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THE DEBT MANAGEMENT OFFICE'S FINANCING REMIT FOR 2008-09

Objectives

5.1 The DMO, an Executive Agency of HM Treasury, has been given the following objectives in respect of Government debt management:

- to meet the annual remit set by HM Treasury Ministers for the sale of gilts, with due regard to long-term cost minimisation taking account of risk;
- to advise Ministers on setting the remit to meet the Government's debt management objectives and to report to Ministers on the DMO's performance against its remit, objectives and targets;
- to develop policy on, and promote advances in, new instruments, issuance techniques and structural changes to the debt markets that will help lower the cost of debt financing, liaising as appropriate with the Bank of England, Financial Services Authority, London Stock Exchange and other bodies and to provide policy advice to Ministers on the DMO's performance against its remit, objectives and targets;
- to conduct its market operations, liaising as necessary with regulatory and other bodies, with a view to maintaining orderly and efficient markets and promoting a liquid market for gilts;
- to provide, including in liaison with Computershare Investor Services plc and CRESTCo, a high quality efficient service to investors in government debt and to deal fairly and professionally with market participants in the gilt and money markets, consistent with achieving low cost issuance;
- to contribute to HM Treasury's work on the development of the medium-term strategy for the debt portfolio; and
- to make information publicly available on the debt markets and DMO policies where that contributes through openness and predictability to efficient markets and lowers costs of debt issuance.

Quantity of gilt sales

5.2 The DMO, on behalf of the Government, will aim to deliver gilt sales of £80.0 billion (cash)⁹ in 2008-09.

⁹ Figures in Chapter 5 are in cash terms unless otherwise stated.

Amount and maturity of conventional gilt issuance

5.3 The planned amount of issuance and maturity mix of conventional gilts in 41 auctions in 2008-09 is:

- 7 auctions in the short (1-7 years) maturity area, aiming to raise £25.0 billion cash;
- 5 auctions in the medium (7-15 years) maturity area, aiming to raise £12.8 billion cash; and
- 11 auctions in the long (15 years and over) maturity area, aiming to raise £24.2 billion cash.

Amount of index-linked gilt issuance

5.4 In 2008-09, the DMO aims to sell £18.0 billion (cash) in index-linked gilts.

5.5 18 auctions of index-linked gilts are planned in 2008-09. These auctions will include frequent issuance at long maturities.

Size of gilt auctions

5.6 The gilt sales targets in paragraphs 5.3 and 5.4 above are specified in cash terms, but the gilt auctions are sized in nominal terms, typically in £0.25 billion increments for conventional gilts and £0.025 billion increments for index-linked gilts. Therefore all gilt sales targets are expressed in approximate terms.

Method of issuance of gilts

5.7 Auctions will constitute the preferred means of issuance of all gilts (conventional and index-linked). All auctions will be single auctions held on the day indicated.

5.8 Each outright auction of conventional gilts is planned to be between £1.5 billion and £4.0 billion (cash) on a competitive bid-price basis. Each outright auction of index-linked gilts will be between £0.5 billion and £2.0 billion (cash) on a uniform price basis.

5.9 The expected timing of gilt sales is set out in the auction calendar in Table 5.1 below. A more detailed auction calendar for the first quarter of the financial year, including the gilts to be auctioned on each date, will be announced by the DMO at 3.30pm on Monday 31 March 2008. For the rest of 2008-09 the quarterly calendar announcements will be made at 3.30pm on Friday 30 May, Friday 29 August and Friday 28 November¹⁰. Full details of all auctions will normally be announced at 3.30pm on the Tuesday of the week preceding the auction.

¹⁰ The announcement in November is subject to the date of the Pre-Budget Report.

