places collateral when entering into repo contracts.

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 of AA- (Standard and Poor's), Aa3 (Moody's), and AA- (Fitch) or above or other highly-rated securities as agreed from time to time. All collateral is held in the CREST, Euroclear or Clearstream systems.

The DMA incurred a net loss of £386,000 as a result of market volatility following the collapse of Lehman Brothers International (Europe) Ltd (Lehman Brothers) in September 2008, largely on having to buy replacement collateral in the market. The DMA had both open borrowing (repo) and lending (reverse repo) positions with Lehman Brothers, which were fully collateralised. However, after Lehman Brothers was deemed to be in default, the DMA needed to replace the collateral it had provided against cash borrowed by buying equivalent stock in the market. The market price had risen sharply, mainly driven by the market response to credit concerns triggered by the collapse of Lehman Brothers, causing a loss on the transaction. This was partially offset by a market price gain on the sale of a smaller amount of collateral held by the DMA against borrowings by Lehman Brothers.

No other credit related losses were incurred by the DMA during the year (2007-2008: £nil).

The DMA also receives cash collateral in the form of margin calls under certain derivative contracts.

(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 2009. The Clearstream system is owned by Clearstream Banking S.A., which had a Standard and Poor's credit rating of AA at 31 March 2009.

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

The conservative nature of the DMO's credit policy is considered sufficient so that, despite the need to realise collateral held and given to Lehman Brothers during the year, no provisioning is thought necessary as at 31 March 2009 (31 March 2008: £nil). Counterparties are monitored for deterioration of credit worthiness or late settlements and any collateral is valued on a daily basis.

There were no assets considered impaired, nor whose terms had been renegotiated, at 31 March 2009 (31 March 2008: nil assets).

(iv) Gross exposure to credit risk before collateral held or other credit enhancements
Credit risk exposures on non-HM Government balance sheet assets are included below:

	Internal to HM Government		External to HM Government		Total	
			Financial institutions			
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Cash and balances at the Bank of England	-	-	714	500	714	500
Loans and advances to banks						
Reverse repos	-	-	35,369	14,198	35,369	14,198
Fixed term deposits	-	-	-	8	-	8
Asset Purchase Facility (Deposit at BoE)	-	-	986	-	986	-
Trading assets	2,391	17	2,450	-	4,841	17
Derivatives held for risk management purposes (see note 10)	-	-	-	81	-	81
Investment securities classified as available-for-sale	352,595	29,163	-	-	352,595	29,163
Other assets	-	-	1,539	2,245	1,539	2,245
Deposit at National Loans Fund	48,967	49,140	-	-	48,967	49,140
Total gross exposure	**403,953**	**78,320**	**41,058**	**17,032**	**445,011**	**95,352**

The non-HM Government balances above represent credit risk exposure at 31 March 2009 (and 31 March 2008), without taking into account any collateral held or other credit enhancements attached. The exposures set out above are based on carrying amounts as reported in the balance sheet. Exposures can be subject to seasonal fluctuations.

The DMA has not issued any financial guarantees and has no off-balance sheet financial commitments.

(v) Collateral

(a) Sale and repurchase agreements

Sale and repurchase agreements (repos) and purchase and resale agreements (reverse repos), with collateral backing, are:

Settled transactions:

	2009 Balance sheet carrying value £m	2009 Fair value of securities collateral £m	2008 Balance sheet carrying value £m	2008 Fair value of securities collateral £m
Reverse repos (within loans and advances to banks)	33,877	34,199	14,198	14,301
Securities collateral shortfall		-		1
Securities collateral resold via repo agreements		-		-
Repos (within deposits by banks)	25,675	25,880	11,977	12,038
Securities collateral surplus		-		13

Unsettled transactions:

	2009 Balance sheet carrying value £m	2009 Weighted average days to settlement	2008 Balance sheet carrying value £m	2008 Weighted average days to settlement
Reverse repos (within loans and advances to banks)	1,492	112	-	-
Repos (within deposits by banks)	1,466	1	2,239	22

All repo and reverse repo transactions are with bank (or bank subsidiary) counterparties.

Collateral surplus and shortfall have been calculated at the level of individual counterparties.

Collateral to the value of the unsettled cash amounts is not taken until settlement occurs.

