

DMO FINANCING REMIT 2015-16: 18 MARCH 2015

1. The DMO's financing remit for 2015-16 has been published today as part of the Budget 2015 announcements. The main points are summarised below.

A) Debt issuance by the DMO

2. The DMO plans to raise £140.4¹ billion in 2015-16, split as follows:

- Outright gilt sales: £133.4 billion.
- Net Treasury bill sales (via tenders): £7.0 billion.

B) Planned gilt sales

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

- £105.2 billion of issuance in 39 auctions; and
- additional supplementary gilt sales of £28.2 billion (21.1% of total issuance) via a combination of syndicated offerings and, subject to demand, mini-tenders. This will comprise a minimum £24.2 billion via a syndication programme. Any additional sales via syndication can only be of long conventional or index-linked gilts but mini-tenders can be used for issuance of conventional and index-linked gilts across the curve.

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

Conventional:

Short: £33.9 billion (25.4%) in 8 auctions

Medium: £26.7 billion (20.0%) in 8 auctions

Long: £37.4 billion (28.0%) in 12 auctions and via syndicated offerings (aiming to raise £28.1 billion by auctions and a current planning assumption of a minimum of £9.3 billion via syndication).

Index-linked: £31.4 billion (23.5%) in 11 auctions and via syndicated offerings (aiming to raise £16.5 billion by auctions and a current planning assumption of a minimum of £14.9 billion via syndication).

5. The issuance methods to achieve the syndication and mini-tender plans are based on current assumptions. In particular, total financing achieved through each supplementary issuance method will be dependent on market and demand conditions at the time transactions are conducted.

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

C) The gilt auction programme

6. The calendar of gilt sales by auction in 2015-16 is attached at Annex A.
7. The DMO will publish average auction sizes (in cash terms) by maturity and type in its quarterly issuance calendar announcement for April-June 2015 (at 3.30pm on Tuesday 31 March 2015) and will re-publish planned average auction sizes after every auction on the DMO website², in its regular auction size press releases and subsequent quarterly issuance calendar announcements.
8. The DMO may size each individual auction above or below the prevailing average (cash) size, taking into account the maturity of the gilt being sold and prevailing market conditions.

D) The syndication programme

9. The DMO again envisages using the syndication programme in 2015-16 to launch new gilts and/or for re-openings of high duration gilts. The DMO envisages holding approximately six syndicated offerings (four index-linked and two long conventional) in 2015-16 (with at least one transaction per quarter). The DMO will announce updates on the progress of the syndication programme in its quarterly operations calendar announcements. Each syndicated offering will be sized having regard to the size and quality of end-investor demand in the order book.
10. The unallocated portion of the supplementary issuance programme will be used as the main method to accommodate variations in proceeds from syndicated offerings. In the event that proceeds from the syndication programme exceed the currently planned total of £24.2 billion, the size of the unallocated supplementary issuance portion will be reduced.
11. The unallocated portion of the supplementary issuance programme can also be directed to gilt mini-tenders, subject to there being market demand for such operations.
12. To maintain the operational viability of syndicated offerings at the end of each programme, the overall size of the syndications (conventional and/or index-linked) may be increased by up to 10% (in cash terms) at the time of the final syndicated offering of each type. Scope to up-size the programmes in this way would only be deployed, if, at the time of the final operations for either or both types of gilt, the unallocated supplementary amount had been exhausted, whether as a consequence of re-allocation decisions at previous syndications, or as a part of the sizing decision at the final operation.
13. The DMO will provide updates to the planning assumptions for the split between the syndication programme and the initially unallocated portion of the supplementary issuance programme in each press release announcing the

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

results of a syndicated offering, or following any mini-tender operation, and via the gilt sales versus remit table on the DMO website.

E) Interaction between the gilt auction calendar and the syndication programme

14. In order to facilitate the scheduling of a syndicated offering, the DMO may on an exceptional basis alter the timing of an existing gilt auction. An auction may be moved to another day in the week in which it was originally scheduled, to the previous week or to the following week. Any such changes may occur after the publication of the relevant quarterly issuance calendar but, if so, with a minimum of at least one week's notice. Any such changes would be announced alongside an announcement about the likely timing of a syndicated offering.

F) Gilt mini-tenders

15. The scheduling of any mini-tenders will take place during the financial year depending on market demand and the progress of the supplementary issuance programme. Mini-tenders may be added to the calendar with at least seven working days notice. Demand for mini-tenders may be communicated to the DMO via the quarterly consultation process or at other times during the year.
16. The choice of gilt to be issued at any mini-tender will be determined on a case-by-case basis by the DMO. Mini-tenders will be sized operation-by-operation and may vary in size subject to a maximum limit of approximately half the typical (cash proceeds) size of an auction of a comparable gilt by maturity or type. The DMO will announce the choice of gilt to be sold, as well as the maximum size for the operation, at least five working days before the date of each mini-tender.

