

**UNITED KINGDOM
DEBT MANAGEMENT OFFICE**

Executive Agency Framework Document

April 2005

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FOREWORD BY THE FINANCIAL SECRETARY TO THE TREASURY

It is now seven years since the UK Debt Management Office (DMO) succeeded the Bank of England as the body responsible for financing the Government's cash requirements and five years since it acquired responsibility for Exchequer cash management. This latest edition of the DMO's Framework Document sets out the broad principles underpinning the relationship between HM Treasury and the DMO. The establishment of the DMO, as part of the reforms to the monetary policy framework announced by the Chancellor of the Exchequer on 6 May 1997, has been a major success.

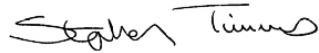
The DMO has established itself as a key player in the London financial markets, on the one hand issuing gilts as part of its responsibility to raise finance for the Government and, on the other, intervening on a daily basis in the money markets to manage government cash flows. Since 2002 the DMO has also successfully taken responsibility for lending to local authorities through the Public Works Loan Board and for managing the investments of a number of major public funds, through its operations on behalf of the Commissioners for the Reduction of the National Debt.

The Government's management of debt needs to comply with the five principles of sound fiscal management: transparency; stability; responsibility; fairness; and efficiency.

The debt management strategy developed and implemented by HM Treasury and the DMO since 1998 has been widely praised in the sterling market and in the international community for its predictability, transparency and fairness. At the same time, HM Treasury and the DMO have shown responsibility and efficiency, not least by responding in a timely and flexible manner to evolving market conditions and the requirements of investors. These are achievements to be proud of, but more importantly to build upon, continuously to deliver ever improving value for money for the

taxpayer and the public.

I look forward to the DMO building on the successes of the past seven years and I believe the framework we have in place is the right one to enable this to happen.

A handwritten signature in black ink that reads "Stephen Timms". The signature is written in a cursive style with a horizontal line above the name.

Stephen Timms

FINANCIAL SECRETARY TO THE TREASURY

April 2005

Status, Aim and Objectives of the United Kingdom Debt Management Office

1. The United Kingdom Debt Management Office (DMO) was established as an Executive Agency of the Treasury on 1 April 1998. Its administrative expenses are funded through the Treasury's Parliamentary Vote with disbursements associated with specific issues of debt being recharged to the National Loans Fund (NLF). It has around 80 staff, who are civil servants, working within the Agency subject to the Civil Service Management Code, and is located in the City of London.

2. The Minister ultimately responsible for the DMO is the Chancellor of the Exchequer. The main aims of the DMO 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; and
- to manage the funds of selected public sector bodies.

In carrying out these aims, the DMO will take account of wider policy considerations that may constrain strict cost minimisation (for example, providing for retail holdings of gilts). The DMO may also provide advice on the development of HM Treasury's strategy for managing the Government's balance sheet to help secure sound public finances.

3. The DMO is set a series of agency objectives annually which are published in successive annual Business Plans. The currently applicable series of objectives is published on the DMO's website: www.dmo.gov.uk.

4. The DMO supports HM Treasury's wider objectives and is also tasked in the Treasury's Service Delivery Agreement with delivering its objectives effectively and efficiently and with ensuring value for money in its administrative expenditure. Each year Treasury Ministers and the Chief Executive will agree a set of targets covering the priority elements of the DMO's task for the year ahead.

Accountability and Relationships with the Treasury

5. Treasury Ministers determine the policy and financial framework within which the DMO operates. Treasury Ministers delegate to the Chief Executive operational decisions on debt and cash management and the day-to-day management of the DMO. Treasury Ministers will set, having regard to advice from the Chief Executive of the DMO and Treasury officials, an annual financing remit for the amount of gilts and Treasury bills to be sold, (i.e. amount, structure and timing of issuance). The Chief Executive is responsible for delivering the remit in a way that s/he judges will involve the least long-run cost to the Exchequer subject to being compatible with other policy considerations. The Chief Executive in conjunction with Treasury officials is responsible for proposing changes to products, issuance policy and market structure. However, the final decision on these matters rests with Treasury Ministers. Treasury Ministers will also, having regard to advice from the Chief Executive of the DMO and Treasury officials, set a remit for the DMO's cash management function. The Chief Executive is responsible for carrying out this function consistently with this remit.

