

## DMO FINANCING REMIT 2009-10

The DMO's new financing remit for 2009-10<sup>1</sup> has been published today as part of the Budget 2009 announcements. The main points are summarised below.

### a) Debt issuance by the DMO

The DMO plans to raise £241.6 billion<sup>2</sup> in 2009-10 split as follows:

Gilt sales	£220.0 billion
Net Treasury bill sales	£21.6 billion

### b) Planned gilt sales

It is intended that the gilt sales target of £220.0 billion will be met through a combination of:

- £183.0 billion in 58 outright auctions;
- £25.0 billion by a supplementary programme of syndicated offerings;
- £12.0 billion in a supplementary series of gilt mini-tenders.

### c) Gilt sales split by type and operation

Planned gilt sales by type, maturity and issuance method are summarised below. The planning assumption that supplementary issuance methods will be used exclusively to issue long-dated conventional and index-linked gilts may be revised in light of developing market and demand conditions.

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

The auction calendar for 2009-10 is at Table 1 below.

### d) Syndicated offerings

It is anticipated that up to eight syndicated offerings will be held in 2009-10. The DMO will discuss plans for syndications with market participants at quarterly consultation meetings and announce any intention to issue gilts via syndicated offerings as part of its quarterly calendar announcements. It is anticipated that the

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<sup>1</sup> A provisional financing remit was published on 18 March 2009 to meet the requirements of the Code for Fiscal Stability. It was stated at that time that a new remit would be published alongside Budget 2009 in line with the updated financing arithmetic.

<sup>2</sup> All amounts in this announcement are in cash terms (unless otherwise indicated).

date and identity of a gilt to be sold by syndication will be announced approximately two weeks before the launch of the offer.

#### **e) Mini-tenders**

The DMO envisages holding at least one mini-tender per month. The weeks in which mini-tenders are to be held will be announced in the quarterly calendar announcements with details of the gilt to be sold announced closer to the operation date, in accordance with existing practice.

#### **f) Post-auction option facility**

Starting with the auction on 2 June 2009, the DMO will give an option to successful bidders at auctions (both GEMMs and investors) to purchase additional stock up to 10 per cent of the amount allocated to them at the auction. This option window will open at 12.00 noon on the day of the auction and will expire at 2.00pm on the day of the auction. The additional stock will be available to successful bidders at the average accepted price at conventional auctions and the single clearing (or strike) price at index-linked auctions. This facility will be in addition to the existing non-competitive facility available to GEMMs.

#### **g) Treasury bill sales**

The stock of Treasury bills in market hands is scheduled to rise by £21.6 billion in 2009-10 increasing the planned stock at end-March 2010 to £65.6 billion. The DMO has discretion to vary the Treasury bill stock over the end of the financial year in line with its cash management operational requirements. Any difference between the outturn and the target for 2009-10 will be reported in April 2010, along with any wider implications for the DMO's financing remit in 2009-10 arising from the publication of the outturn for the 2009-10 Central Government Net Cash Requirement (CGNCR).

#### **h) Changes to the financing requirement**

The Debt and Reserves Management Report (DRMR) 2009-10 includes the outturn for the CGNCR for 2008-09 of £162.4 billion and a CGNCR forecast for 2009-10 of £220.8 billion. These are increases of £9.5 billion and £94.8 billion respectively from the forecasts published at PBR 2008.

#### **2008-09**

The other main changes impacting on financing in 2008-09 since PBR 2008 are:

- £1.0 billion of financing for the initial phase of the Bank of England's Asset Purchase facility (financed by Treasury bill sales). These arrangements were suspended in February 2009;
- £2.4 billion of secondary market gilt purchases by the DMO (predominantly of the near maturity 2½% Index-linked Treasury Stock 2009);
- an increase of £1.5 billion to £12.5 billion in the net contribution to financing by National Savings & Investments;

- an increase of £11.9 billion (to £44.0 billion) in the end-March 2009 Treasury bill stock. This was principally due to sales of bilateral Treasury bills, £9.7 billion of which were in market hands at the end of the 2008-09 financial year; and
- the increased contribution to financing from Treasury bills resulted in an end year DMO net cash position of £1.1 billion, an increase relative to plan of £0.6 billion. This surplus is represented as a short-term financing adjustment in 2009-10 reducing the financing requirement in the current financial year accordingly.

### **2009-10**

- the redemption total for 2009-10 at £16.6 billion is lower than the £18.1 billion shown in the provisional remit, principally reflecting the impact of DMO purchases of 2½% Index-linked Treasury Stock 2009 as a near-maturity gilt in 2008-09<sup>3</sup>;
- the financing arithmetic assumes that the £1.0 billion financing for the initial phase of the Bank of England's Asset Purchase facility is repaid as the relevant bills mature in 2009-10;
- the financing arithmetic also assumes a further repayment of the Ways and Means Advance from the Bank of England of up to £3.8 billion to take the facility to its planned level of £0.4 billion.