G) Post Auction Option Facility (PAOF)

17. In 2015-16 the DMO will continue to offer successful bidders (both primary dealers and investors) an option to purchase additional stock of up to 10% of the amount allocated to them at the average accepted price at conventional gilt auctions and at the clearing (or strike) price at index-linked gilt auctions. The facility will be available from midday to 2pm on the day of an auction.
18. Any additional amounts sold via this facility in 2015-16 will count towards overall remit sales targets on an auction-by-auction basis and will, all else equal, be used progressively to reduce the average sizes for the remaining auctions of the maturity/type of gilt in question throughout the financial year. Average auction sizes will be re-stated after each auction.
19. If exercised consistently, the option may allow for the cancellation of future auctions. Any such cancellation would be announced well in advance as part of the regular issuance calendar announcements and/or at the Autumn Statement (AS) 2015.

H) Treasury bill sales

20. The outstanding stock of Treasury bills sold via weekly tenders at end-March 2016 is expected to be £72.0 billion, an increase of £7.0 billion from the planned stock sold via tenders at end-March 2015.
21. The DMO will have the flexibility to vary the end-financial year stock of Treasury bills issued via tenders by up to £5.0 billion above or below the published planned level, to offset any anticipated net Exchequer cash surplus or deficit towards year-end. The 2014-15 outturn for the stock of Treasury bills sold via weekly tenders will be reported alongside the 2014-15 CGNCR outturn in April 2015.

I) Changes to the financing requirement

22. The Debt and Reserves Management Report (DRMR) 2015-16 includes the Office for Budget Responsibility's (OBR's) revised forecasts for the Central Government Net Cash Requirement (excluding Bradford & Bingley (B&B), Northern Rock (Asset Management) (NRAM) and Network Rail (NR)) (CGNCR ex B&B, NRAM and NR) in 2014-15 and 2015-16 of £96.2 billion and £78.9 billion respectively. These represent a reduction of £6.1 billion for 2014-15 and a reduction of £16.1 billion for 2015-16 relative to the forecasts published at the AS 2014.
23. The other main changes impacting on financing in 2014-15 since AS 2014 are:
 - a forecast net contribution to financing in 2014-15 from National Savings & Investments (NS&I) of £18.3 billion, an increase of £4.8 billion; and
 - an estimated outturn of gilt sales in 2014-15, which is £126.1 billion, £0.2 billion higher than the £125.9 billion plan, primarily reflecting proceeds from the PAOF.
24. The projected level of the DMO's net cash balance at 31 March 2015 is £11.3 billion above the level projected at Autumn Statement 2014. The level will be reduced to £0.5 billion in 2015-16, as shown by the short-term financing adjustment, and this will in turn reduce the Net Financing Requirement (NFR) in 2015-16.

J) Supplementary information

25. The gilt auction calendar for 2015-16 is published at Annex A.
26. The financing arithmetic for 2014-15 and 2015-16 is published at Annex B. The financing arithmetic in 2015-16 is adjusted to reflect UK Asset Resolution's (UKAR's) deconsolidated liabilities that will transfer to the buyer of the Granite securitisation vehicle, if such a sale should go ahead. As a result of the sale of Granite, public sector net debt will fall by £10.9 billion,

reflecting the assets at closing net of the cash earnings that would have accrued to the Exchequer should a sale not have taken place. The OBR's forecast for the CGNCR (ex NRAM, B&B and NR) assumes the full value of this sale would accrue to the Exchequer. However, the government's cash requirement will only fall by £4.2 billion due to the transfer of the £6.7 billion funding for the securitisation vehicle to the buyer.

27. The redemption total for 2015-16 reflects the government's stated intention to redeem the four remaining undated gilts in the portfolio (2½% Treasury Stock, 2½% Consolidated Stock, 2½% Annuities and 2¾% Annuities) once Finance Bill 2015 has received Royal Assent. Details of these redemptions will be announced by the DMO after the coming into force of the Finance Act 2015³.
28. The planned split of gilt issuance by type, maturity and method of issue is published at Annex C.
29. Revised illustrative gross financing projections to 2019-20 are published at Annex D.

³ With effect from today, until the point at which redemption is announced, for the purposes of publishing the GEMMA reference and DMO purchase and sale facility prices, the DMO will assume that these four gilts have a rolling 3-month maturity. When the redemption of these gilts is announced by the DMO, the DMO will from that point use the actual maturity date for pricing.

