United Kingdom
Debt Management Office

DMO Annual Review

2006-07

The United Kingdom **Debt Management Office** is an Executive Agency of HM Treasury

August 2007


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Chapter 1: Foreword by the DMO Chief Executive

2006-07 was a successful year for the DMO in a number of respects. £62.5 billion (cash) of gilt sales were delivered through a programme of 36 gilt auctions. Reflecting strong underlying investor demand, and also the UK Government's own supply preferences, record amounts of long conventional gilts and index-linked gilts were sold (£25.2 billion and £17.2 billion respectively). In addition, the DMO continued to launch and build up new 5- and 10-year conventional benchmark gilts.

One novel feature of our activities in the gilt market was that in January-March 2007 the DMO sold to the market existing index-linked gilts held by British Nuclear Fuels Limited (BNFL). These sales were part of a wider restructuring by the Government of the nuclear industry and, whilst the proceeds of £1.9 billion were returned to the Consolidated Fund, they did not count toward the DMO's gilt sales target.

Although our gilt market activities are arguably our most high profile activity, the importance of our daily task to manage Exchequer cash flows should not be underestimated. We are publishing, in Chapter 4 of this Annual Review, a number of key performance indicators against which we will be reporting our compliance. Turnover across the Debt Management Account, which largely reflects transactions to deliver the Exchequer cash management function, rose to a new high of £1.2 trillion in 2006-07.

A notable event for the DMO in 2006-07 was the appearance before the Treasury Sub-Committee in January 2007. Chapter 6 of this Annual Review covers the main follow-up issues raised at the appearance – which centred on improving the explanation of why the DMO acts as it does in delivering its financing remit and streamlining and clarifying the different types of information published by the DMO. Chapter 3 of this Annual Review provides more explanation than before of the rationale behind the structure of the financing remit in 2006-07 and how the in-year issuance decisions were made. Chapter 6 includes, in Table 11, a summary of the types of information published by the DMO, where and when they are published.

A significant rationalisation which has been implemented since the Sub-Committee appearance has been the consolidation of the DMO Agency and the Debt Management Account (DMA) Report and Accounts into a single document published on 25 July 2007.

Robert Stheeman
August 2007

Chapter 2: The Economy and Financial Markets

Fiscal and Macroeconomic Developments

During 2006-07 world economic growth generally increased following a slight slowdown in 2005-06, although US growth slowed in the last quarter of the financial year. UK real Gross Domestic Product (GDP) growth increased after slowing in the previous financial year.

Inflation increased significantly over the year. As measured by the Consumer Price Index (CPI), the Bank of England's target measure, inflation rose from 2.0% in April 2006 to 3.1% in March 2007. As measured by the Retail Prices Index (RPI), which is used to set the cash flows on index-linked gilts, inflation increased from 2.6% in April 2006 to 4.8% in March 2007.

The Bank of England repo rate was raised by 75 basis points (bps) through 2006-07. At the start of the financial year the repo rate stood at 4.50%; it was increased to 4.75% in August 2006, to 5% in November and 5.25% in January 2007, remaining at this level for the rest of the financial year.

The tax-GDP ratio is expected to have risen slightly in 2006-07. This is as a result of stronger than expected receipts as a consequence of solid employment growth and from higher interest and dividend income. Current receipts increased as a percentage of GDP from 39.2% in 2005-06 to 39.6% in 2006-07. Total Managed Expenditure (TME) is also expected to have increased as a percentage of GDP from 42.7% in 2005-06 to 43.1% in 2006-07. Net debt rose to an estimated 37.2% of nominal GDP, up from 36.5% in the previous financial year.

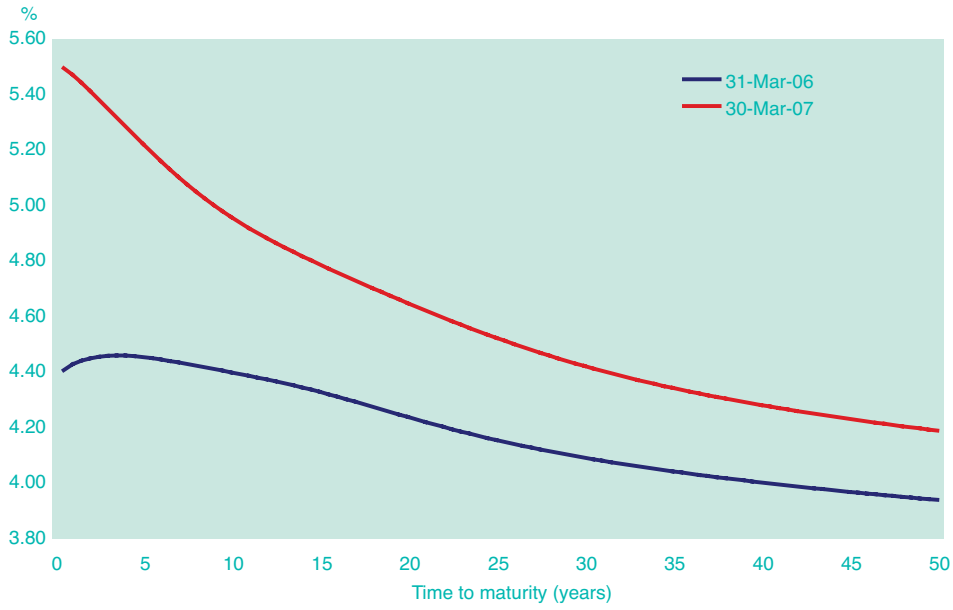
The UK Government has the highest, AAA credit rating from all major credit rating agencies on its outstanding liabilities.

Gilt market developments

Par gilt yields

The significant inversion of the gilt yield curve over 2006-07 can be seen in Chart 1. Yields rose at all maturities, but short-dated gilts considerably under-performed long maturities, reflecting the rising interest rate environment. 2-year par yields rose by 96 basis points (bps) to 5.41%, 5-year yields rose by 77bps to 5.22%, 10-year yields by 56bps, to 4.95%, 30-year yields by 33bps, to 4.42%, whilst 50-year par yields only rose by 25bps to 4.18%.

Chart 1
Nominal par gilt yields



Source: DMO

Conventional benchmark gilts

The gilt market began the financial year with a brief rally following the publication of weaker than expected UK manufacturing and service sector data. However, yields soon resumed the upward trend that had been evident since end-January 2006 in the face of subsequent strong economic data. This direction persisted into the first half of May 2006, when gilts benefited briefly from some flight to quality flows in increasingly volatile market conditions (gilt yields fluctuated sharply by up to 10bps on a daily basis between 15-19 May). These moves coincided with sharp downward movements in international equity and commodity markets.

Gilt yields resumed their upward path in June 2006, largely driven by market speculation about the future paths of interest rates in the US, eurozone and the UK. This movement reflected concerns in the market about the upside risks of inflation following generally strong economic data.

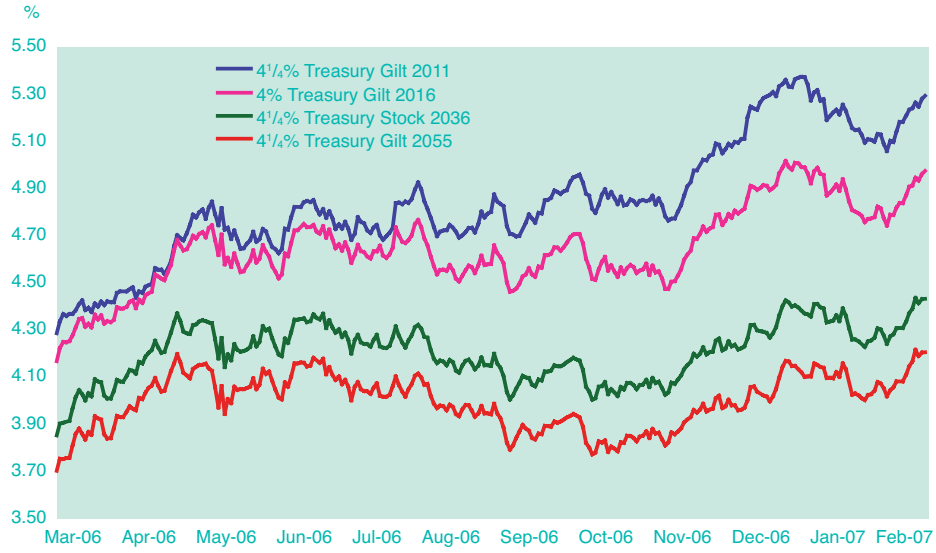
The second quarter started with the gilt market again benefitting from flight to quality flows, this time associated with the escalation of the conflict in the Middle East. However, the stronger economic data (in particular inflation and service sector output) prevailed and from mid-summer onwards the short-end of the curve was increasingly driven by rising interest rate expectations. Although the MPC kept the repo rate on hold in July 2006 for the eleventh consecutive month, the market consensus was that policy would be tightened later in the year. The UK repo rate was actually raised by 25bps on 3 August (the first increase since August 2004).

As short yields rose, long yields fell, reflecting the continuing strength of demand at the long-end of the curve that reportedly reflected Liability Driven Investment (LDI) plans. Meanwhile, the FTSE-100 continued to rise as a result of ongoing merger and acquisition activity and concerns about rising oil prices. This was reported to have led to some switches from equities into gilts.

Economic data continued to exceed expectations in the autumn and house prices were particularly buoyant, leading to growing market expectations about a further interest rate rise in November. The MPC did raise UK rates on 9 November, but the gilt market traded in a tight range as the move had been widely anticipated. Gilt yields rose sharply again in December 2006, as economic data remained strong and fears grew about the prospect of inflation remaining above target. Inflationary pressures were a concern for many central banks over this period, as oil prices remained volatile as a result of ongoing geo-political tensions in the middle-east. Market expectations grew of a further UK interest rate rise in early 2007, with February seen as the most likely date. In the event, the MPC raised rates by 25bps on 11 January and yields rose sharply at all maturities, in particular at the short-end. Yields continued to drift higher through January.

Towards the end of the financial year gilt yields fell slightly and there was a relief rally at the ultra short-end of the curve, in response to official interest rates being left unchanged in February. This downward trend continued into early March, in part attributed to unfolding events in the US regarding the mortgage sector. By mid-March, however, this was reversed, and gilt yields rose along the curve as stronger-than-expected UK data releases dominated investor sentiment. Yields rose at an accelerated pace at the end of the financial year.

Chart 2
Benchmark gilt yields

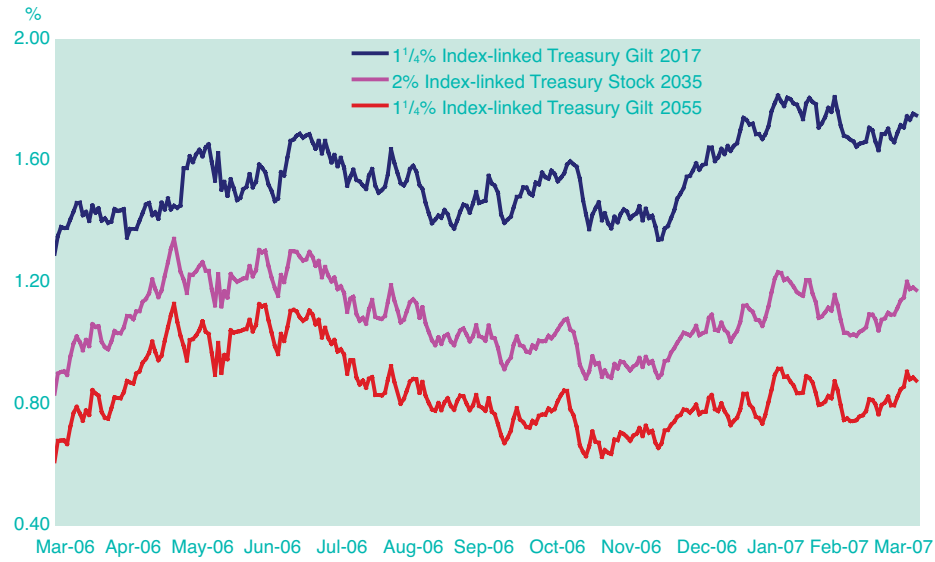


Source: DMO

Index-linked real yields

Real yields on index-linked gilts followed the same broad trend as conventional gilts, reflecting the underlying economic trends summarised earlier. As with conventional gilts, long-dated index-linked gilts considerably outperformed shorter-dated maturities. In the financial year to end March 2007, the real yield on the 10-year index-linked gilt (1¼% IL 2017) rose by 32bps, to 2.06%, whereas that on the 50-year maturity (1¼% IL 2055) rose by only 9bps to 0.96%. The strength of the long-end of the curve was reportedly underpinned by ongoing structural demand from the pension industry and reports of large LDI trades (particularly given the generally higher equity prices). More generally, demand for index-linked gilts was also supported by concerns about the rising threat of inflation.

Chart 3
Index-linked gilt yields

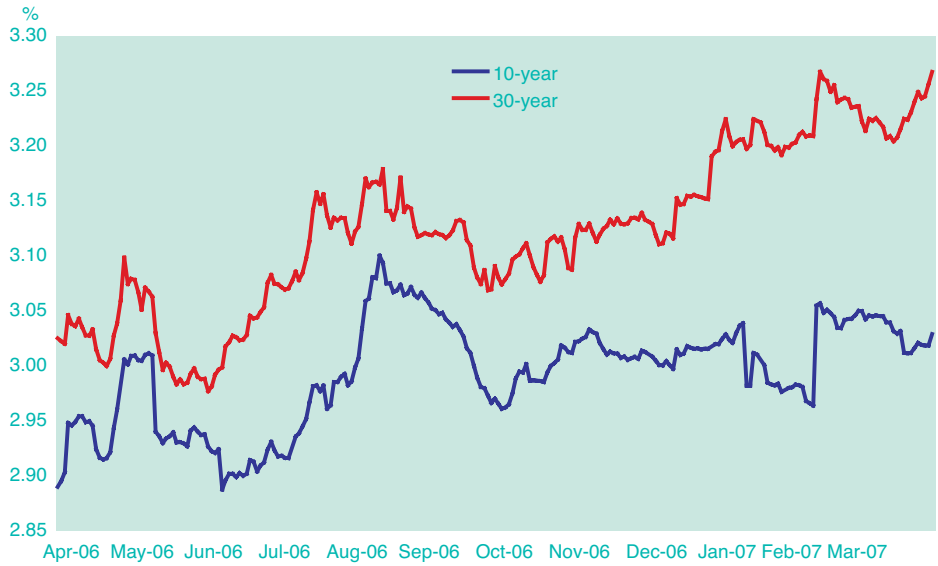


Source: DMO

Break-even inflation rates

The growing desire for inflation protection supported the index-linked market as inflation expectations rose throughout the financial year. This led to the sector out-performing conventional gilts particularly at the long-end of the curve. Over the financial year to end-March 2007, the 10-year break-even inflation rate rose by 14bps to 3.03%, whilst the 30-year rate rose by 24bps to 3.27%.