Table 5.1: Gilt auction calendar 2008-09¹

Date	Type
2008	
3 April	Conventional
8 April	Index-linked
17 April	Conventional
24 April	Index-linked
15 May	Conventional
22 May	Index-linked
3 June	Conventional
10 June	Index-linked
12 June	Conventional
24 June	Index-linked
2 July	Conventional
8 July	Index-linked
17 July	Conventional
24 July	Index-linked
29 July	Conventional
5 August	Conventional
14 August	Index-linked
2 September	Conventional
10 September	Conventional
23 September	Index-linked
25 September	Conventional
1 October	Conventional
7 October	Index-linked
16 October	Conventional
28 October	Index-linked
4 November	Conventional
20 November	Conventional
25 November	Index-linked
2 December	Conventional
9 December	Index-linked
11 December	Conventional
2009	
13 January	Conventional
15 January	Index-linked
27 January	Index-linked
3 February	Conventional
12 February	Index-linked
24 February	Index-linked
26 February	Conventional
3 March	Conventional
10 March	Conventional
26 March	Index-linked

1. Auctions in Q3 and Q4 are subject to confirmation of the dates of the Pre-Budget Report and the Budget.

5.10 The above programme of conventional and index-linked gilt auctions and any others that may be added during the year may be supplemented between auctions by official sales of gilts by the DMO “on tap”. Taps of gilts will be used only as a market management instrument in exceptional circumstances.

5.11 The DMO has no plans to issue gilts by syndicated offering in 2008-09.

5.12 After an auction the DMO will generally refrain from issuing gilts of a similar type or maturity to the auctioned gilt for a reasonable period, unless already pre-announced, or if there is a clear market management case for doing so.

5.13 For the purposes of market management, the DMO may create and repo out gilts in accordance with the provisions of its Standing Repo Facility launched on 1 June 2000 as revised in the DMO’s announcement of 21 December 2007¹¹.

Reverse auctions

5.14 The DMO has no current plans for a programme of reverse auctions in 2008-09.

Conversions and switch auctions

5.15 The DMO has no current plans for a programme of conversion or switch auctions in 2008-09.

Coupons

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

Buy-ins of short-maturity debt

5.17 The DMO will have responsibility for buying in gilts close to maturity to help manage Exchequer cash flows.

Revisions to the remit

5.18 Any aspect of this remit may be revised during the year, in the light of exceptional circumstances and/or substantial changes in the following:

- the Government’s forecast of the gilt sales requirement;
- the level and shape of the gilt yield curve;
- market expectations of future interest and inflation rates; and
- market volatility.

5.19 Any revisions to the remit will be announced.

¹¹ The announcement of 21 December 2007 is available on the DMO website at:
<http://www.dmo.gov.uk/documentview.aspx?docname=giltspres/pr211207>

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THE DEBT MANAGEMENT OFFICE'S EXCHEQUER CASH MANAGEMENT REMIT FOR 2008-09

Exchequer cash management objective

6.1 The Government's cash management objective is to ensure that sufficient funds are always available to meet any net daily central government cash shortfall and, on any day when there is a net cash surplus, to ensure this is used to best advantage. HM Treasury and the DMO work together to achieve this.

6.2 HM Treasury's role in this regard is to make arrangements for a forecast of the daily net flows into or out of the National Loans Fund (NLF); and its objective in so doing is to provide the DMO with timely and accurate forecasts of the expected net cash position over time.

6.3 The DMO's role is to make arrangements for funding and for placing the net cash positions, primarily by carrying out market transactions in the light of the forecast; and its objective in so doing is to minimise the costs of cash management while operating within the risk appetite approved by Ministers.

6.4 The Government's preferences in relation to the different types of risk taking inherent in cash management are defined by a set of explicit limits covering four types of risks, which taken together represent the Government's overall risk appetite¹². The risk appetite defines objectively the bounds of appropriate Government cash management in accordance with the Government's ethos for cash management as a cost minimising rather than profit maximising activity and playing no role in the determination of interest rates. The DMO may not exceed this boundary but within it the DMO will have discretion to take the actions it judges will best achieve the cost minimisation objective.

The DMO's cash management objective

6.5 The DMO's cash management objective is to minimise the cost of offsetting the Government's net cash flows over time, while operating within a risk appetite approved by Ministers. In so doing, the DMO will seek to avoid actions or arrangements that would:

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

Instruments and operations used in Exchequer cash management

6.6 The range of instruments and operations that the DMO may use for cash management purposes is set out in its Operational Notice¹³. The arrangements for the issuance of Treasury bills, and the management of the Treasury bill stock in market hands, will be set out in, and operated according to, the DMO's Operational Notice.