(b) Derivatives

Equity index / interest rate derivative assets and liabilities, with collateral backing, are:

	2009 Balance sheet carrying value £m	2009 Market value of securities collateral £m	2008 Balance sheet carrying value £m	2008 Market value of securities collateral £m
Equity index / interest rate derivative assets	-	-	81	78
Securities collateral shortfall		-		5
Securities collateral resold		-		-
Equity index / interest rate derivative liabilities	103	10	9	4
Securities collateral surplus		112		10

Collateral surplus and shortfall have been calculated at the level of individual counterparties.

(vi) Sale and repurchase agreements – analysis by credit rating

Repos and reverse repos, by Standard and Poor's long-term designation of the bank (or bank subsidiary) counterparty at 31 March 2009 (and 31 March 2008), based on the rating of the DMA's counterparties (individual contracting entities rather than ultimate parent entities), were:

	Reverse repos		Repos	
	2009 £m	2008 £m	2009 £m	2008 £m
AAA	-	-	2,000	503
AA- to AA+	30,716	12,612	25,036	12,839
A- to A+	4,653	1,586	105	874
Total	**35,369**	**14,198**	**27,141**	**14,216**

(vii) Fixed term deposits at banks and trading assets - analysis by credit rating

Non-HM Government deposits and debt securities, by Standard and Poor's long-term rating designation of the counterparty or (for trading assets) issuer at 31 March 2009 (and 31 March 2008), were:

	Cash and balances at the Bank of England		Fixed term deposits at banks (unsecured)	
	2009 £m	2008 £m	2009 £m	2008 £m
AAA	714	500	-	-
AA- to AA+	-	-	-	8
Total	**714**	**500**	**-**	**8**

(viii) Derivative assets – analysis by credit rating

Derivative assets, by Standard and Poor's long-term rating designation of the bank counterparty at 31 March 2009 (and 31 March 2008), were:

	Interest rate / equity index derivatives	
	2009 £m	2008 £m
AA- to AA+	-	39
A- to A+	-	42
Total	**-**	**81**

Further details of derivative contracts are given in note 10.

(ix) Other assets – analysis by credit rating

Other assets (unsettled trades), by Standard and Poor's long-term rating designation of the counterparty at 31 March 2009 (and 31 March 2008), were:

	2009 £m	2008 £m
AA- to AA+	1,516	2,241
A- to A+	21	-
Unrated	2	4
Total	**1,539**	**2,245**

(x) Concentration of exposures

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

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

Credit exposures at 31 March 2009 (and 31 March 2008) by geographical region, based on the country of domicile of the ultimate parent entities of the DMA's counterparties or (for trading assets) issuers were:

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Cash and balances at the Bank of England	714	500	-	-	-	-	-	-	714	500
Loans and advances to banks										
- Fixed term deposits	-	8	-	-	-	-	-	-	-	8
Derivatives	-	3	-	3	-	75	-	-	-	81
Other assets	1,508	1,352	31	890	-	3	-	-	1,539	2,245
Total	**2,222**	**1,863**	**31**	**893**	**-**	**78**	**-**	**-**	**2,253**	**2,834**

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

Credit exposures at 31 March 2009 (and 31 March 2008) by geographical region, based on the country of domicile of the ultimate parent entities of the DMA's counterparties, were:

	United Kingdom		Rest of European Economic Area and Switzerland		North America		Asia-Pacific		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Reverse repos (within loans and advances to banks)	30,639	7,116	4,312	6,456	418	53	-	573	35,369	14,198
Repos (within deposits by banks)	24,389	10,347	2,106	3,074	-	777	646	18	27,141	14,216

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.

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, amounts due to the funds managed by the Commissioners for the Reduction of the National Debt 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 and interest rate risk limits are in place, expressed in present value of a basis point (rather than value at risk) terms.

The 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, for example, £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 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 of 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 ended 31 March 2009 (and 31 March 2008). 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 Risk Committee.

(ii) VaR summary for 2008-2009

VaR at 31 March 2009 was:

	2009 £m	2008 £m
Interest rate risk and currency risk - cash management	1.09	0.84
Interest rate risk - retail gilts	0.20	0.10

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 ranges of end-of-day VaR in the year ended 31 March 2009 were:

(a) Interest rate risk and currency risk – cash management (based on daily calculations)

	2009 £m	2008 £m
Highest in the year	7.91	1.67
Average for the year	1.52	0.72
Lowest in the year	0.16	0.11

(b) Interest rate risk – retail gilts (based on daily calculations)

	2009 £m	2008 £m
Highest in the year	0.25	0.10
Average for the year	0.12	0.08
Lowest in the year	0.06	0.05

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 are: index-linked gilts, with a carrying value of £17,344 million at 31 March 2009 (31 March 2008: £10,790 million); the deposit at the National Loans Fund, with a carrying value of £48,967 million at 31 March 2009 (31 March 2008: £49,140 million); and call notice deposits from customers, with a carrying value of £61,732 million at 31 March 2009 (31 March 2008: £59,720 million). The index-linked gilts are linked to the General Index of Retail Prices in the UK (RPI).