6. Treasury Ministers will exercise these responsibilities by:

- agreeing the framework document and any revisions to it;
- approving the annual DMO Business Plan;
- setting the terms of the annual financing remit and any necessary in-year revisions to it following consultation with both Treasury officials and the Chief Executive of the DMO;
- approving the objectives of the cash management function, defining the associated risk appetite and the handling of related processes;
- setting the characteristics of any new instruments, and authorising any changes in operational procedures or market structures;

- setting key performance targets; and
- monitoring the performance of the DMO through regular reporting, and presenting to Parliament its annual report and accounts.

7. Day to day management of the DMO is delegated to the Chief Executive who is appointed by Treasury Ministers. The Chief Executive is accountable to Treasury Ministers for the DMO's performance, and specifically for:

- advising Treasury Ministers on the terms of the annual remit and any in-year revisions required;
- operating within the terms of the financing remit (as may be revised in-year) in a manner which will minimise long-run debt interest costs;
- meeting the objectives set for the cash management function;
- proposing changes to instruments and market structures within the policy framework set out in the Memorandum of Understanding with the Debt and Reserves Management team in HM Treasury;
- managing the DMO's resources efficiently and effectively;
- achieving the DMO's agreed performance targets;
- preparing the DMO's Business Plan;
- reporting on and accounting for the DMO's performance;
- reporting regularly on developments in the gilts and money markets; and

- acting as Accounting Officer for the Debt Management Account and for the DMO's administrative accounts.

8. The Treasury will supply the DMO with:

- confidential forecasts of daily public / private sector cash flows into and out of the Exchequer; and
- regular, confidential forecasts of the Central Government Net Cash Requirement and of related Exchequer cash flows.

Accountability to Parliament

9. Treasury Ministers remain accountable to Parliament for the work of the DMO. Treasury Ministers are responsible for all matters concerning the policy framework within which the DMO operates, for determining its strategic aims and for setting its annual performance targets.

10. Members of Parliament are encouraged to write direct to the Chief Executive on any individual cases or operational issues. Treasury Ministers will usually ask the Chief Executive to write to MPs in response to written Parliamentary Questions and individual letters about matters assigned to them. The Chief Executive's letters in reply to Parliamentary Questions will be published in the Official Report.

Permanent Secretary

11. The Permanent Secretary to the Treasury is the Department's principal Accounting Officer. As such s/he is the Accounting Officer for the Treasury's administrative Vote, for the Consolidated Fund and for the National Loans Fund. S/he is the principal adviser to Treasury Ministers and is responsible for ensuring a high standard of financial management throughout the Treasury. S/he also advises Treasury Ministers on Treasury policy towards the DMO, including the Framework Document, the setting of appropriate financial and non-financial targets, resource levels, accountability, propriety

and regularity. S/he must be satisfied that the DMO has adequate financial systems and procedures in place to promote the efficient and economical conduct of its business, and to safeguard financial propriety and regularity.

Chief Executive

12. The Chief Executive is responsible for the day-to-day management of the DMO and is responsible to Treasury Ministers and accountable to Parliament for the DMO's performance and operations, in respect of both the DMO's administrative costs and the Debt Management Account. The Permanent Secretary has designated the Chief Executive as Agency Accounting Officer. As such s/he is responsible for ensuring that proper procedures are followed for securing the proper and regular use of public funds for which s/he is responsible. S/he is further responsible for ensuring that the requirements of Government Accounting are met, that the DMO observes any general guidance issued by HM Treasury or Cabinet Office, and for putting into effect any recommendations accepted by Government of the Public Accounts Committee (PAC), other Parliamentary Select Committees or other Parliamentary authority. Both the principal and Agency Accounting Officers are liable to be summoned to appear before the PAC at hearings when matters concerning the DMO are being discussed.

13. The Chief Executive is responsible for ensuring that effective procedures for handling complaints about the DMO are established and publicised. This includes replying to complaints personally if they cannot be resolved satisfactorily at a local level.

14. The DMO is subject to the jurisdiction of the Parliamentary Commissioner for Administration. The principal Accounting Officer remains the principal Officer for this purpose, but delegates to the Chief Executive responsibility for the preparation of replies on any matter concerning the operation of the DMO, and for replying in the majority of cases.