Chart 4
10-and 30-year break-even inflation rates



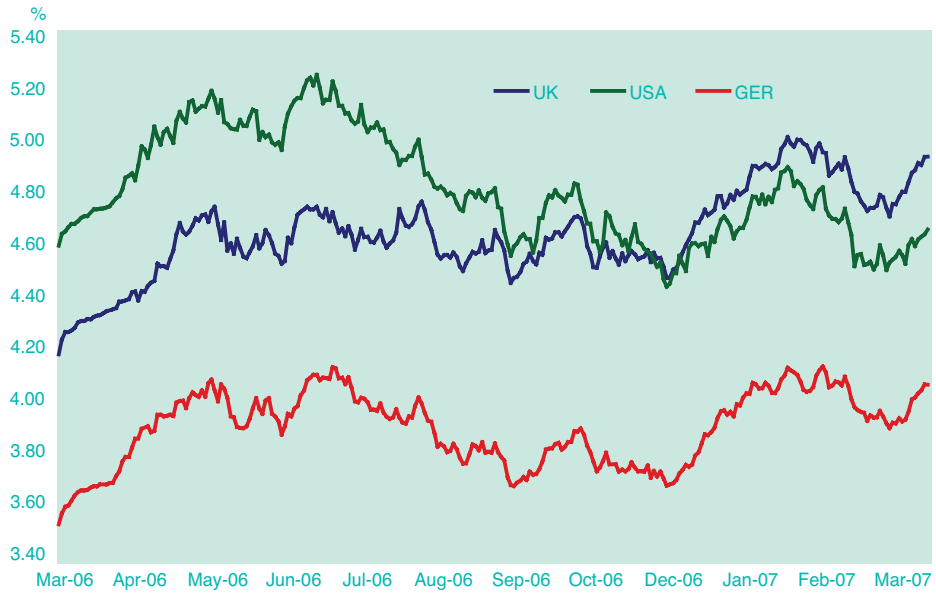
Source: DMO

International comparisons

Chart 5 shows the path of 10-year bond yields in the UK, USA and Germany to end-March 2007. While gilt and bund yields rose along the curve over the year (by 76bps in the UK and by 54bps in Germany) yields on US Treasuries ended the year

only marginally higher (up 6bps), having peaked in June 2006. This reflected the tightening of monetary policy in the UK and eurozone, and the expectation in the US from summer 2006 onwards, that US interest rates may have peaked.

Chart 5
UK, US and German 10-year Government bond yields

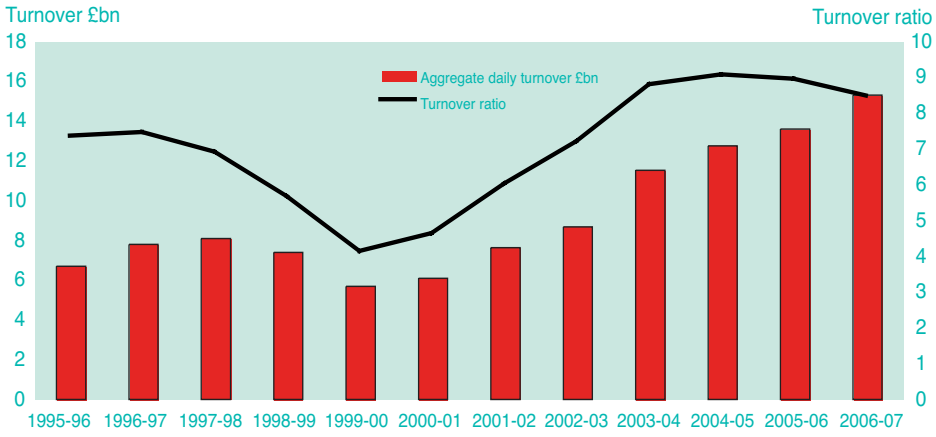


Source: DMO/Reuters

Gilt market turnover

As can be seen in Chart 6, annual turnover by value in the gilt market has been rising steadily since 1999-2000. Aggregate daily turnover increased by 12.4% in 2006-07 compared with the previous financial year, with the total reported to the DMO by gilt primary dealers rising from £13.60 billion to £15.29 billion. This increase in turnover can be attributed, in part, to the record level of gilt issuance in 2006-07. Trading intensity (as measured by the turnover ratio[1]) fell by 5.3% in 2006-07 compared to the previous financial year, from 8.92 to 8.45. This reflected the significantly larger portfolio against which the ratio is calculated. As with previous years, gilt market turnover was weighted heavily towards the 7-10 year and the over 15-year sectors.

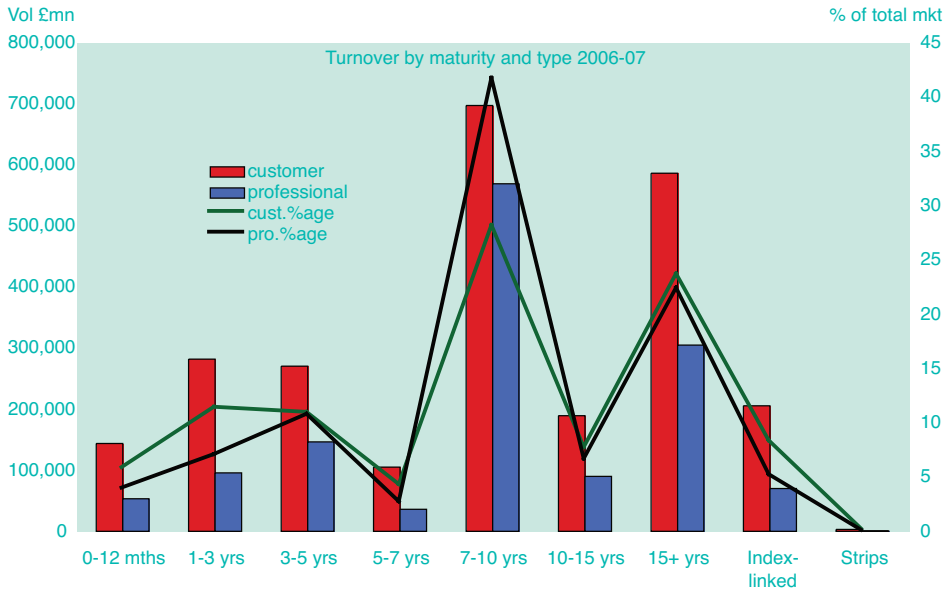
Chart 6
Gilt market turnover



Source: GEMMs/DMO

[1] The turnover ratio measures the aggregate turnover in a financial year relative to the market value of the gilt portfolio at the start of the financial year.

Chart 7
Gilt market turnover by maturity and type

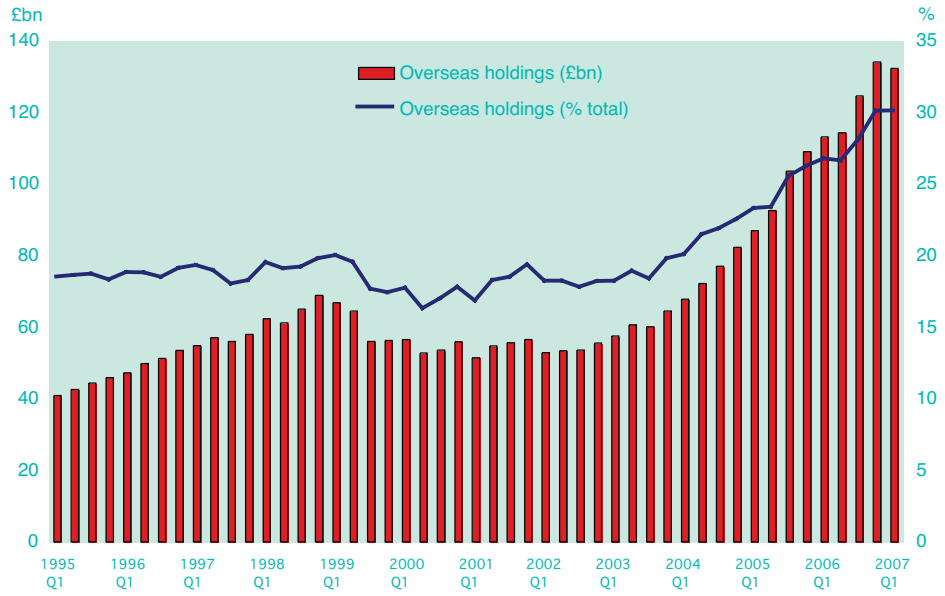


Source: GEMMs

Overseas holdings of gilts

Chart 8 shows the trend in overseas holdings of gilts since the start of 1995. From the end of 2003 there has been a sustained rise in the amount of gilts reportedly held by overseas investors (halted only by a marginal decline in the final quarter of 2006-07). Between the end of Q4 2004 and the end of Q1 2007 overseas holdings grew in absolute terms from £64.5 billion to £132.0 billion (an increase in relative terms from 19.7% to 30.0%). This increase has been attributed to purchases of (mainly short-dated) gilts by Central Banks, reserve managers and hedge funds.

Chart 8
Overseas holdings of gilts



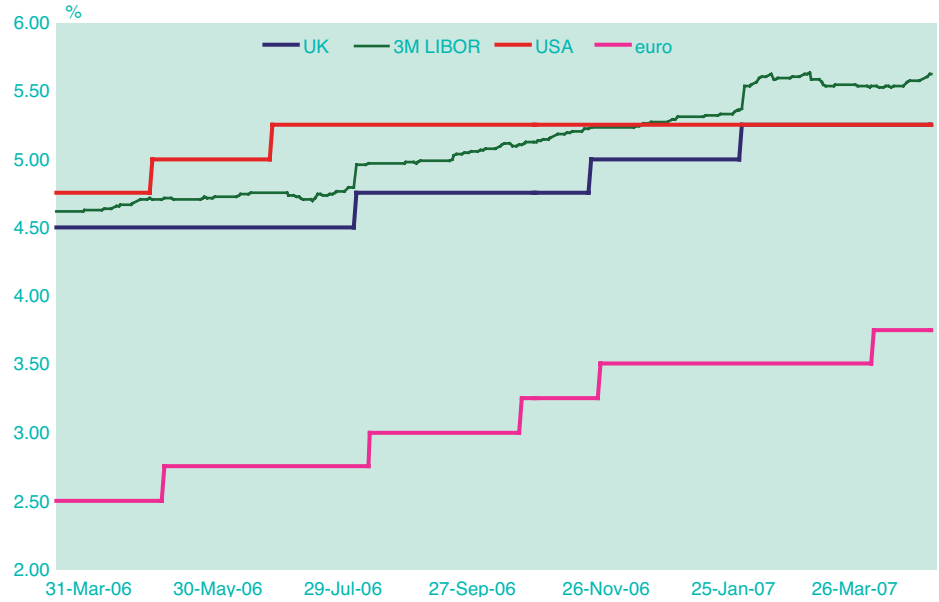
Source: ONS

Money market developments

The financial year began with money markets anticipating a future tightening of monetary policy with the three-month LIBOR rate 11bps above the Bank of England's repo rate of 4.5%. In the face of ongoing strong economic data, however, market expectations of a rise in UK rates began to increase. By end-May 2006, three-month LIBOR was 21bps above the repo rate and by end-June 2006 over 25bps above. Strong inflation data published in mid-July 2006 further added to expectations of monetary policy tightening and just ahead of the Bank of England's decision to raise the repo rate by 25bps to 4.75% on 3 August, three-month LIBOR had reached 29bps above the repo rate.

The path of official rates in the UK, USA and eurozone (and of three-month UK LIBOR rates) is shown in Chart 9.

Chart 9
Official interest rates



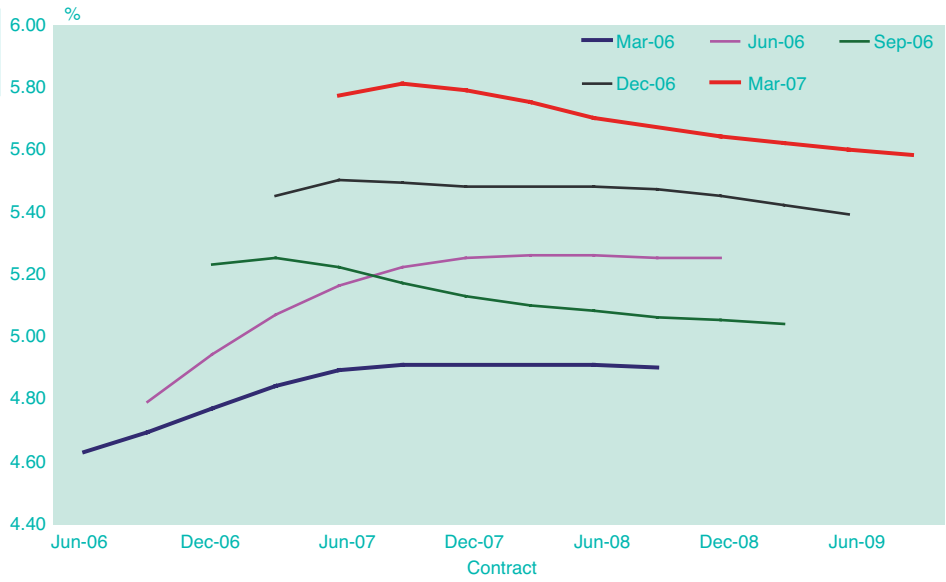
Source: Bloomberg

The August 2006 increase was, however, seen as just the start of monetary policy tightening, particularly in the wake of ongoing strong economic data releases. During the month following the August rate rise, three-month LIBOR remained 20-25bps above the repo rate and by end-October 2006 the market had priced in almost two further rate rises as three-month LIBOR reached 44bps above the repo rate. The Bank of England's decision to increase the repo rate to 5.00% on 9 November was, therefore, in line with market expectations.