The latest financing arithmetic for 2008-09 and 2009-10 is reproduced at Table 2. Also reproduced at Table 3 are illustrative gross financing projections out to 2013-14. Current gilt sales relative to the new remit are shown in Table 4.

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<sup>3</sup> See Annex A below for a fuller discussion of the impact of the redemption of 2½% IL 2009 on the financing arithmetic.

**Table 1: Gilt auction calendar 2009-10\***

<b>Date</b>	<b>Type</b>
<b>2009</b>	
01-Apr	4¼% Treasury Stock 2015
02-Apr	4¼% Treasury Gilt 2039
07-Apr	4½% Treasury Gilt 2019
08-Apr	1¼% Index-linked Treasury Gilt 2032
16-Apr	2¼% Treasury Gilt 2014
28-Apr	4% Treasury Gilt 2022
30-Apr	1½% Index-linked Treasury Gilt 2022
06-May	4½% Treasury Gilt 2019
12-May	4¼% Treasury Gilt 2030
14-May	0¾% Index-linked Treasury Gilt 2047
21-May	2¼% Treasury Gilt 2014
28-May	1¼% Index-linked Treasury Gilt 2032
02-Jun	Conventional
03-Jun	Conventional
09-Jun	Conventional
11-Jun	Index-linked
23-Jun	Conventional
01-Jul	Conventional
02-Jul	Conventional
07-Jul	Conventional
08-Jul	Index-linked
21-Jul	Conventional
29-Jul	Conventional
04-Aug	Conventional
11-Aug	Conventional
20-Aug	Index-linked
02-Sep	Conventional
03-Sep	Conventional
08-Sep	Conventional
17-Sep	Conventional
29-Sep	Conventional
01-Oct	Conventional
06-Oct	Conventional
07-Oct	Index-linked
14-Oct	Conventional
22-Oct	Conventional
03-Nov	Conventional
04-Nov	Conventional
10-Nov	Conventional
12-Nov	Index-linked
24-Nov	Conventional
01-Dec	Conventional
02-Dec	Conventional
08-Dec	Conventional
09-Dec	Index-linked
<b>2010</b>	
06-Jan	Conventional
13-Jan	Conventional
21-Jan	Conventional
02-Feb	Conventional
03-Feb	Conventional
09-Feb	Conventional
11-Feb	Index-linked
24-Feb	Conventional
02-Mar	Conventional
03-Mar	Conventional
09-Mar	Conventional
11-Mar	Index-linked
24-Mar	Conventional

\* Auction dates in Q3 and Q4 2009-10 are subject to confirmation depending on the dates of the PBR 2009 and Budget 2010

**Table 2: Financing arithmetic 2008-09 and 2009-10**

<b>(£bn)</b>	<b>2008-09</b>	<b>2009-10</b>
Central Government Net Cash Requirement	162.4	220.8
Gilt redemptions	18.3	16.6
Financing for Phase 1 of the Bank's Asset Purchase Facility	1.0	-1.0
Financing for reserves	0.0	2.0
Buy-backs	2.4	0.0
Planned short-term financing adjustment <sup>1</sup>	-2.5	-0.6
<b>Financing requirement</b>	<b>181.6</b>	<b>237.8</b>
Less		
Contribution to financing from NS&I	12.5	0.0
<b>Net financing requirement</b>	<b>169.1</b>	<b>237.8</b>
Financed by		
<b>1. Debt issuance by the DMO</b>		
<b>a) Treasury bills<sup>2</sup></b>	26.4	21.6
<b>b) Gilt sales</b>	146.5	220.0
of which:		
<b>Short-dated conventionals at auctions</b>	62.8	74.0
<b>Medium-dated conventionals at auctions</b>	33.3	70.0
<b>Long-dated conventionals at auctions</b>	30.3	27.0
<b>Long-dated conventionals (supplementary)<sup>3</sup></b>		19.0
<b>Index-linked gilts at auctions</b>	20.0	12.0
<b>Index-linked gilts (supplementary)<sup>3</sup></b>		18.0
<b>2. Other planned change in short term debt</b>		
Ways and Means	-3.2	-3.8
<b>3. Change in short term cash position<sup>4</sup></b>	0.6	0.0
<b>Total financing</b>	<b>169.7</b>	<b>237.8</b>
<b>Short-term debt levels at end of financial year</b>		
Assumed Treasury bill stock (in market hands)	44.0	65.6
Ways and Means	4.2	0.4
DMO net cash position	1.1	0.5
<p>1. To accommodate changes to the current year's financing requirement resulting from (i) publication of the previous year's outturn CGNCR and/or (ii) carry over of unanticipated changes to the cash position from the previous year.</p>		
<p>2. The stock change shown here is a planning assumption. The DMO may finish the financial year with a higher or lower Treasury bill stock than assumed in Table 2, depending primarily on the extent to which the DMO uses other short term cash instruments to raise finance.</p>		
<p>3. The planning assumption for supplementary issuance is that it will comprise £25.0 billion via syndicated offerings and £12.0 billion via mini-tenders. The current planning assumption for allocation of supplementary issuance is that it will be allocated to long conventional and index-linked gilts as indicated above, although there will be scope to deviate from this depending on market and demand conditions.</p>		
<p>4. The zero change for the short-term cash position assumes that the DMO's planning assumption for the end-year Treasury bill stock is met. To the extent that the DMO uses alternative short-term cash instruments to raise finance within year, this will be reflected (as a negative number) in this line in Table 2. A negative (positive) number here indicates an increase (reduction of) the financing requirement for the following financial year.</p>		