Annex A: Gilt auction calendar 2015-16

Date	Type of gilt
08-Apr-15	Conventional
16-Apr-15	Index-linked
21-Apr-15	Conventional
29-Apr-15	Conventional
14-May-15	Conventional
21-May-15	Conventional
27-May-15	Index-linked
02-Jun-15	Conventional
09-Jun-15	Index-linked
11-Jun-15	Conventional
02-Jul-15	Conventional
07-Jul-15	Conventional
15-Jul-15	Index-linked
04-Aug-15	Conventional
11-Aug-15	Index-linked
20-Aug-15	Conventional
02-Sep-15	Conventional
08-Sep-15	Conventional
16-Sep-15	Conventional
01-Oct-15	Conventional
06-Oct-15	Conventional
15-Oct-15	Index-linked
20-Oct-15	Conventional
10-Nov-15	Index-linked
12-Nov-15	Conventional
18-Nov-15	Conventional
01-Dec-15	Conventional
08-Dec-15	Conventional
17-Dec-15	Index-linked
05-Jan-16	Conventional
07-Jan-16	Conventional
12-Jan-16	Index-linked
20-Jan-16	Conventional
09-Feb-16	Index-linked
11-Feb-16	Conventional
17-Feb-16	Conventional
02-Mar-16	Conventional
08-Mar-16	Conventional
10-Mar-16	Index-linked

Auction dates are subject to confirmation depending on the timetable for Budgetary announcements by HM Treasury. Index-linked gilt auction dates in February and March 2016 are subject to confirmation depending on the timing of RPI data releases.

Annex B: Financing arithmetic 2014-15 and 2015-16 (£ billion)

Financing Arithmetic (Budget 2015)	2014-15	2015-16
a) Financing items		
Central Government Net Cash Requirement exc. B&B, NRAM & Network Rail ¹	96.2	78.9
UKAR adjustment	0.0	6.7
Gilt redemptions	64.5	70.2
Planned financing for the Reserves	12.0	6.0
Gilt secondary market purchases	0.0	0.0
Financing adjustment carried forward from the previous financial years	-30.2	-11.3
Gross Financing Requirement	142.4	150.6
<i>Less:</i>		
Net contribution from National Savings & Investments	18.3	10.0
Sukuk	0.2	0.0
Renminbi	0.3	0.0
Other financing items ²	0.3	0.2
Net Financing Requirement for DMO (NFR)	123.3	140.4
b) Financed by:		
1. Debt issuance by the DMO		
a) Treasury bills (planned change in stock issued at tenders)	8.5	7.0
b) Gilt sales (planned outright sales)	126.1	133.4
- Short conventional	31.9	33.9
- Medium conventional	27.9	26.7
- Long conventional	34.1	37.4
- Index-linked	32.3	31.4
- Unallocated supplementary sales		4.0
2. Planned change in the level of the Ways and Means	0.0	0.0
Total financing	134.6	140.4
Short-term debt/cash levels at end of financial year		
Treasury bill stock via tenders (in market hands) ³	65.0	72.0
Ways and Means	0.4	0.4
DMO net cash position	11.8	0.5
<i>Figures may not sum due to rounding.</i>		
¹ This excludes Network Rail's cash requirement but includes HM Treasury's requirement for financing £6.5 billion of lending to Network Rail. This was first presented as a separate item in the financing arithmetic at April 2014.		
² From Autumn Statement 2014 onwards, the financing arithmetic has included provision for small sources of additional financing. This is expected to include non-governmental deposits, coinage and certificates of tax deposit. Prior to publication of the end-year outturn in the following April, this financing item will only comprise estimated revenue from coinage.		
³ The DMO has operational flexibility to vary the end-financial year stock by a maximum of £5 billion relative to the planning assumption, to offset any anticipated net Exchequer cash surplus or deficit towards year-end.		

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

	Auction	Syndication	Unallocated supplementary	Total
Short conventional				
£ billion	33.9			33.9
Per cent				25.4%
Medium conventional				
£ billion	26.7			26.7
Per cent				20.0%
Long conventional				
£ billion	28.1	9.3		37.4
Per cent				28.0%
Index-linked				
£ billion	16.5	14.9		31.4
Per cent				23.5%
Unallocated				
£ billion			4.0	4.0
Per cent				3.0%
Total £ billion	105.2	24.2	4.0	133.4
	78.9%	18.1%	3.0%	
<i>Figures may not sum due to rounding</i>				

Annex D: Illustrative gross financing projections

The table below shows annual illustrative gross financing projections from 2016-17 to 2019-20 using updated projections of the CGNCR (ex B&B, NRAM and NR) forecasts plus the latest estimate of gilt redemptions in these years. These are not forecasts of future gilt sales. Rather, they are a broad indication of future gilt sales on the assumption that the Treasury bill stock is unchanged and NS&I makes a zero net contribution to financing.

(£ billion)	2016-17	2017-18	2018-19	2019-20
CGNCR exc. B&B, NRAM and NR forecasts	72	38	17	17
Gilt redemptions	70	79	67	93
Financing for the Official Reserves	6	6	6	6
Illustrative gross financing requirement	148	124	90	116
<i>Figures may not sum due to rounding.</i>				