Strong inflation data was seen as decisive in influencing the timing of the Bank's next increase (to 5.25%) in January 2007 and the persistence of strong data led the market to expect rates to rise further. By end-March 2007 three-month LIBOR was still 37bps above the repo rate.

The changing path of future interest rate expectations can be seen in the implied yields of short sterling contracts over the financial year. Chart 10 shows the implied curves on a quarterly basis through the financial year. For the most part, the curves moved successively higher throughout the year, with the contracts for June, September and December 2007 rising by around 90bps over the course of the 2006-07 financial year.

Chart 10
Implied curves from short sterling contracts



Source: Bloomberg

Chapter 3: Government Debt Management

Debt management responsibilities and objectives

Objectives of debt management

The UK Government's debt management policy objective is:

"to minimise over the long term, the costs 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 debt management policy objective is achieved by:

- pursuing an issuance policy that is open, transparent and predictable;
- issuing benchmark gilts that achieve a benchmark premium;
- adjusting the maturity and nature of the Government's debt portfolio, primarily by means of the maturity and composition of debt issuance and potentially by other market operations including switch auctions, conversion offers and buy-backs;
- developing a liquid and efficient gilt market; and
- offering cost-effective savings instruments to the retail sector through National Savings & Investments (NS&I).

Maturity and composition of debt issuance

In order to determine the maturity and composition of debt issuance, the Government takes account of a number of factors including:

- the Government's own appetite for risk, both nominal and real;
- the shape of both the nominal and real yield curves and the expected effect of issuance policy;
- investors' demand for gilts; and
- changes to the stock of Treasury bills and other short-term debt instruments.

The DMO remit for 2006-07

The DMO remit for 2006-07 was published by HM Treasury with Budget 2006 on 22 March 2006. On the basis of a CGNCR forecast of £41.2 billion for 2006-07, gilt redemptions of £29.9 billion and a short-term financing adjustment of -£3.1 billion, the published financing requirement was £68.0 billion. National Savings and Investments (NS&I) was forecast to contribute £3.0 billion to financing, leaving a forecast net financing requirement for the DMO of £65.0 billion. This was to be met by total planned gilt sales of £63.0 billion and Treasury bill net sales of £2.0 billion.

Considerations relating to the formulation of the 2006-07 financing remit

The decisions taken by the Economic Secretary to the Treasury about the content of the financing remit for 2006-07 were made in accordance with achieving the debt management objective of long-term cost minimisation whilst taking account of risk.

Therefore, although the remit published in March 2006 was directed specifically at the issuance programme for 2006-07, its contents reflected the long-term context in which debt management policy is undertaken.

The key underlying assumptions that inform the contents of the remit each year are that:

- there is a strong theoretical case to suggest that pursuing a predictable and transparent gilt issuance policy will help reduce uncertainty over the 'true price' for government debt, which in turn reduces the risk premium attached to government debt;
- the Government will continue to borrow in a sustainable way in the future; and;
- in order to be able to borrow cost-effectively in future in a variety of macroeconomic conditions, the Government will need to have access to a wide range of investors and to maintain a well-functioning and efficient gilt market through which it can borrow.

The yield curve in the UK was inverted at the start of 2006 as it had been for much of the previous decade. On the basis that this would persist through 2006-07, long-term cost savings for government could be achieved through skewing issuance towards longer-dated maturities. HM Treasury and the DMO had also received representations from gilt market participants that there was strong underlying demand from gilt investors for both long-dated conventional and index-linked gilts.

The decision to continue issuance at key short- and medium-dated benchmark maturities was motivated by the desire to maintain a well-functioning and liquid gilt market across the maturity spectrum in the context of total gilt sales planned at Budget 2006 of £63.0 billion.

The DMO's 2006-07 financing remit was also set against an unusual background of low and sometimes volatile gilt yields at the longest maturities – particularly in the first quarter of 2006. Uncertainty existed about whether these market conditions would continue into financial year 2006-07 and how this might affect, in particular, demand for long-dated gilts over the course of the year. This uncertainty was a key consideration that motivated the introduction of temporary changes to the DMO's remit in 2006-07. In particular, in order to help mitigate the risk of a shift in demand away from long maturities in 2006-07, a 'supplementary' gilt issuance programme was introduced that allowed the DMO greater capacity to respond in-year to substantial changes in market conditions and in the pattern of demand for gilts.

The remit structure

The pre-allocated programme announced on 22 March 2006 comprised:

- at least £10.0 billion short-dated conventional gilt sales (at least four auctions);
- at least £10.0 billion medium-dated conventional gilt sales (at least four auctions);
- at least £19.5 billion long-dated conventional gilt sales (at least nine auctions); This amount included the initial allocation of £2.5 billion of the £10.0 billion supplementary issuance programme;

- at least £16.0 billion index-linked gilt sales (at least sixteen auctions).

The pre-allocated programme was designed to ensure predictable and regular issuance across the maturity spectrum throughout the year and at building up benchmarks at key maturities (e.g. 5-year and 10-year for conventional issuance).

The allocation of the supplementary amount to be issued in each subsequent quarter was to be the subject of discussion at the quarterly consultation meetings with GEMMs and gilt investors, hosted by the DMO and was to be announced as part of the quarterly gilt sales announcements. Supplementary issuance could comprise additional auctions and/or increases to the sizes of the pre-allocated auctions as required. In order to improve further the degree of transparency and predictability in the gilt issuance programme, the remit also provided for:

- the holding of at least one long-dated index-linked gilt auction every month;
- the bringing forward of the quarterly consultation meetings (and subsequent quarterly gilt auction calendar announcements) by one month for all quarters in the financial year except the first (i.e. to May, August and November).

These developments were intended to increase the transparency and predictability of the DMO policy of regular and evenly spaced issuance across the financial year and in particular, where possible, at the start of quarters.

In-year adjustments to the financing remit

- **The outturn of the 2005-06 CGNCR**

The remit was revised slightly on 21 April 2006 with the publication of the CGNCR outturn for 2005-06 and a reduction of £0.5 billion in the financing requirement for the DMO compared to the total forecast at Budget 2006. There were no changes to planned gilt sales, which remained at £63.0 billion, but the total of planned Treasury bill sales was, however, reduced by £0.5 billion, taking the planned stock rise in 2006-07 to £1.5 billion.

- **Pre-Budget Report (PBR) 2006**

At PBR on 6 December 2006 the updated forecast for the CGNCR in 2006-07 was unchanged from the Budget 2006 forecast of £41.2 billion. The net financing requirement for the DMO, however, fell by £5.5 billion, principally due to two factors:

- forecast proceeds of £3.8 billion from the planned sale of existing index-linked gilts held on the Nuclear Liabilities Investment Portfolio (NLIP) by British Nuclear Fuels Ltd (BNFL), and;
- an increase of £2.2 billion (to £5.2 billion) in the forecast contribution to financing by NS&I.

The reduced net financing requirement was met by:

- a reduction of £5.0 billion in planned net Treasury bill sales, implying a reduction of £3.5 billion in the stock of Treasury bills over the financial year; and;

- a reduction of £0.5 billion (to £2.0 billion) in the amount of supplementary gilt issuance to be allocated in Q4. This implied a total gilt sales programme of £62.5 billion for the financial year.

Budget 2007

Budget 2007 was published on 21 March 2007. The revised forecast for the 2006-07 CGNCR was £37.0 billion - a fall of £4.2 billion since PBR 2006. In light of the committed debt sales programme, however, this resulted in an equivalent forecast increase in the end-financial year DMO cash position.

CGNCR 2006-07 outturn

The outturn CGNCR for 2006-07 was published on 21 April 2007, and at £37.1 billion, this was £0.1 billion higher than the Budget 2007 forecast – this increased the 2007-08 financing requirement accordingly.

The developments in the financing arithmetic during 2006-07 are shown in Table 1.

Table 1
Financing arithmetic 2006-07

2006-07 Financing arithmetic (£bn)	**Budget 2006**	**April 2006**	**PBR 2006**	**Budget 2007**	**Outturn**
CGNCR	41.2	41.2	41.2	37.0	37.1
Redemptions	29.9	29.9	29.9	29.9	29.9
Restructuring British Nuclear Liabilities	0.0	0.0	-3.8	-3.5	-3.5
Financing for reserves	0.0	0.0	0.0	0.0	0.0
Buy-backs	0.0	0.0	0.2	0.2	0.2
Planned short-term financing adjustment	-3.1	-3.6	-3.3	-3.3	-3.3
Gross Financing requirement	**68.0**	**67.5**	**64.2**	**60.3**	**60.4**
Less:					
NS&I contribution	3.0	3.0	5.2	5.5	5.5
Net Financing requirement	**65.0**	**64.5**	**59.0**	**54.8**	**54.9**
Financed by:					
1. Debt issuance by the DMO					
a) T-bills	**2.0**	**1.5**	**-3.5**	**-3.5**	**-3.5**
b) Gilt sales	**63.0**	**63.0**	**62.5**	**62.5**	**62.5**
2. Other planned change in short-term debt					
Ways and Means	0.0	0.0	0.0	0.0	0.0
3. Unanticipated change in short-term cash position	0.0	0.0	0.0	4.2	4.1
Total financing	**65.0**	**64.5**	**59.0**	**59.0**	**59.0**
Short term debt levels at end of financial year					
T-bill stock (in market hands)	21.1	20.6	15.6	15.6	15.6
Ways and Means	13.4	13.4	13.4	13.4	13.4
DMO net cash position	0.2	0.2	0.5	4.7	4.6

DMO gilt market financing operations 2006-07

The DMO issued five new gilts in 2006-07, as detailed in Table 2; four of these were long-dated.

Table 2
New gilts issued in 2006-07

Gilt		First issue date
Conventional	4¼% Treasury Gilt 2046	12-May-06
	4¼% Treasury Gilt 2027	06-Sep-06
	5¼% Treasury Gilt 2012	16-Mar-07
Index-linked	1¼% Index-linked Treasury Gilt 2027	26-Apr-06
	1⅛% Index-linked Treasury Gilt 2037	21-Feb-07

Implementing the 2006-07 remit

The first decision impacting the implementation of the 2006-07 remit was the allocation of the £2.5 billion of supplementary gilt issuance for Q1. This was announced with the publication of the remit on 22 March. Consistent with the analysis underpinning the remit that there was value in, and demand for, long-dated gilt issuance, this was allocated to long-conventional gilts and was included in the published total of £19.5 billion of long-conventional gilt sales.

The specific gilts to be issued in April-June 2006 were discussed with market participants at consultation meetings held on 27 March. (The minutes of these and the three subsequent quarterly consultation meetings held to discuss the 2006-07 issuance programme are reproduced in Annex C).

The main theme of the consultation meetings throughout the year was, not surprisingly given their share of the remit, the scheduling of the long-dated and index-linked gilt sales programmes. The identity of the 5- and 10-year conventional gilts to be auctioned once each quarter was mostly straightforward. For the short- and medium-dated maturities, issuance of 4¼% Treasury Gilt 2011 and 4% Treasury Gilt 2016 respectively were seen as the obvious candidates for most of 2006, although some investors raised the possibility of launching a new 5-year (to succeed 4¼% Treasury Gilt 2011). In the event, it was Q4 before a new 5-year (5¼% Treasury Gilt 2012) was issued. No new 10-year conventional gilt was issued in 2006-07. As part of its commitment to transparency and predictability, the DMO scheduled the 10-year conventional gilt to precede the 5-year in each quarter, and unless there are compelling reasons to the contrary, the DMO would expect to continue this scheduling going forward.

● Q1 Issuance programme

Demand for duration in Q1 was widely expressed at the March 2006 consultation meetings, with calls for a re-opening of 4¼% Treasury Gilt 2055 and the launch of a new 40-year maturity. The DMO had previously flagged up its own interest in launching a new 40-year conventional gilt. The new 40-year gilt (4¼% Treasury Gilt 2046) was first auctioned on 11 May and re-opened on 7 June in a relatively large auction (£2.75 billion nominal) that provided additional duration and coincided with a significant extension in the FTSE over 15-year gilt index as 8% Treasury Stock 2021 fell out. In the index-linked sector, the DMO had already announced its plan to issue long-dated index-linked gilts toward the end of each month – with a medium maturity bond to start the quarter. The market was supportive of this approach

throughout the year. There were many calls for long-dated issuance with a number of market participants citing that prevailing demand was also strong at the 20- year maturity part of the curve. The DMO had said at the consultation meetings that its strong preference going forward was to launch and build up new bonds with the 3–month lag design. Reflecting this, the DMO issued a new 2027 maturity index-linked gilt on 26 April 2006 and re-opened it again on 27 June 2006.

Q2 Issuance programme

The consultation meetings on 22 May encompassed, for the first time, market views on the allocation of the £2.5 billion of supplementary gilt issuance for the second quarter. Market feedback unanimously favoured directing the supplementary issuance at long-dated conventional and index-linked gilts. In the event, the DMO decided to split the issuance equally between the two types of gilt (£1.25 billion to each). This required the scheduling of an additional index-linked gilt auction on 19 September 2006.

For the previously scheduled calendar, once again the weight of views was supportive of further long-dated issuance in both types of gilts. Following the issuance in Q2 of a new 20-year index-linked gilt there were also a number of calls for the launch of a new 20-year conventional gilt – indeed the DMO had raised the prospect of a new 20-year conventional at the meetings. Reflecting this, $4^{1}/_{4}$% Treasury Gilt 2027 was first issued on 6 September 2006.