(a) Interest rate risk profile (based on the earliest possible repayment date)

The DMA's interest rate risk profile at 31 March 2009 (and 31 March 2008) was:

	Fixed rate instruments Weighted average interest rate	Fixed rate instruments Weighted average period	Fixed rate instruments	Floating rate instruments
	2009 %	2009 Years	2009 £m	2009 £m
Currency				
Sterling				
Assets	4.20	10.86	375,461	68,011
Liabilities (before funding by National Loans Fund)	0.91	0.15	79,121	61,732

	2008 %	2008 Years	2008 £m	2008 £m
Currency				
Sterling				
Assets	5.31	6.93	32,595	60,430
Liabilities (before funding by National Loans Fund)	5.09	0.12	34,408	59,721

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 balance sheet carrying value of £31 million as at 31 March 2009 (31 March 2008: £29 million). This lending is 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 for 2009 and 2008

PV01 at 31 March 2009 (and 31 March 2008) was:

	2009 £m	2008 £m
Interest rate risk - cash management	0.15	0.06
Interest rate risk - retail gilts	(0.01)	(0.01)

The ranges of end-of-day PV01 exposure were:

Cash management (based on daily calculations)

	Cash management	
	2009 £m	2008 £m
Highest positive in the year	0.42	0.09
Average for the year	0.11	(0.12)
Highest negative in the year	(0.11)	(0.27)

Retail gilts (based on daily calculations)

	Retail gilts	
	2009 £m	2008 £m
Highest positive in the year	-	-
Average for the year	(0.01)	(0.01)
Highest negative in the year	(0.02)	(0.01)

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

(iv) Currency risk

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

A foreign exchange risk limit is in place that is designed to constrain 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 ended 31 March 2009 (and the year ended 31 March 2008) was to fully match all currency cash flows. Monitoring of this hedging is performed daily and any breaches are reported to the Risk Committee.

Forward foreign currency contracts outstanding at 31 March 2009 (and 31 March 2008) 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 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

There is a daily liquidity risk limit in place that 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 ended 31 March 2009 (and 31 March 2008) 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. Monitoring against these limits is performed daily and any breaches are reported to the 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:

As at 31 March 2009

	On demand £m	0-6 months £m	7-12 months £m	Total flows (not discounted) £m	Adjustment for discount £m	Balance sheet carrying value £m
Deposits by banks	-	30,732	106	**30,838**	(29)	**30,809**
Due to government customers	61,732	4,416	-	**66,148**	-	**66,148**
Treasury bills in issue	-	43,619	345	**43,964**	(69)	**43,895**
Other liabilities	1	750	750	**1,501**	-	**1,501**
Total non-derivative liabilities before funding by National Loans Fund	**61,733**	**79,517**	**1,201**	**142,451**	**(98)**	**142,353**

As at 31 March 2008

	On demand £m	0-6 months £m	Total flows (not discounted) £m	Adjustment for discount £m	Balance sheet carrying value £m
Deposits by banks	-	14,441	**14,441**	(41)	**14,400**
Due to government customers	59,720	2,583	**62,303**	(16)	**62,287**
Treasury bills in issue	-	17,576	**17,576**	(135)	**17,441**
Other liabilities	-	4	**4**	-	**4**
Total non-derivative liabilities before funding by National Loans Fund	**59,720**	**34,604**	**94,324**	**(192)**	**94,132**

There were no liabilities that the DMA intended to repay before maturity as at 31 March 2009 (31 March 2008: £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

As at 31 March 2009

Sterling cash flows

	0-6 months £m	Total undiscounted flows £m
Forward foreign exchange contracts		
Outflow	4	**4**
Inflow	4,246	**4,246**

Euro cash flows

	0-6 months €m	Total undiscounted flows €m
Forward foreign exchange contracts		
Outflow	4,754	**4,754**
Inflow	4	**4**

As at 31 March 2008

Sterling cash flows

	0-6 months £m	Total undiscounted flows £m
Forward foreign exchange contracts		
Outflow	5	**5**
Inflow	7,413	**7,413**

Euro cash flows

	0-6 months €m	Total undiscounted flows €m
Forward foreign exchange contracts		
Outflow	9,687	**9,687**
Inflow	6	**6**

Balance sheet carrying values are shown in note 10.