**Table 3: Illustrative financing projections**

Illustrative financing projections				
£bn	2010-11	2011-12	2012-13	2013-14
CGNCR projections	179	148	120	104
Gilt redemptions	39	49	34	21
Financing requirement**	218	197	154	125
<b>**Indicative gross financing requirements.</b>				

**Table 4: Gilt sales v the new remit**

Gilt sales v remit 22 April 2009 (£ millions)					
	Conventional Gilts			Index-linked gilts	Total
	Short	Medium	Long		
<b>Gilt sales to date</b>	<b>7,829</b>	<b>3,260</b>	<b>2,247</b>	<b>1,637</b>	<b>14,973</b>
1. Planned sales at auctions	74,000	70,000	27,000	12,000	183,000
Sales at auctions	7,829	3,260	2,247	1,101	14,437
Sales remaining at auctions	66,171	66,740	24,753	10,899	168,563
Auctions remaining	13	18	11	11	53
2. Sales by syndication	0	0	0	0	0
Syndications to be allocated					25,000
3. Sales by tender	0	0	0	536	536
Mini-tenders to be allocated					11,464
<b>Total planned sales</b>					<b>220,000</b>

## **Annex A: Index-linked uplift and the redemption of 2½% Index-linked Treasury Stock 2009**

The redemption total for 2009-10 of £16.6 billion does not include the full value of the index-linked uplift on 2½% Index-linked Treasury Stock 2009. The reasons include the rules governing the Central Government Net Cash Requirement (CGNCR) which state that part of the accrued inflation uplift on any redeeming gilt representing the return to investors is included in the CGNCR in the redemption year, and the remainder is included in the redemption total for the year in which it redeems. Secondary market purchases of the gilt in 2008-09 have also reduced the redemption total and CGNCR forecast for 2009-10 accordingly.

More specifically, in cases where an index-linked gilt is re-opened (following an initial issue) any accrued uplift on that gilt that is accrued before the re-opening occurs will be treated as principal (and therefore part of the redemption total). However, any accrued inflation uplift that occurs after the re-opening of the gilt will be treated as a return to the investor and thus will be included within the CGNCR for the year in which the gilt matures.

Since all cash flows on 2½% Index-linked Treasury Stock 2009 are now known, it is possible to calculate the final breakdown between those cash flows that count towards redemptions and those that count towards the CGNCR forecast for 2009-10. The nominal amount of this gilt in issue is £3.427 billion, and the total uplifted amount by the time of redemption will be £9.503 billion, so the total uplift is £6.076 billion.

The nominal amount in issue (less Government holdings at end-March 2009 of £1.248 billion) will count toward redemptions. Of the £6.076 billion of total uplift £2.564 billion is included in redemptions and £3.530 billion is included in the CGNCR forecast for 2009-10 (but for the existence of government holdings). The value of the uplift on Government holdings, is not, however, included in either the 2009-10 redemption total or the CGNCR forecast. This reduces the amount of uplift that counts toward redemptions to £1.619 billion and the amount included in the CGNCR to £2.244 billion.

The majority of the Government holdings in 2½% Index-linked Treasury Stock 2009 were purchased by the DMO in the secondary market in 2008-09 and are included in the financing arithmetic within the £2.4 billion buy-backs total for 2008-09 (adding to the financing requirement in that year and reducing it in 2009-10); in effect, these purchases can be seen as representing an early redemption of part of 2½% Index-linked Treasury Stock 2009.