On index-linked gilts, the main structural point made by market participants was the lack of liquidity in the old style 8-month lag bonds and numerous calls for some issuance of these bonds to help alleviate this. In considering these requests, the DMO took account of both its own preference for opening new 3-month design index-linked gilts, and the amount of risk it was planning to sell to the market in the summer period. The DMO attached a greater weight to the use of the issuance of some 8-month design bonds to mitigate risk, particularly given the then prevailing high degree of market volatility. Accordingly, the DMO decided to re-open the 2024 and 2035 maturities in Q2.

In a statement accompanying the announcement of the decision on the Q2 supplementary allocation and the outright auction calendar on 31 May 2006, Robert Stheeman, DMO Chief Executive said:

> *"The main objective of the supplementary issuance programme is to enable us to respond to changing market conditions and patterns of demand for gilts. Despite the rise in bond yields since our remit was set by HM Treasury, the underlying shape of both the nominal and real curves, as well as market intelligence received from the GEMMs and other stakeholders suggest continued demand for long-dated gilts. On the basis of break-even inflation rates, the relative value of issuing conventional and index-linked gilts is also little changed since March. As our issuance preferences essentially remain as set out in the remit, we have decided to direct the second instalment of supplementary issuance to long conventional and index-linked gilts. However, we acknowledge the recent increase in market volatility and took this into account in the choice of individual gilts to be issued, particularly their maturities, with a view to mitigating execution risk in the quarter ahead".*

Q3 Issuance programme

The consultation meetings to discuss the allocation of the Q3 supplementary issuance and the gilts to be auctioned in October-December 2006 were held on 21 August 2006. There were widespread calls from market participants for the DMO to continue to focus on long-dated issuance. Views from market participants were split on the allocation of the supplementary issuance for Q3 from some combination of conventional and index-linked gilts to an exclusive focus on conventional or index-linked issuance. In the event, the DMO decided to focus entirely on long-dated conventionals and added an auction accordingly (of 4¼% Treasury Gilt 2046) on 7 November 2006. The alternative of adding an index-linked auction and allocating the remainder of the supplementary issuance to long-dated conventionals would have been sub-optimal in the DMO's view, implying either an increase in the required size of the remaining long-dated conventional auctions, thereby increasing operational risk, or adding a conventional auction to the programme as well as an index-linked auction, which would have added unacceptably to a busy auction calendar.

On index-linked gilts, market participants again stressed the need to issue long-dated maturities but there were mixed views on the desirability of issuing a new 40-year bond in Q3, with some suggesting stronger prevalent demand in the 20-30 year part of the curve. The DMO decide to capture the yield curve premium available at the ultra-long end of the curve by re-opening the 2055 maturity, but not to press ahead with a new 40-year given uncertainties associated with prevailing demand at that maturity. Issuing at the preferred 30-year point implied a choice for the DMO of re-opening the existing old style 2035 maturity, as some market participants had asked, or opening a new 30-year maturity – the possibility of which the DMO had not signalled to the market and for which the market had not expressed any interest. On these grounds, the DMO decided to re-open the 2035 maturity.

In a statement accompanying the announcement of the decision on the Q3 supplementary allocation and the outright auction calendar on 31 August 2006, Robert Stheeman, the DMO Chief Executive said:

> *"The overall shape of the gilt yield curve has not fundamentally changed since the Budget and we believe that overall market conditions remain supportive of a continued bias towards issuance of long maturities. The addition of a long conventional gilt auction on 7 November allows the gap to be bridged between the previously scheduled auctions on 3 October and 23 November and underlines our commitment to regularity in the supply of gilts. This is also reflected in the index-linked issuance programme, which illustrates our commitment to building up benchmarks at key maturities across the yield curve.*

Revision to the Q3 Issuance programme

On 16 November 2006 the Chancellor of the Exchequer announced that the date of the Pre-Budget Report (PBR) would be 6 December 2006. As a consequence, the DMO announced that the auction of 4¼% Treasury Gilt 2027, previously scheduled for 6 December, would be moved to 5 December 2006, and that the auction of 4¼% Treasury Gilt 2011, previously scheduled for 5 December, would be moved to

29 November 2006. The DMO also announced that the quarterly consultation meetings scheduled for 20 November 2006 would remain on that date but that the announcement of the gilt auction calendar for January-March 2007 would be moved from 30 November to 6 December 2006 (i.e. alongside PBR).

Q4 Issuance programme

Ahead of the consultation meetings on 20 November 2006, the DMO indicated in the agendas for the meetings (published on 13 November) its prevailing thinking on the issuance strategy for the final quarter of the financial year. The guidance the DMO provided, in particular as regards benchmark issuance strategy, was as follows:

Conventional gilt issuance

"In the next quarter the DMO will consider launching new conventional gilts to become current coupon 5- and 10-year benchmark issues. Attendees are invited to express views on such openings, as well as on the maturity dates and scheduling of auctions for new gilts. At least two long conventional gilt auctions will be held, consistent with the currently scheduled programme. If two new conventional gilts are opened in the next quarter at short and intermediate maturities, the DMO would expect that long conventional auctions will be re-openings of existing gilts; views will be sought on maturities and scheduling".

Index-linked gilt issuance

"The DMO's ongoing preference for index-linked issuance is to continue to launch, and build up new benchmark bonds at key maturities across the yield curve. In particular, following the creation of benchmark bonds at 10-, 20- and 50-year maturities, the DMO will consider launching in the coming quarter a new index-linked gilt with either approximately 30- or 40-years to maturity as part of its commitment to monthly long-dated index-linked issuance. Views are sought from attendees on this choice, and the identity of other bonds to be issued or re-opened in a way consistent with the policy of benchmark building at key maturities".

Market participants at the consultation meetings again mostly advocated that the supplementary gilt issuance for Q4 (subsequently reduced at PBR by £0.5 billion to £2.0 billion) be directed at long-dated conventional or index-linked maturities. As in most of the financial year, the DMO chose to allocate all the supplementary issuance to long-dated conventional gilts (4¼% Treasury Gilt 2046). An additional auction was scheduled for 6 February 2007. This decision reflected the continued premium available for the DMO as issuer of long-dated gilts and the fact that additional supply of index-linked gilts to the market was coming from the sale of BNFL's existing index-linked portfolio (see pages 22-23). Hence, the DMO preferred to focus exclusively on conventional gilts at the expense of additional index-linked gilts.

There was general support for the launch of one, but not two conventional benchmarks in Q4 with preferences divided between a new 5-year or a new 10-year. On index-linked gilts, views were divided over the desirability of a new 30-year and a new 40-year bond. The DMO decided to open a new 5-year conventional gilt being mindful of the fact that the existing 5-year, 4¼% Treasury Gilt 2011 was

significantly larger than the existing 10-year (4% Treasury Gilt 2016) having being auctioned five times to the latter's four. The DMO also noted that it might be preferable to issue key maturity benchmarks in successive quarters rather than opening two in the same quarter. For index-linked issuance the main strategic decision was the maturity of a new long-dated gilt (30-year or 40-year). The DMO decided to open a new 30-year believing that such a maturity would better complete the real yield curve (the prevailing duration of a new 30-year being, at the time, further away from that of 2% Index-linked Treasury Stock 2035 than the duration of a new 40-year would have been from that of 1¼% Index-linked Treasury Gilt 2055).

In a statement on 6 December 2006, accompanying the announcement of the decision on the Q4 supplementary allocation and the outright auction calendar for January-March 2007, Robert Stheeman, the DMO Chief Executive said:

> *"In the absence of significant changes to our environment, we have been able to maintain this quarter again the skew towards long-dated issuance that has prevailed throughout the financial year.*
>
> *The consequent addition of a long conventional gilt auction on 6 February means that we will have issued long conventional gilts in every month of the year except for August, and long index-linked gilts in every single month of the year.*
>
> *We are also confirming our commitment to regular supply of benchmark gilts at key maturities with the opening of two new bonds this quarter: a new 30-year index-linked gilt, on 20 February 2007, which follows the previous opening of new index-linked benchmarks at 10-, 20- and 50-year maturities; and a new 5-year conventional gilt on 15 March 2007."*

The developing gilt issuance programme throughout the financial year as the supplementary issuance was progressively allocated is shown in Table 3.

Table 3
Development of the 2006-07 gilt sales programme

Planned gilt sales (£bn)		**Q1**	**Q1**	**Q2**	**Q2**	**Q3**	**Q3**	**Q4**	**Q4**
Core issuance programme		**Additional allocated**	**Updated programme**	**Additional allocated**	**Updated programme**	**Additional allocated**	**Updated programme**	**Additional allocated**	**Final programme**
Conventional									
Short	10.00		10.00		10.00		10.00		10.00
Medium	10.00		10.00		10.00		10.00		10.00
Long	17.00	2.50	19.50	1.25	20.75	2.50	23.25	2.00	25.25
	37.00		**39.50**		**40.75**		**43.25**		**43.25**
Index-linked	16.00		16.00	1.25	17.25		17.25		17.25
Total	**53.00**	**2.50**	**55.50**	**2.50**	**58.00**	**2.50**	**60.50**	**2.00**	**62.50**

The results of the 36 gilt auctions held in 2006-07 are summarised in Table 4 and the gilt sales outturn relative to the remit targets is shown in Table 5.

Table 4
Gilt auction results 2006-07

Date	Gilt	Amount auctioned (£mn nom)	Cover	Average accepted price (AAP) (£)	Yield at AAP (%)	Tail (bp)*	Proceeds (£mn)
04-Apr-06	4¼% 2055	2,000	1.72	106.19	3.96	0.4	2,124
11-Apr-06	1¼% IL 2017	1,200	1.72	98.17	1.42	na	1,178
25-Apr-06	1¼% IL 2027	1,100	1.32	97.51	1.38	na	1,072
11-May-06	4¼% 2046	2,250	1.94	100.16	4.24	0.5	2,253
23-May-06	1¼% IL 2055	700	1.16	106.00	1.09	na	752
25-May-06	4% 2016	2,750	2.08	95.48	4.55	0.6	2,625
07-Jun-06	4¼% 2046	2,750	1.37	100.92	4.20	1.6	2,775
22-Jun-06	4¼% 2011	2,500	2.24	97.72	4.80	0.5	2,442
27-Jun-06	1¼% IL 2027	900	2.29	97.20	1.40	na	885
04-Jul-06	4¼% 2046	2,250	2.26	100.24	4.24	0.3	2,255
11-Jul-06	1¼% IL 2017	1,200	2.30	96.36	1.60	na	1,175
25-Jul-06	2½% IL 2024	450	2.42	237.48	1.32	na	1,068
01-Aug-06	4% 2016	2,500	1.62	95.09	4.61	0.3	2,377
23-Aug-06	1¼% IL 2027	1,000	1.71	102.00	1.14	na	1,042
05-Sep-06	4¼% 2027	2,250	1.51	99.09	4.32	0.6	2,229
19-Sep-06	1¼% IL 2017	1,200	2.61	96.93	1.55	na	1,192
21-Sep-06	4¼% 2011	2,500	2.71	97.61	4.85	0.3	2,438
27-Sep-06	2% IL 2035	675	2.36	142.31	0.95	na	960
03-Oct-06	4¼% 2027	2,250	1.86	99.98	4.25	0.5	2,249
12-Oct-06	1¼% IL 2017	1,200	2.59	97.11	1.53	na	1,195
24-Oct-06	1¼% IL 2055	650	2.95	116.87	0.83	na	787
07-Nov-06	4¼% 2046	2,250	1.74	106.82	3.91	0.6	2,403
23-Nov-06	4% 2016	2,500	2.21	95.55	4.57	0.1	2,387
28-Nov-06	1¼% IL 2027	1,000	2.28	103.03	1.09	na	1,062
29-Nov-06	4¼% 2011	2,500	2.18	97.75	4.84	0.3	2,442
05-Dec-06	4¼% 2027	2,250	1.51	100.45	4.22	0.7	2,260
14-Dec-06	2% IL 2035	650	2.80	140.79	1.02	na	915
09-Jan-07	4¼% 2027	2,250	2.30	97.79	4.41	0.4	2,200
18-Jan-07	1¼% IL 2017	1,200	2.35	95.45	1.71	na	1,186
25-Jan-07	1¼% IL 2055	625	2.42	116.71	0.83	na	763
06-Feb-07	4¼% 2046	2,250	1.56	101.76	4.16	1.1	2,289
20-Feb-07	1⅛% IL 2037	1,000	1.97	101.14	1.08	na	1,011
22-Feb-07	4% 2016	2,750	2.22	93.21	4.90	0.1	2,559
06-Mar-07	4¼% 2027	2,250	1.53	97.32	4.45	0.5	2,190
15-Mar-07	5¼% 2012	2,750	1.86	101.15	5.00	0.4	2,781
27-Mar-07	1¼% IL 2027	950	2.53	99.13	1.30	na	979

** Index-linked gilts are issued through a uniform price format.*

Annex D includes an assessment of some aspects of performance relating to the delivery of this programme.