¹² The four types of risks are liquidity risk, interest rate risk, foreign exchange risk and credit risk. An explanation of these risks and the Government's cash management operations more generally is set out in Chapter 5 of the DMO's Annual Review 2004-05, which is available on the DMO's website at:

<http://www.dmo.gov.uk/documentview.aspx?docname=publications/annualreviews/gar0405.pdf>

¹³ The current edition of Exchequer Cash Management Operational Notice and Treasury Bill Information Memorandum is available on the DMO's website at:

<http://www.dmo.gov.uk/documentview.aspx?docname=publications/moneymarkets/opnot110903.pdf>

6.7 One component of the debt sales planned to meet the Government's annual financing requirement is the year-on-year change in the outstanding stock of Treasury bills (excluding bills issued solely for collateral purposes). In addition to the bills issued at scheduled weekly tenders, the DMO is able to reopen, on request from its counterparties, existing issues of Treasury bills on a bilateral basis to raise funds for cash management. This change was announced as part of the financing remit given by HM Treasury to the DMO last year¹⁴.

6.8 During the financial year, the DMO will manage the level of the Treasury bill stock and may increase or reduce the stock vis-à-vis the end year target level, in order to support the implementation of Government cash management. The DMO will announce the dates of Treasury bill tenders on the last Friday of a quarter¹⁵. The precise details of the maturity and the amount of the Treasury bills on offer at specific tenders will be announced one week in advance.

6.9 As a contingency measure, the DMO may issue Treasury bills to the market to assist the Bank of England's operations in the sterling money market for the purpose of implementing monetary policy while meeting the liquidity needs of the banking sector as a whole. In response to a request from the Bank, the DMO may add a specified amount to the size(s) of the next bill tender(s) and deposit the proceeds with the Bank, remunerated at the weighted average yield(s) of the respective tenders. The amount being offered to accommodate the Bank's request will be identified in the DMO's weekly Treasury bill tender announcement. Treasury bill issues made at the request of the Bank will be identical in all respects to Treasury bills issued in the normal course of DMO business.

DMO Collateral Pool

6.10 To assist the DMO in the efficient execution of its cash management operations, a combination of Treasury bills and gilts, which shall be chosen to have a negligible effect on relevant indices, may be issued to the DMO on the third Wednesday of April, July and October 2008 and January 2009. Any such issues to the DMO will only be used as collateral in the DMO's cash management operations and will not be available for outright sale. The precise details of any such issues to the DMO will be announced in advance. If no issue is to take place in a particular quarter, the DMO will announce that this is the case in advance.

Active cash management

6.11 The combination of HM Treasury's cash flow forecasts and the DMO's market operations characterises the active approach to Exchequer cash management. In 2006-07, a new performance measurement framework for active cash management in which discretionary decisions that are informed by forecast cash flows are evaluated against a range of indicators was introduced. These include quantifying the excess returns to active management by measuring the net cost of cash management after deducting an interest charge equivalent to the Government's marginal cost of funds.

¹⁴ See Chapter 4 (paragraph 4.8) of the Debt and reserves management report 2007-08.

¹⁵ Or the immediately preceding working day if the last Friday is a public holiday.

6.12 The original performance measure had compared the net interest costs of implementing the chosen active cash management strategy against the net interest cost of a notional benchmark, intended to represent an alternative, passive default strategy. One of the reasons for adopting this approach was to ensure that it would be resilient to the volatility then observed in money market rates. This approach was reviewed internally following the reforms to the sterling money markets introduced in May 2006 after which the performance methodology was simplified. Under the new approach, performance is no longer evaluated against a notional strategy; rather, it can be evaluated directly against the cash management objective of minimising the costs of offsetting the Government's cash flows.

6.13 Formal reporting of the performance of active cash management is intended for publication to take place in 2008-09. HM Treasury and the DMO recognise that measuring the net costs of active management alone would provide a narrow view of performance. As a consequence, active cash management performance is evaluated against a series of key qualitative and quantitative performance indicators that together reflect the ethos and objectives of the Government.

6.14 Quantitative performance is one such measure. Other indicators and controls that are used to monitor and assess performance in meeting the Government's cash management objectives are listed at Annex C.