(b) Derivatives settled on a net basis

As at 31 March 2009

Sterling cash flows	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
Equity index derivatives						
Outflow	54	14	38	**106**	(3)	**103**
Inflow	-	-	-	**-**	-	**-**

As at 31 March 2008

Sterling cash flows	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
Equity index derivatives						
Outflow	-	-	11	**11**	(2)	**9**
Inflow	42	9	33	**84**	(3)	**81**

There were no derivative contracts that the DMA intended to terminate before maturity as at 31 March 2009 (or 31 March 2008). Management expects actual undiscounted cash flows in relation to derivatives to be the same as contractual undiscounted cash flows.

25 Preparation of accounts

As far as the Accounting Officer is aware, there is no relevant audit information of which the DMA's 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 DMA's auditors are aware of that information.

The accounts were authorised for issue on 7 July 2009.

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

1. The Treasury shall prepare accounts for the Debt Management Account ("the Account") for the year ending 31 March 2007 and each subsequent financial year that give a true and fair view of the state of affairs of the Account at the balance sheet date and of its income and expenditure, total recognised gains and losses and cash flows for the year then ended. The accounts shall be prepared under the historical cost convention modified to include certain investments at valuation and in accordance with applicable accounting standards and where appropriate, although not subject to the Companies Act and technically not being the accounts of a bank, the special provisions of Schedule 9 of the Companies Act 1985 relating to banking companies.

2. The accounts shall also be consistent with relevant requirements of the Government Financial Reporting Manual, except to the extent set out in sub-paragraphs a. and b. below and shall meet the extra information requirements set out in Appendix A:

a. An income and expenditure account shall be prepared instead of Schedule 2, the operating cost statement, and both it and the balance sheet shall be prepared in the same format as those required by Schedule 9 of the Companies Act 1985. Schedule 1 (Statement of Parliamentary Supply) and Schedule 5 (Statement of Operating Costs by Departmental Aim and Objectives), are also not relevant; and

b. The accounts shall follow the requirements of FRS 23 (IAS 21) The Effects of Changes in Foreign Exchange Rates (instead of SSAP 13, Foreign Currency Translation), FRS 25 (IAS 32) Financial Instruments: Presentation, FRS 26 (IAS 39) Financial Instruments: Recognition and Measurement, and FRS 29 (IFRS 7) Financial Instruments: Disclosures (instead of FRS 13 Derivatives and other financial instruments: disclosures) other than Appendix E, Capital Disclosures.

3. This Accounts Direction shall be reproduced as an Appendix to the Accounts.

4. This Accounts Direction supersedes that issued on 22 June 2006.

David Watkins
Head, Financial Reporting Policy
HM Treasury

12 July 2007

Appendix A

EXTRA INFORMATION REQUIRED TO BE DISCLOSED

1. In addition to meeting appropriate requirements of the Companies Act and the Financial Reporting Manual, the following extra information shall be disclosed, including in order to facilitate the preparation and consistency of Whole of Government Accounts.

Annual Report

2. The Annual Report shall include:

   a) A brief history of the Account, and its statutory background;

   b) An outline of the scope of the Account, its status in relation to HM Treasury and other central funds, and its management arrangements;

   c) A Management Commentary:

      i) Taking into consideration the recommendations outlined in the Accounting Standards Board's Reporting Statement 1, Operating and Financial Review; and

      ii) Including appropriate information on financial performance and position reflecting the relationship between the Account and other relevant central funds, and information on targets set by HM Treasury and their achievement.

Notes to the accounts

3. The notes to the accounts shall include the following:

   a) Analyses of assets, between fixed and current assets;

   b) Analyses of debtors and creditors, between those falling due within and after one year;

   c) Where not separately disclosed on the face of the income and expenditure accounts, analyses of income and expenditure giving totals for the following:

      i) Interest receivable and similar income

      ii) Interest payable and similar charges

      iii) Other operating income, including income derived from the provision of services

   d) Disclosure of income and expenditure, and assets and liabilities, relating to other central government funds, including the National Loans Fund.

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