Table 5
Gilt sales outturn relative to remit targets

Gilt sales v remit outturn 2006-07 (£ million)					
	Conventional Gilts			Index-linked gilts	Total
	Short (1-7 yrs)	Medium (7-15yrs)	Long (15yrs+)		
Gilt sales outturn	**10,103**	**9,948**	**25,226**	**17,222**	**62,500**
Core gilt programme	**10,000**	**10,000**	**17,000**	**16,000**	**53,000**
Programme allocated in-year	**0**	**0**	**8,250**	**1,250**	**9,500**
Final allocated programme	**10,000**	**10,000**	**25,250**	**17,250**	**62,500**

Breakdown of gilt sales by type and maturity 2006-07

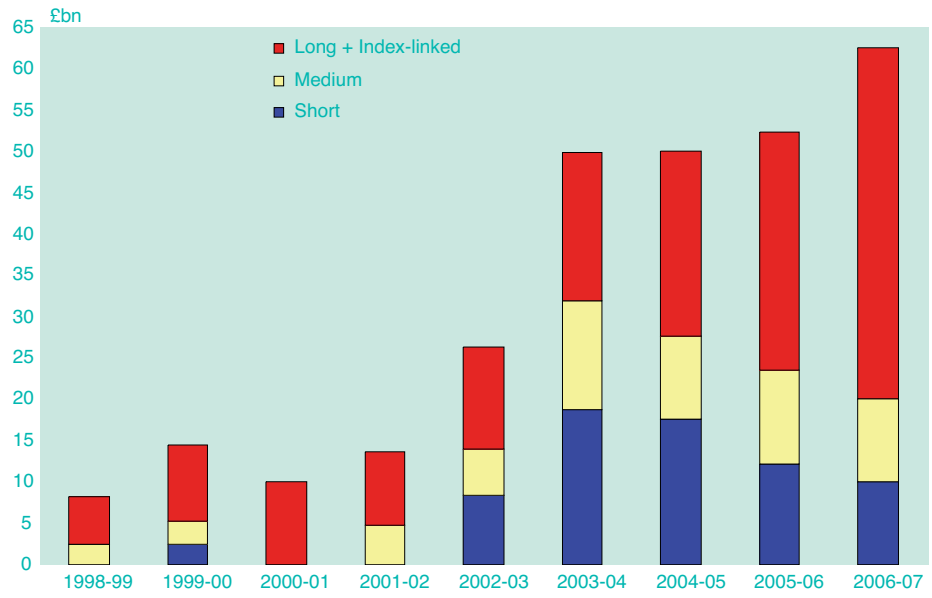
Table 6 shows the proportionate breakdown by type and maturity of pre-committed gilt sales in the original remit of March 2006 (together with the percentage unallocated) and the outturn. It shows that, as anticipated, all the initially unallocated issuance was directed at long-dated conventional gilts and index-linked gilts throughout the year. The strong skew to long-dated conventional and index-linked gilts is evident in the gilt sales outturn below – with these gilts accounting for 68% of total gilt sales in 2006-07.

Table 6
Gilt sales by type and maturity

	Remit March 2006		Outturn	
Type/maturity	**% total issuance**	**% conventional**	**% total issuance**	**% conventional**
Short conventional	15.9	25.3	16.2	22.3
Medium conventional	15.9	25.3	15.9	22.0
Long conventional	31.0	49.4	40.4	55.7
Index-linked	25.4		27.6	
Unallocated	11.9			

Chart 11 shows the extent of the skew to long-dated conventional gilts and index-linked gilts in 2006-07, in the context of all the DMO's gilt sales programmes since 1998-99.

Chart 11
Gilt sales breakdown 1998-99 to 2006-07



Source: DMO

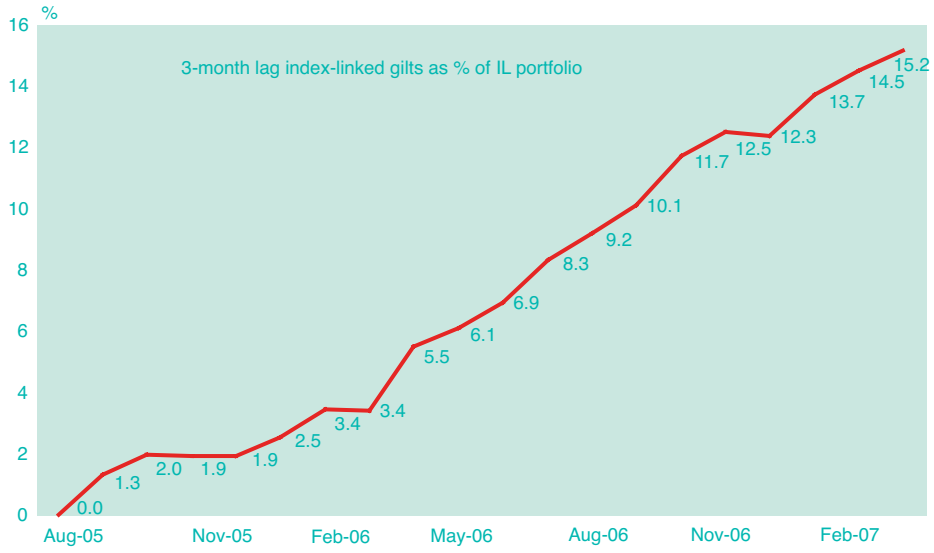
Establishment of a new sector: Index-linked gilts with a 3-month indexation lag

In September 2005, the DMO issued, for the first time, a new index-linked gilt (1¼% Index-linked Treasury Gilt 2055) based on the three-month indexation lag as used in the Canadian real return bond market. This design has established itself as international best practice. Until September 2005 all index-linked gilts used an eight-month indexation lag design which had been chosen in 1981 when the UK became the first G7 country to issue marketable government bonds with cash flows linked to inflation. Since September 2005 the DMO has increasingly focussed index-linked gilt issuance into the three-month design and has a stated policy of

seeking to issue and build up new index-linked gilts of this design at key maturities. Following the launch of the 50-year index-linked gilt, new benchmark maturities at 10-, 20- and 30-years had followed by end-March 2007 (and a new 2022 maturity followed in July 2007). In 2006-07, 83% of index-linked issuance was of three-month design gilts, increasing the percentage share of the index-linked gilt portfolio accounted for by these instruments from 3% to 15%. Chart 12 shows the percentage share of the index-linked portfolio accounted for by gilts with a three-month indexation lag to end-March 2007.

All scheduled issuance of index-linked gilts in the first half of 2007-08 is of three-month lag design instruments.

Chart 12
Share of the index-linked gilt portfolio accounted for by gilts with a 3-month lag



Source: DMO

Sale by the DMO of index-linked gilts held in the Nuclear Liabilities Investment Portfolio (NLIP)

On 6 December 2006, alongside the PBR, the Government announced that as part of a broader restructuring of the nuclear industry, the DMO would sell the index-linked gilts in the NLIP, held by British Nuclear Fuels Limited (BNFL) in the final quarter of the financial year. The restructuring of the nuclear industry included the transfer of the discharge of nuclear liabilities to the Nuclear Decommissioning Authority in the Energy Act 2004. Following this, the holdings of NLIP were liquidated so that the funds could be remitted to the Secretary of State (for Trade and Industry) and returned to the Consolidated Fund. Approximately half of the assets on the NLIP comprising managed investment funds and holdings of the redeeming 2% Index-linked Treasury Stock 2006, were liquidated in June-July 2006. The remaining assets (comprising holdings of five index-linked gilts) were then sold by the DMO (on an execution only basis) into the secondary gilt market in January-March 2007. The gilts were sold by tender, as detailed in the Table 7.

Table 7
BNFL tenders

Date	Gilt	Nominal £mn)	Proceeds (£mn)
15-Jan-07	2½% IL 2009	10	25.4
15-Jan-07	2½% IL 2013	65	150.6
29-Jan-07	2½% IL 2024	164	383.3
12-Feb-07	2½% IL 2016	168	428.0
26-Feb-07	2½% IL 2020	162	432.8
12-Mar-07	2½% IL 2024	164	393.5
			1,813.6

The proceeds from the tenders of £1.8 billion (excluding accrued interest) did not count toward the DMO's index-linked gilt sales remit target, but these proceeds and from the earlier disposal of other NLIP assets were reflected in the gilt financing arithmetic (see Table 1) and served to reduce the gross financing requirement in 2006-07 by £3.5 billion. As the sales were of existing index-linked gilts they had no impact on any gilt market indices.

The DMO remit 2007-08 and future financing projections

The DMO remit for 2007-08 was published by HM Treasury with Budget 2007 on 21 March 2007. On the basis of a CGNCR forecast of £37.6 billion for 2007-08, the published financing requirement was £62.6 billion (after taking account of gilt redemptions of £29.2 billion and a short term financing adjustment of -£4.2 billion). NS&I was forecast to contribute £2.8 billion to financing, leaving a forecast net financing requirement for the DMO of £59.8 billion. This was to be met by total planned gilt sales of £58.4 billion and Treasury bill sales of £1.4 billion.

The remit structure

The breakdown of planned gilt sales is as follows:

- £10.0 billion short-dated conventional gilt sales in 4 auctions;
- £10.0 billion medium-dated conventional gilt sales in 4 auctions;
- £23.4 billion long-dated conventional gilt sales in 11 auctions;
- £15.0 billion index-linked gilt sales in 15 auctions.

Gilt auction calendar

The gilt auction calendar for 2007-08 is set out in Table 8. It includes the decisions about individual gilts sold in the first quarter which were announced on 30 March 2007. The table also includes the calendar for the second quarter which was announced on 31 May 2007.

Table 8
Gilt auction calendar 2007-08 (reflects position at 31 May 2007)

Date	Gilt/Type
2007	
3 April	4¼% Treasury Gilt 2046
12 April	1¼% Index-linked Treasury Gilt 2017
24 April	1⅛% Index-linked Treasury Gilt 2037
3 May	4¼% Treasury Gilt 2027
22 May	1¼% Index-linked Treasury Gilt 2027
24 May	5% Treasury Gilt 2018
5 June	4½% Treasury Gilt 2042
21 June	5¼% Treasury Gilt 2012
26 June	1⅛% Index-linked Treasury Gilt 2037
3 July	4½% Treasury Gilt 2042
10 July	1⅞% Index-linked Treasury Gilt 2022
26 July	1¼% Index-linked Treasury Gilt 2055
9 August	5% Treasury Gilt 2018
11 September	4½% Treasury Gilt 2042
13 September	5¼% Treasury Gilt 2012
26 September	1⅛% Index-linked Treasury Gilt 2037
2 October	Conventional
10 October	Index-linked
24 October	Index-linked
1 November[1]	Conventional
6 November[1]	Conventional
20 November[1]	Index-linked
28 November[1]	Conventional
4 December[1]	Conventional
12 December[1]	Index-linked
2008	
8 January	Conventional
17 January	Index-linked
29 January	Index-linked
5 February[1]	Conventional
14 February[1]	Conventional
27 February[1]	Index-linked
4 March[1]	Conventional
13 March[1]	Conventional
27 March[1]	Index-linked

[1] *Subject to confirmation following the Chancellor's decisions on the Budgetary timetable.*

Future financing projections

Budget 2007 also included forecasts for the CGNCR as a percentage of gross domestic product out to 2011-12. Table 9 sets out the CGNCR projections together with current redemption totals to produce illustrative financing projections. Note that these are not gilt sales forecasts – they take no account of possible contributions to financing by NS&I or Treasury bill sales.

Table 9
Budget 2007 - financing projections

Illustrative financing projections				
£bn	**2008-09**	**2009-10**	**2010-11**	**2011-12**
CGNCR projections	**29**	**34**	**28**	**31**
Redemptions	**17**	**16**	**30**	**27**
Financing requirement*	**46**	**50**	**58**	**58**
CGNCR change since PBR 2006	**-2**	**1**	**-1**	**-1**

**indicative gross financing requirements.*

CGNCR outturn for 2006-07 and subsequent revision to the 2006-07 remit.
There are two main events which can trigger revisions to the remit in any financial year:

- the publication, usually in the third week of April, of an outturn to the CGNCR for the previous financial year which differs significantly from that published with the Budget; and/or
- the publication of a significantly different forecast for the current financial year – usually in the PBR.

The publication of the CGNCR outturn for 2006-07 on 24 April 2007 resulted in only a marginal change to the financing remit. The CGNCR outturn was £37.1 billion, £0.1 billion more than the Budget forecast. Planned gilt sales remained unchanged at £58.4 billion, but planned net sales of Treasury bills in 2007-08 rose by £0.1 billion to £1.5 billion.

Chapter 4: Exchequer Cash Management

Cash remit 2006-07

The DMO's cash management remit for 2006-07, published on 22 March 2006, specified that the Government's cash management objective was:

> *"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 cash surplus, to ensure this is used to best advantage".*

HM Treasury and the DMO work together to achieve this, with HM Treasury providing information to the DMO about flows into and out of the National Loans Fund (NLF) and the DMO making arrangements for funding and for placing net cash positions, primarily by carrying out market operations on the basis of HM Treasury forecasts.

The DMO's cash management objective

The remit specifies that 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

In 2006-07 the DMO carried out its cash management objective primarily through a combination of:

- weekly Treasury bill tenders; and
- bilateral market operations with DMO counterparties.

The results of the Treasury bill tenders held in 2006-07 are reported in Annex F and the average yields achieved compared with prevailing GC repo rates reported in Annex G.

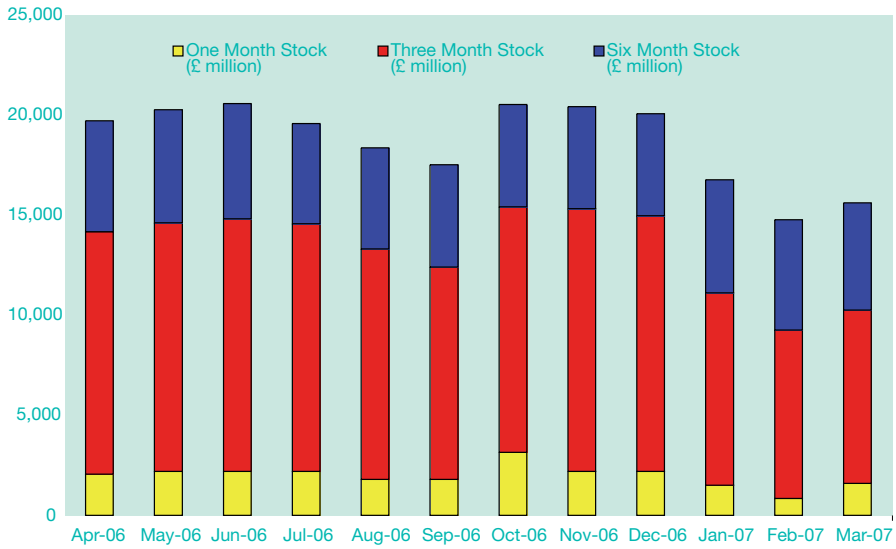
Treasury bills can play an important role in smoothing cumulative cash positions. Variations in the stock of bills in market hands also serve as a financing instrument within short-term debt sales. Chart 13 shows the level of Treasury bill stocks (by maturity) in market hands over the course of the financial year. Table 10 sets out the details of the Treasury bill portfolio at end-March 2007.