Management of the DMO

15. The DMO is managed internally by the Chief Executive who, with the Deputy Chief Executive and the Chief Operating Officer, constitutes an Executive sub-Committee of

the Managing Board. The Managing Board will usually also include a representative from HM Treasury, appointed at the discretion of the DMO's Chief Executive, and two other non-executive directors. The Managing Board considers all strategic operational and management issues. The Chief Executive has established an Audit Committee, chaired by a person of suitable experience and stature appointed from outside the DMO who will also hold the position of non-executive director. From time to time the Chief Executive may wish to appoint non-executive members to the Managing Board or to receive other advice from outside the DMO.

Annual Business Plans

16. The Chief Executive is responsible for the preparation of an annual Business Plan. This will contain the forward-looking aims, objectives and targets for the DMO across all its business activities. This document will be published, subject to the deletion of any commercially sensitive material that it contains. The targets will be published. The corporate plan element will develop a strategic framework over the following three years, identifying how the DMO intends to meet its aim and policy objectives against a changing background. The business plan element will focus on the activities, priorities and tasks in the coming year and how resources will be allocated accordingly to meet the DMO aim, objectives and targets. The plan will also set out the key assumptions and forecasts, and any new initiatives that the DMO proposes to take.

Annual Report and Accounts

17. The DMO will prepare and publish each year its Annual Report and Accounts. The Annual Report will review the operations of the DMO across all its business activities and on the Debt Management Account over the past year and will provide details of the extent to which the DMO has achieved its key performance targets. The DMO will be committed to maintaining and improving the standard of service to its customers in line with the Citizen's Charter principles.

18. The DMO will also publish an annual review, covering the delivery of the financing remit for the previous financial year. This will include information on operational

performance measurement and developments across its other key business areas (cash and asset management and capital lending to local authorities).

Financial Arrangements

19. The budget for the DMO is set by Treasury Ministers and will form one section of the Treasury's Supply Estimates or Request for Resources as presented to Parliament. The DMO is subject to net running cost control from April 2005. The Chief Executive of the DMO otherwise has full financial authority within the budget allocated subject to the annual Business Plan approved by Treasury Ministers.

Audit

20. The DMO's internal audit arrangements will conform to Treasury standards. The Chief Executive will arrange for the internal audit of the DMO, with guidance from the Audit Committee and the Head of Treasury Internal Audit, so as to satisfy the responsibilities of the Treasury's Accounting Officer and the Chief Executive as Agency Accounting Officer and Accounting Officer for the Debt Management Account.

21. The DMO's administrative accounts and the Debt Management Account are subject to external audit by the Comptroller and Auditor General.

Human Resources

22. The Chief Executive is responsible for setting the DMO's human resources policies and managing the staff. The DMO has delegated authority for pay, pay bargaining and setting terms and conditions. An Employee Handbook has been prepared setting out the full terms and conditions of employment at the DMO.

23. The pay and other Human Resource policies are designed to:

- recruit, retain and motivate staff;

- be appropriate to the DMO's requirements; and
- be consistent with wider public sector pay policy and the Civil Service Management Code.

24. All staff have access to a Corporate Training Programme to provide training necessary to ensure their professional effectiveness as well as other opportunities for training and personal development. The DMO has achieved and aims to retain Investors in People accreditation.

25. In addition:

- the DMO offers a choice of pension arrangements – a final salary or money purchase pension – giving individuals the opportunity to choose the pension that suits them best;
- all staff will be subject to the requirements usually placed on civil servants in respect of acceptance of outside appointments and use of official information: in addition, reflecting their access to sensitive financial information, staff will be expected to follow guidance relating to their personal financial transactions; and
- the DMO's management will involve all staff in the issues that concern them.

Review Arrangements

26. A review of this framework document will be conducted by March 2008. The review will make whatever changes are appropriate in consultation with HM Treasury and the Cabinet Office.

27. Any amendments to the framework document required before the next review will be

agreed by Treasury Ministers and the Chief Executive in consultation with the Cabinet Office.

Publication

28. Copies of this framework document and any subsequent amendments will be placed in the libraries of the Houses of Parliament and can be obtained from the DMO (020 7862 6500 or via its website: www.dmo.gov.uk).