In practice, however, a large majority of cash management operations in 2006-07 were negotiated bilaterally by the DMO with market counterparts. To ensure competitive pricing, the DMO maintains relations with a wide range of money market counterparts with whom it transacts both directly and via voice and electronic

brokers. In March 2007 the DMO also joined the RepoClear service of the central counterparty LCH.Clearnet, as a means of enhancing its operational flexibility.

Cash management is conducted through a diversified set of money market instruments in order to minimise cost subject to risk. Sterling-denominated repo and reverse repo instruments play a particularly important role, though short-dated cash bonds, Certificates of Deposit, Commercial Paper, reverse repo of foreign currency bonds swapped into sterling, and unsecured loans and deposits are also widely used.

Chart 13
Treasury bill stocks 2006-07



Source: DMO

Table 10
Treasury bills outstanding at 31 March 2007

Maturity Date	ISIN Code	Original Issue Date	Original Nominal Amount (£ million)	First Re-Opening Date	First Re-issue Amount (£ million)	Second Re-opening Date	Second Re-issue Amount (£ million)	Amount in issue (£ million)
02-Apr-2007	GB00B14K9D88	02-Jan-2007	650	05-Mar-2007	400			1,050
10-Apr-2007	GB00B14FLF92	09-Oct-2006	850	08-Jan-2007	650	12-Mar-2007	400	1,900
16-Apr-2007	GB00B1JZB650	15-Jan-2007	650	19-Mar-2007	400			1,050
23-Apr-2007	GB00B1JZPY16	22-Jan-2007	650	26-Mar-2007	400			1,050
30-Apr-2007	GB00B1K03B82	29-Jan-2007	650					650
08-May-2007	GB00B14GYV96	06-Nov-2006	850	05-Feb-2007	650			1,500
14-May-2007	GB00B1K0RJ42	12-Feb-2007	650					650
21-May-2007	GB00B1K12R00	19-Feb-2007	650					650
29-May-2007	GB00B1K1HH52	26-Feb-2007	650					650
04-Jun-2007	GB00B14J9V39	04-Dec-2006	850	05-Mar-2007	650			1,500
11-Jun-2007	GB00B1K23N68	12-Mar-2007	650					650
18-Jun-2007	GB00B1K2C626	19-Mar-2007	750					750
25-Jun-2007	GB00B1K2RY58	26-Mar-2007	750					750
09-Jul-2007	GB00B14KPX08	08-Jan-2007	700					700
30-Jul-2007	GB00B1K03964	29-Jan-2007	700					700
28-Aug-2007	GB00B1K1HG46	26-Feb-2007	700					700
24-Sep-2007	GB00B1K2RX42	26-Mar-2007	700					700
								15,600

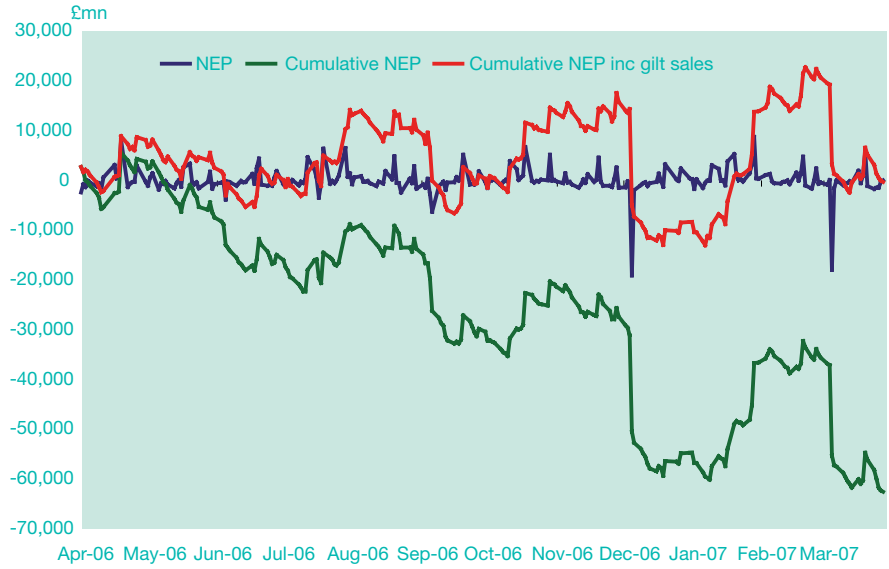
Cash management operations

The DMO's money market dealers borrow from or lend to the market on each business day to balance the position in the NLF. In order to do so the DMO receives from HM Treasury forecasts of each business day's significant cash flows into and out of central government. Additionally, the DMO requires up-to-date intra-day monitoring of cash flows as they occur. The DMO trades only with the purpose of offsetting current and forecast future government cash flows, subject to the agreed risk limits. The DMO does not take interest rate positions except in the course of offsetting forecast future cash flows.

Over the course of a financial year, the Exchequer's cash flow has a fairly regular and predictable pattern associated with the tax receipts and expenditure cycles. In addition, outflows associated with gilt coupons and redemptions are known in advance.

Chart 14 shows the scale of daily cash flows measured in terms of the Net Exchequer Position (NEP) in 2006-07. It excludes the effects of Treasury bill issuance and NS&I's overall net contribution to government financing, but highlights the major contribution of gilt sales to reducing the cumulative deficit in year.

Chart 14
Exchequer cash flows 2006-07



Source: HMT/DMO

Cash management challenges in 2006-07

The NEP adjusted for the proceeds of gilt sales, presented in Chart 14, shows that HM Government held large cash surpluses for much of 2006-07. This cash flow pattern derived principally from £29.9bn of gilt redemptions that fell due in the 2006-07 financial year of which £23bn occurred in the final four months. As these redemptions were financed alongside general government spending through sales of gilts distributed evenly across the year, there was an accumulation of cash inflows followed by days of unusually large net outflows. This pattern resulted in sharp swings in the cumulative NEP from surplus to deficit.

The challenge in delivering the cash management remit for 2006-07 was to invest these large cash surpluses to best advantage and within the bounds of the credit, liquidity, interest rate and foreign exchange risk limits approved by Ministers, while simultaneously pre-funding sizeable deficits and retaining the flexibility to react rapidly to changing market conditions.

A further challenge was to adapt to any changes in Sterling money market behaviour as a result of the Bank of England's reforms. This required striking the appropriate balance between size and frequency of cash management operations, so avoiding any arrangements that might undermine the efficient functioning of the Sterling money markets.

Active cash management performance framework

Since 2000 the in-year cash needs of HM Government have been managed actively by the Treasury and the DMO; the Treasury providing short and medium-term forecasts of daily net cash surpluses and deficits, and the DMO transacting with its market counterparts in a range of instruments and at a range of different maturities to offset the forecast cumulative cash position.

This active cash management framework allows the exercise of considerable discretion by specialist cash managers in selecting the appropriate counterparts, instruments and maturities with which to deliver the cash management remit at minimum cost subject to risk. The Cash Management Review of 2004-05 recommended that returns to this discretion be captured in a quantifiable performance measure, as a means of enhancing effectiveness and ensuring accountability.

In June 2005, DMO and HMT started trialling a benchmark approach to cash management performance reporting. The original measure compared the net interest costs of implementing the chosen active cash management strategy against a benchmark which was the net interest cost of a notional strategy, intended to represent an alternative, passive default strategy. One of the reasons for trialling this approach was to ensure 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. Stable money-market rates have allowed the performance methodology to be simplified. The process now involves adjusting the net interest costs generated by active cash management by a net interest charge reflecting Government's marginal cost of funds. Under this approach, performance is not evaluated against that of a notional strategy; rather it can be evaluated directly against the cash management objective of minimising the costs of offsetting Government's cash flows. The intention is to further callibrate the performance methodology and to formally report against this benchmark for 2006-07 along with the 2007-08 outturn.

The Treasury and DMO recognise that measuring the net costs of active cash management is a somewhat narrow interpretation of performance that does not fully capture the ethos and objectives the Government sets the DMO as its cash manager. Exchequer cash management differs from that of a commercial entity in that it does not seek to maximise profits, but rather to minimise costs subject to risk, playing no role in the determination of interest rates.

Performance is therefore evaluated against a series of key performance indicators that together reflect the wider policy goals and constraints of cash management. The quantitative performance indicator is one such measure; other more qualitative indicators and controls are also used to monitor and assess the performance of the DMO in meeting the Government cash management objectives. These are summarised on page 30.

Cash management objective	Key performance indicators
DMO must supply sufficient cash each day to enable government to meet its payment obligations. This is fundamental and unconditional.	End-of-day balance on the Debt Management Account. This must be positive on all days.
Cash management operations and arrangements should be conducted in a way that does not interfere with monetary policy operations.	The target cumulative balance of the DMA held at the Bank of England. This target must be achieved within a low tolerance. Target weekly balances and expected daily variations must be notified to the Bank of England according to the agreed schedule.
Cash management operations and arrangements should be conducted without impeding the efficient working of the Sterling money markets	Quantified liquidity limit. This is designed to control the DMO's expected usage of the overnight markets. Quantified credit limits. These are designed to encourage counterparty and instrument diversification. Regular formal and informal communication with the Bank and money market counterparts on conditions in the Sterling money markets. Regular participation in industry-wide money market groups.
DMO should maintain a system in which the costs and risks are transparent, measured and monitored and the performance of government cash management is assessed. The DMO maintains an ethos of cost minimisation rather than profit maximisation.	Quarterly reporting to HM Treasury of net interest costs of active cash management and usage of liquidity, market, fx and credit risk limits. Publication of full year results in the DMO Annual Review from 2007-08. Publication in the DMA Annual Report and Accounts of the Accounting Officer's Statement of Internal Controls which give effect to the intended ethos.
DMO should maintain a credible reputation in the market that leads to lower costs in the long term and a system that is sustainable.	DMO must achieve less than 5 breaches of operational market notices. Publication of the results of weekly Tbill and ad hoc tenders should not exceed 15 minutes, while achieving complete accuracy. DMO must ensure that instructions to counterparties, agents and external systems are complete, accurate and timely. DMO must settle at least 99% (by value) of agreed trades on the due date.

Chapter 5: Fund management and local authority lending for Central Government

Fund management

The origins of the Commissioners for the Reduction of the National Debt (CRND) can be traced back directly to the passing of the National Debt Reduction Act of 1786. The statutory functions of CRND have been carried out within the DMO since 2002. From their earliest days the Commissioners had associations with the stock market and this led to a diversification of CRND operations, including in particular the responsibility for the investment of major Government funds. This now constitutes the main function of CRND, which has around £50 billion under its control, representing the assets of the various investment accounts.

The investment powers differ to some extent from fund to fund, depending upon the provisions of the relevant Acts of Parliament, but essentially investments are restricted to government and government guaranteed securities. Currently, the largest funds are the National Insurance Fund Investment Account, the Court Funds Investment Account and the National Lottery Distribution Fund Investment Account. During the year the Crown Estate decided to sell their gilts and to draw down the proceeds and as a result that account is now dormant, reducing the number of investment accounts managed to nine. The full list of funds under management is as follows:

- Court Funds Investment Account
- Insolvency Services Investment Account
- National Endowment for Science, Technology and the Arts
- National Insurance Fund Investment Account
- National Lottery Distribution Fund Investment Account
- National Savings Bank Fund
- Northern Ireland Court Service Investment Account
- Northern Ireland National Insurance Fund Investment Account
- Olympic Lottery Distribution Fund Investment Account

During 2006-07, following discussions with the stakeholders of the Great Britain and Northern Ireland National Insurance Funds (Her Majesty's Revenue and Customs) and the Court Funds Investment Account (the Court Funds Office), it was decided to change the investment strategies for those Funds. Accordingly, the Funds' gilts were sold and the proceeds placed into cash deposits with the Debt Management Account Deposit Facility. CRND continues to provide an efficient, value for money service, with the main investment objectives being to maintain sufficient liquidity to meet withdrawals and to protect the capital value of the funds under management.

Lending to local authorities

PWLB responsibilities and objectives

The Public Works Loan Board (PWLB) is an independent statutory body, headed by Commissioners, which dates back to 1793. Since 2002, the Board has operated as a unit of the DMO, sharing common services while retaining its statutory identity. The Board's Secretary and staff are employees of the DMO.

The PWLB's function is to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. Nearly all borrowers are local authorities requiring loans for capital purposes. Loans, which are automatically secured by statute on the revenue stream of the authority, are sourced from the National Loans Fund. Rates of interest are determined by the DMO in accordance with methodologies agreed with HM Treasury.

The Board's accounts are audited by the Comptroller & Auditor General, whose reports on them are laid before Parliament, to which the Board makes its own statutory report.

PWLB operations in 2006-07

Loans of £12.4 billion were made to local authorities during 2006-07.

Over the financial year the PWLB's portfolio of loans grew by £825 million and at end-March 2007, the outstanding balance of principal was £47.9 billion, with a market value of £53.2 billion.

Chapter 6: DMO appearance before the Treasury Sub-Committee

The Chief Executive Officer, Deputy Chief Executive and the Chief Operating Officer of the DMO appeared before the Sub-Committee of the Treasury Select Committee on 10 January 2007. The hearing was part of the regular cycle of scrutiny by the Sub-Committee of the activities of HM Treasury and its Executive Agencies. The hearing was accompanied by the publication by the National Audit Office (NAO) of a briefing note for the Sub-Committee, entitled *"The UK Debt Management Office – borrowing on behalf of HM Government",* the note included a number of recommendations which were discussed at the hearing itself. The briefing note is available on the DMO website at: www.dmo.gov.uk/documentview.aspx?docname=publications/corpgovernance/nao2007.pdf

A transcript of the proceedings is available on the Parliament UK website at: www.publications.parliament.uk/pa/cm200607/cmselect/cmtreasy/190/7011001.htm

The main focus of the NAO briefing note, and the discussion at the Sub-Committee, centred on possible ways to facilitate better understanding and monitoring of the DMO's performance in delivering its various objectives and targets. It was acknowledged that the DMO acted in a way fully consistent with the Government's debt management preferences and the Treasury's criteria for achieving the primary debt management objective, which is:

> *"to minimise, over the long-term, the costs 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"*

It was also acknowledged that there is no recognised way of quantifying whether the DMO's approach to debt management (based on a regime of predictability and transparency, i.e. the approach set out in Chapter 3) is the most cost effective way of delivering a debt management objective. It was noted, however, that the justification adopted by the DMO for its approach to debt management was shared by most other international debt managers, primary dealers and investors questioned by the NAO. It was also acknowledged that the DMO published a wide range of information on its activities and its compliance with its specific objectives and targets but it was felt that the structure of the existing published information "does not provide a clear insight into the DMO's contribution towards meeting the primary debt objective". A number of observations and recommendations were made by the NAO and the Sub-Committee to address this position – the first of these was addressed to HM Treasury:

- *The Treasury should publish a statement setting out what it requires from the DMO in the conduct of its debt management operations both in terms of the delivery of the remit and in terms of the DMO's contribution to the achievement of the debt management objective.*

Such a statement was included in the "Debt and Reserves Management Report

2007-08" published by HM Treasury on 21 March 2007. The statement is reproduced below.

HM Treasury has two overarching requirements for the DMO in the conduct of its delegated responsibility for wholesale debt financing operations, namely, that it:

- raises the quantum of financing set out in its annual 'financing remit'. This means that the DMO is expected to achieve the sale of inflation-linked ("index-linked") and nominal ("conventional") gilts and Treasury bills as set in the remit, within the operational tolerances specified in the financing remit (for gilts sales) and the 'Exchequer cash management remit' (for Treasury bill sales); and
- conducts its operations in accordance with the principles of predictability and transparency, which underpin the Government's approach to debt management policy more generally. The Government judges that by conducting its operations in accordance with these principles, the DMO will effectively contribute to achieving long-term cost minimisation subject to risk.

In practice, this means that HM Treasury expects the DMO to:

- adopt a predictable approach to debt issuance in accordance with the remit, which includes holding auctions on dates scheduled in the annual gilt issuance calendar published before the beginning of the financial year;
- pre-announce the details of its debt issuance plans to ensure transparency to the market about its activities; and
- act in a manner consistent with its remit and explain the basis for its decisions about gilt issuance as fully as possible to the market in order to allow market participants better to understand the basis for the DMO's decisions.

In addition, HM Treasury expects the DMO to:

- *provide advice* in its capacity as the Government's official presence in the gilt market on: (i) the appropriate structure and contents for the financing remit in preparation for publication of the remit each year alongside the Budget; and (ii) how to accommodate revisions to the remit during the course of the year;
- *report during the financial year on progress against the remit,* in particular, progress of gilt sales against the remit targets;
- *monitor developments in the gilt market and the wider economy* and report in a timely manner on changing conditions that might require the terms of the remit to be revisited;
- *maintain open channels of communication with gilt market participants* both formally and informally to solicit their views on gilt issuance and other issues affecting the remit and, as far as possible, to explain the rationale for decisions;
- *advise on any operation of management of the maturity and nature of the government's debt portfolio and conduct any such operation if so directed by HM Treasury,* through gilt issuance decisions and through use of other market management techniques;
- *develop a liquid and efficient gilt market* primarily through regular issuance of benchmark gilts; and
- *ensure the continuing and efficient functioning of the gilt market* by undertaking market management operations as necessary.

This approach to debt management policy, based on principles of predictability and transparency, is recognised internationally as the most effective way to minimise the long-term costs of debt management, although there is no recognised way to measure quantitatively whether long-term costs are minimised through this approach. In order to demonstrate that the DMO is taking decisions aimed at fulfilling the objective of long-term cost minimisation subject to risk, HM Treasury expects the DMO to explain publicly in its Annual Review the key drivers that motivated its decisions on implementation of the remit during the course of the previous financial year. Quantitative reporting of aspects of the DMO's performance is also undertaken against a range of measures and indicators wherever that is possible. A number of these measures are set out in the DMO's annual Business Plan.

There were a number of other DMO specific recommendations; again these were aimed at securing improved levels of accountability and ease of accessibility of information. These included:

- **Streamlining of the number of Reports produced by the DMO.**

It was suggested that the DMO should seek to minimise, within legislative constraints, the number of different documents that need to be examined when considering its performance.

Annual reports

- The main focus of the Sub-Committee here was the publication of two sets of Annual Reports and Accounts for the DMO (the Agency Accounts) and the Debt Management Account (DMA) accounts. At the hearing itself, the DMO Chief Executive observed that merging of these accounts would be a good thing. Merger was achieved with the publication of a consolidated set of Agency and DMA accounts on 25 July 2007.

- There is a separate issue about the publication of two sets of formal reports covering the PWLB function (see Chapter 5). There is a legislative obligation (dating from 1875) for the production of PWLB's Annual Report and for that Report to be presented to Parliament by Treasury Ministers. The PWLB's Accounts, on the other hand, are audited and presented to Parliament by NAO. The work of the PWLB has changed considerably over the years to the extent that the content of its Report is now almost identical to its Accounts but legally the two are separate. It is the DMO's view that the merger of these two reports would require the abolition of the PWLB as a separate entity, which would require primary legislation and raises wider questions than the number of published reports.

Reports on the debt management institutional framework

- Documents cited here were the Agency Framework document, the Annual Business Plan and the Financing Remit. The DMO considers that there are a number of difficulties associated with consolidating these documents – not least that they cover different timescales and responsibilities and are the responsibility of different bodies:

    - The Agency Framework Document is a high-level medium-term joint HM Treasury/DMO agreement setting out the main demarcation of responsibilities between the two bodies. The current Framework Document (dated April 2005) is only the third edition since the DMO was established (the others being published in March 1998 and July 2001). As such it is not a suitable vehicle for information on annual targets and plans.
    - The Annual Business Plan. The publication by the DMO of its annual business plan is a requirement of its status as an Executive Agency – and is agreed by the relevant Treasury

Minister. The main purpose of this document is to provide a forward look at the objectives and targets the Agency plans to meet in the financial year ahead. Compliance against these targets is subsequently reported in the Annual Report and Accounts.

- The Financing Remit. This is the centre-piece of the regime of transparent and predictable debt management and specifies the operational requirements on the DMO for the financial year ahead. The remit is published annually alongside the Budget, as part of HM Treasury's Debt and Reserves Management Report (DRMR). Essentially it is an instruction from HM Treasury Ministers to the DMO as to the quantum, split and timing of financing operations. The publication of the DRMR and the financing remit is a requirement, on HM Treasury, of the Code for Fiscal Stability.

The DMO acknowledges that the necessarily diverse number of publications described above do contain a number of different types of information. Accordingly, and as recommended by the NAO and the Sub-Committee, the DMO is publishing in Table 11, a summary of where the different types of key information can be found.

Table 11 **Published information relevant to the DMO's activities**

Source/area of information	When published	Where published	DMO website link
1. DMO/HMT Governance			
1.1 Agency Framework Agreement - status of DMO in relation to HM Treasury - reporting and accountability obligations.	As required (three times to-date since 1998).	DMO website.	http://www.dmo.gov.uk/index.aspx?page=publications/corporate_governance
1.2 DMO business Plan - Agency aims, formal objectives and operational targets for year ahead. Planning themes for succeeding three years.	Annually ahead of the start of each financial year. A requirement on Executive Agencies.	DMO website.	http://www.dmo.gov.uk/index.aspx?page=publications/corporate_governance
1.3 DMO/DMA Report & Accounts - reports on achievement of previous years formal objectives and operational targets. NAO audited accounts of the DMO's administrative and operational activities. Now merged.	Annually - to Parliament by NAO before the end of each Parliamentary year (usually July).	House of Commons Library. DMO website.	http://www.dmo.gov.uk/index.aspx?page=publications/annual_reports
1.4 PWLB Annual Report - reports on the delivery of the previous year's operations.	Annually - to Parliament by HM Treasury Ministers. An obligation from 1875 Act of Parliament.	House of Commons Library. PWLB section of DMO website.	http://www.dmo.gov.uk/index.aspx?page=publications/annual_reports
1.5 PWLB Accounts - reports on the delivery of the previous year's operations. Includes accounts audited by NAO of the administrative and operational activities.	Annually - to Parliament by NAO.	House of Commons Library. PWLB section of DMO website.	http://www.dmo.gov.uk/index.aspx?page=publications/annual_reports
2. DMO's debt and cash mangement operations - reports			
2.1 Debt and Reserves Management Report - structure and timing (auction dates) of financing programme for the following financial year (DMO remit).	Annually to Parliament by HM Treasury as part of Budget - a requirement of the Code for fiscal stability.	House of Commons Library. HMT website. DMO website.	http://www.dmo.gov.uk/index.aspx?page=Remit/full_details
2.2 DMO Annual Review - a report and commentary on the DMO's debt and cash management activities for the previous financial year and developments in the gilt and money markets. Includes commentary on performance.	Annually usually July-August by DMO.	DMO website. Posted to stakeholders.	http://www.dmo.gov.uk/index.aspx?page=publications/Annual_Reviews
2.3 DMO Quarterly Review - a factual summary of the DMO's debt and cash management activities for the previous quarter and key debt portfolio statistics.	Each January, April, July and October by DMO.	DMO website. Posted to stakeholders.	http://www.dmo.gov.uk/index.aspx?page=publications/Quarterly_Reviews
3. DMO's debt and cash mangement operations - rules			
3.1 Gilt Information Memorandum - detailed legally binding rules relating to the issuing, stripping and reconstitution of gilts. Each Prospectus for a new issue of gilts refers back to the prevailing edition of the Information Memorandum.	As required - dependant on need/developments in the market.	DMO website.	http://www.dmo.gov.uk/index.aspx?page=Gilts/Operational_Rules
3.2 Official Operations in the Gilt market – the detailed rules applying to the conduct of the DMO's operations in the gilt market.	As required - dependant on need/developments In the market. Last published May 2007.	DMO website.	http://www.dmo.gov.uk/index.aspx?page=Gilts/Operational_Rules
3.3 GEMM Guidebook - a guide to the respectives roles of the DMO and the GEMMs in the gilt market.	As required - dependant on need/developments In the market. Last published May 2007.	DMO website.	http://www.dmo.gov.uk/index.aspx?page=Gilts/Operational_Rules

Source/area of information	When published	Where published	DMO website link
3.4 Exchequer Cash Management - Operational notice - the detailed rules applying to the conduct of the DMO's the key features of Treasury bills.	As required - dependant on need/developments in the market. Last published September 2003.	DMO website.	http://www.dmo.gov.uk/index.aspx?page=publications/money_markets
3.5 Formulae for calculating gilt prices from yields. The definitive formal publication which explains how to calculate gilt prices from gross redemption yields. These formulae are the accepted gilt market convention.	As required - dependant on need. Last published March 2005.	DMO website.	http://www.dmo.gov.uk/index.aspx?page=Gilts/formulae
4. Guidance for potential investors			
4.1 A Guide to Gilts - summary of the key features of the debt management regime in the UK, the types of gilt in issue, the types of operations undertaken by DMO and contact details. Intended for potential wholesale/institutional investors.	Annually usually May-June.	DMO website. Posted to stakeholders.	http://www.dmo.gov.uk/documentview.aspx?docname=publications/investorsguides/mb310507.pdf&page=investor_guide/Guide
4.2 The Private Investors Guide to Gilts - designed to give advice to members of the public on the main features of gilts and how to buy and sell them.	As required – dependant on need/developments in the market.	DMO website. Computershare website. Mailed out on a continuous basis by Computershare and DMO on request.	http://www.dmo.gov.uk/index.aspx?page=publications/investor_guide
5. Selected information on DMO website			
5.1 Gilt prices	Updated daily.		http://www.dmo.gov.uk/index.aspx?page=Gilts/Daily_Prices
5.2 Treasury bill prices	Updated daily.		http://www.dmo.gov.uk/ceLogon.aspx?page=tbills/Daily_Prices_Yields&rptcode=D3A
5.3 Results of gilt market operations	After operation.		http://www.dmo.gov.uk/ceLogon.aspx?page=Summary_of_results&rptCode=D2.1prof7
5.4 Results of treasury bill tenders	After operation.		http://www.dmo.gov.uk/index.aspx?page=tbills/tbill_tenders
5.5 Gilts in issue	Daily.		http://www.dmo.gov.uk/index.aspx?page=Gilts/Gilts_In_Issue
5.6 Treasury bills in issue	Weekly.		http://www.dmo.gov.uk/ceLogon.aspx?page=Issuance_History&rptcode=D2.2E
5.7 Government holdings of gilts	Monthly.		http://www.dmo.gov.uk/ceLogon.aspx?page=Gilts/Government_Holdings&rptCode=D4L
5.8 Overseas holdings of gilts	Quarterly (in arrears).		http://www.dmo.gov.uk/ceLogon.aspx?page=Gilts/Overseas_Holdings&rptCode=D5N
5.9 Cash flows on index-linked gilts	On publication of relevant RPI.		http://www.dmo.gov.uk/ceLogon.aspx?page=Nominal_IL&rptCode=D5I
5.10 PWLB interest rates	Updated daily.		http://www.dmo.gov.uk/index.aspx?page=PWLB/PWLB_Interest_Rates

Enhancing reporting arrangements

The Sub-Committee and NAO also recommended the DMO should consider the reporting of its contribution to the achievement of the debt management objective to include key initiatives and developments supporting the achievement of that objective. Chapter 3 expands the coverage of earlier Annual Reviews to explain further the considerations relating to the formulation and structure of the 2006-07 remit and how it was structured and delivered. This includes reference to the analysis of the cost advantage for Government which supports the bias towards long-dated and index-linked gilt issuance. The Government has announced (in the Debt and Reserves Management Report 2007-08) a medium-term preference for continuing this bias, should the market factors which lead to cost advantage from issuing long-dated gilts persist. Chapter 3 also includes new material aimed at explaining how the DMO implemented the remit throughout the year and also explaining how issuance decisions were taken. The published minutes of the

quarterly consultation meetings held with market participants to discuss the developing gilt issuance plans throughout the year are reproduced in Annex C.

Strategic Debt Analysis

It was noted that the Strategic Debt Analysis (SDA) model being developed by the DMO has potential to provide further improvements relating to accountability in the future.

Chapter 6 of last year's Annual Review described the debt strategy stochastic simulation model that the DMO is developing.[2] This model can be used to analyse and illustrate quantitatively the expected debt service cost and risk of various issuance strategies. It is intended that, from the coming financial year, results from the simulation model will be used to help explain and illustrate how some of the factors the DMO takes into account, and the assumptions it makes, influence the debt service cost and risk trade-off associated with different issuance strategies.

Cash management accountability

The Sub-Committee noted the DMO's intention to begin reporting cash management performance against key performance indicators – this new initiative was seen as going a long way to enhancing cash management accountability. See Chapter 4 (pages 26-30) for a description of the cash management performance framework and the key performance indicators.

PWLB's statutory lending limit

The Sub-Committee also asked about the need for a possible increase in the PWLB's statutory lending limit (currently £55 billion). PWLB routinely monitors the fluctuations in the total portfolio and would take steps in good time to seek approval for an increase in the statutory limit should it consider it necessary. Outstanding PWLB loans at end-March 2007 were £47.9 billion, an increase of £0.8 billion in 2006-07 and £7.1 billion below the current limit.

2 See Chapter 6: Strategic Debt Analysis (SDA), ***DMO Annual Review 2005-06.***

Chapter 7: The DMO

The DMO was established on 1 April 1998. In institutional terms, the DMO is legally and constitutionally part of HM Treasury, but, as an Executive Agency, it operates at arms 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 separate responsibilities of the Chancellor and other Treasury Ministers, the Permanent Secretary to the Treasury and the DMO's Chief Executive are set out in a published Framework Document (available on the DMO website – see Table 11), which also sets out the DMO's objectives and its Chief Executive's 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.

Business planning

The DMO publishes an annual business plan. The plan sets out the DMO's targets and objectives for the year ahead, and the strategies for achieving them. It also reviews the preceding year. The starting point of the DMO's business plan is the strategic objectives given by the Chancellor of the Exchequer to the DMO and set out in the Framework Document.

Organisation and resources

The DMO is organised flexibly to ensure that resources are available as necessary for the respective requirements of the business areas. There are two main business areas in the DMO: policy & markets, and operations & resources. These areas are in turn split into a number of teams across which there is substantial cross-team working to ensure that both policy and operational concerns are adequately met; that the relevant skills are applied to tasks or problems; and that essential operations are adequately resourced.

The DMO's Managing Board (MB) considers all major strategic decisions and comprises the Chief Executive, the Deputy Chief Executive (and Head of Policy and Markets) and the Chief Operating Officer together. The other members in 2006-07 were Colin Price and Brian Larkman (non-executive directors) and Tamara Finklestein from HM Treasury (non-executive director). Colin Price is also Chairman of the DMO's Audit Committee.

Within the DMO most business issues are considered by internal committees: in particular those on debt management, cash management; and investment. They are supported by a Credit and Risk Committee, which also reports to the Managing Board.

Managing risk

The processes the DMO employs to manage its risks are subject to continual review and development to ensure their continued effectiveness. Of particular note during the year were:

- An independent review of office-wide risk reporting arrangements led to the implementation of changes to improve focus on key risks and risk ownership.
- Further work was completed to enhance the DMO's capacity to quantify market risks, particularly regarding cash management operations.
- The processes for sign-off of new business initiatives prior to their introduction were strengthened.

Budget

The DMO's operating budget reflects a need for both skills and systems that are not available elsewhere in Government. The DMO's net operating cost for 2006-07 was £7.44 million. This represented a reduction of £0.1 million from the previous year and remained within the DMO's voted expenditure limit. The DMO's operating budget is financed as part of the budget for HM Treasury as a whole.

Annexes:

A: Gilts in issue at 31 March 2007

Total amount in issue (including uplift on index-linked gilts): £442.86 billion (nominal)

Conventional gilts	Redemption date	Dividend dates	First issue date	Amount in issue (£mn nom)	Central Govt holdings (DMO & CRND) (£mn nom)
Shorts: (maturity up to 7 years)					
8½% Treasury Loan 2007	16-Jul-07	16 Jan/Jul	16-Jul-1986	4,869	600
7¼% Treasury Stock 2007	7-Dec-07	7 Jun/Dec	29-Jan-1997	11,655	795
5% Treasury Stock 2008	7-Mar-08	7 Mar/Sep	26-Jun-2002	14,928	865
4% Treasury Stock 2009	7-Mar-09	7 Mar/Sep	14-May-2003	16,974	746
5¾% Treasury Stock 2009	7-Dec-09	7 Jun/Dec	30-Jul-1998	12,006	920
4¾% Treasury Stock 2010	7-Jun-10	7 Jun/Dec	19-Nov-2004	12,774	531
6¼% Treasury Stock 2010	25-Nov-10	25 May/Nov	27-Jan-1994	5,205	722
4¼% Treasury Gilt 2011	7-Mar-11	7 Mar/Sep	9-Nov-2005	13,750	5
9% Conversion Loan 2011	12-Jul-11	12 Jan/Jul	12-Jul-1987	5,664	473
5% Treasury Stock 2012	7-Mar-12	7 Mar/Sep	25-May-2001	14,009	897
5¼% Treasury Gilt 2012	7-Jun-12	7 Mar/Sep	16-Mar-2007	2,750	1
8% Treasury Stock 2013	27-Sep-13	27 Mar/Sep	1-Apr-1993	6,489	694
Mediums: (maturity 7 to 15 years)					
5% Treasury Stock 2014	7-Sep-14	7 Mar/Sep	25-Jul-2002	13,699	706
4¾% Treasury Stock 2015	7-Sep-15	7 Mar/Sep	26-Sep-2003	13,647	655
8% Treasury Stock 2015	7-Dec-15	7 Jun/Dec	26-Jan-1995	7,744	539
4% Treasury Gilt 2016	7-Sep-16	7 Mar/Sep	2-Mar-2006	13,500	8
8¾% Treasury Stock 2017	25-Aug-17	25 Feb/Aug	30-Apr-1992	8,136	765
4¾% Treasury Stock 2020	7-Mar-20	7 Mar/Sep	29-Mar-2005	10,743	248
8% Treasury Stock 2021	7-Jun-21	7 Jun/Dec	29-Feb-1996	17,573	1,178
Longs: (maturity over 15 years)					
5% Treasury Stock 2025	7-Mar-25	7 Mar/Sep	27-Sep-2001	16,188	945
4¼% Treasury Gilt 2027	7-Dec-27	7 Jun/Dec	6-Sep-2006	11,250	2
6% Treasury Stock 2028	7-Dec-28	7 Jun/Dec	29-Jan-1998	12,340	893
4¼% Treasury Stock 2032	7-Jun-32	7 Jun/Dec	25-May-2000	17,326	998
4¼% Treasury Stock 2036	7-Mar-36	7 Mar/Sep	27-Feb-2003	15,668	672
4¾% Treasury Stock 2038	7-Dec-38	7 Jun/Dec	23-Apr-2004	14,958	715
4¼% Treasury Gilt 2046	7-Dec-46	7 Jun/Dec	12-May-2006	11,750	2
4¼% Treasury Gilt 2055	7-Dec-55	7 Jun/Dec	27-May-2005	11,602	104
3½% War Loan	Undated	1 Jun/Dec	01-Dec-19	321,939	31

Index-linked gilts	Redemption date	Dividend dates	First issue date	Base RPI*	Amount in issue (£mn nom)	Nominal including inflation uplift (£mn nom)	Central Govt holdings (DMO & CRND) (£mn nom)
3-month lag							
1¼% I-L Treasury Gilt 2017	22-Nov-17	22 May/Nov	8-Feb-2006	193.72500	7,000	7,286	3
1¼% I-L Treasury Gilt 2027	22-Nov-27	22 May/Nov	26-Apr-2006	194.06667	4,950	5,143	1
1⅛% I-L Treasury Gilt 2037	22-Nov-37	22 May/Nov	21-Feb-2007	202.24286	1,000	997	0
1¼% I-L Treasury Gilt 2055	22-Nov-55	22 May/Nov	23-Sep-2005	192.20000	4,588	4,814	39
8-month lag							
2½% I-L Treasury Stock 2009	20-May-09	20 May/Nov	19-Oct-1982	310.7	3,304	8,327	280
2½% I-L Treasury Stock 2011	23-Aug-11	23 Feb/Aug	28-Jan-1982	294.1	4,631	12,331	359
2½% I-L Treasury Stock 2013	16-Aug-13	16 Feb/Aug	21-Feb-1985	351.9	7,347	16,349	530
2½% I-L Treasury Stock 2016	26-Jul-16	26 Jan/Jul	19-Jan-1983	322.0	7,696	18,717	636
2½% I-L Treasury Stock 2020	16-Apr-20	16 Apr/Oct	12-Oct-1983	327.3	6,350	15,193	451
2½% I-L Treasury Stock 2024	17-Jul-24	17 Jan/Jul	30-Dec-1986	385.3	6,583	13,376	494
4⅛% I-L Treasury Stock 2030	22-Jul-30	22 Jan/Jul	12-Jun-1992	135.1	5,021	7,377	347
2% I-L Treasury Stock 2035	26-Jan-35	26 Jan/Jul	11-Jul-2002	173.6	9,389	10,736	466

** Base RPI for all index-linked gilts from 2009 to 2024 maturities (apart from the 2017 maturity) is based on RPI Jan 1974 = 100. For the 2017, 2027, 2030, 2035, 2037 and 2055 maturities, Base RPI Jan 1987 = 100.*

Rump gilts are not available for purchase

Rump gilts	Redemption date	Dividend dates	First Issue date	Amount in issue (£mn nom)	Central Govt Holdings (DMO & CRND) (£mn nom)
9% Treasury Loan 2008	13-Oct-08	13 Apr/Oct	11-Feb-1987	410	0
8% Treasury Stock 2009	25-Sep-09	25 Mar/Sep	23-Apr-1986	235	0
7¾% Treasury Loan 2012-15	26-Jan-12	26 Jan/Jul	26-Jan-1972	452	1
9% Treasury Stock 2012	6-Aug-12	6 Feb/Aug	7-Feb-1992	223	2
5½% Treasury Stock 2008-12	10-Sep-12	10 Mar/Sep	5-Oct-1960	746	2
12% Exchequer Stock 2013-17	12-Dec-13	12 Jun/Dec	15-Jun-1978	18	0
2½% Treasury Stock	Undated	1 Apr/Oct	28-Oct-1946	449	0
4% Consolidated Loan	Undated	1 Feb/Aug	16-Mar-1932	284	0
2½% Consolidated Stock	Undated	5 Jan/Apr/Jul/Oct	5- Apr-1888	195	1
3% Treasury Stock	Undated	5 Apr/Oct	1-Mar-1946	44	0
3½% Conversion Loan	Undated	1 Apr/Oct	1-Apr-1921	18	6
2½% Annuities	Undated	5 Jan/Apr/Jul/Oct	13-Jun-1853	1	0
2¾% Annuities	Undated	5 Jan/Apr/Jul/Oct	17-Oct-1884	1	0

It is assumed that double-dated gilts (which have not been called) currently trading above par will be redeemed at the first maturity date.

B: List of GEMMs and IDBs at 31 March 2007

All are market-makers in both conventional and index-linked gilts

GEMM	Website
ABN Amro Bank NV 250 Bishopsgate London EC2M 4AA	www.abnamro.com
Barclays Capital 5 The North Colonnade Canary Wharf London E14 4BB	www.barcap.com
BNP Paribas (London Branch) 10 Harewood Avenue London NW1 6AA	www.bnpparibas.com
Citigroup Global Markets Limited Citigroup Centre 33 Canada Square London E14 5LB	www.citigroup.com
Credit Suisse Securities One Cabot Square London E14 4QJ	www.csfb.com
Deutsche Bank AG (London Branch) Winchester House 1 Great Winchester Street London EC2N 2DB	https://gm-secure.db.com
Dresdner Bank AG (London Branch) PO Box 52715 30 Gresham Street London EC2P 2XY	www.drkw.com
Goldman Sachs International Limited Peterborough Court 133 Fleet Street London EC4A 2BB	www.gs.com
HSBC Bank PLC 8 Canada Square London E14 5HQ	www.hsbcgroup.com

JP Morgan Securities Limited www.jpmorgan.com
125 London Wall
London EC2Y 5AJ

Lehman Brothers International (Europe) www.lehman.com
25 Bank Street
Docklands
London E14 5LE

Merrill Lynch International www.ml.com
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Morgan Stanley & Co. International Limited www. morganstanley.com
20 Cabot Square
Canary Wharf
London E14 4QW

Royal Bank of Canada Europe Limited www.rbccm.com
Thames Court
One Queenhithe
London EC4V 4DE

Royal Bank of Scotland www.rbsmarkets.com
135 Bishopsgate
London EC2M 3UR

UBS Limited www.ubs.com/investmentbank/
1 Finsbury Avenue
London EC2M 2PP

Winterflood Securities Limited www.wins.co.uk
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Inter Dealer Brokers

BGC International www.bgcpartners.com
One Churchill Place
Canary Wharf
London
E14 5RD

Dowgate www.ksbb.com
6th Floor
Candlewick House
120 Cannon Street
London
EC4N 6AS

ICAP Electronic Broking Limited www.icap.com
2 Broadgate
London
EC2M 7UR

ICAP WCLK Limited www.icap.com
2 Broadgate
London
EC2M 7UR

Tullet Prebon Gilts www.cstplc.com
155 Bishopsgate
London
EC2N 3DA

C: Minutes of the quarterly consultation meetings

RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE APRIL-JUNE 2006 GILT AUCTION ANNOUNCEMENT

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 27 March 2006. The meetings were primarily intended to inform the choice of gilts to be issued in the next quarter.

Nine gilt auctions are scheduled in April-June 2006: five conventional gilt auctions (one each of short and medium and three of long-dated gilts) and four of index-linked gilts (at least three of which are scheduled to be long-dated). The conventional auctions will be held on 4 April, 11 May, 25 May, 7 June and 22 June. The index-linked auctions will be held on 11 April, 25 April, 23 May, and 27 June. The gilt issuance calendar for April-June 2006 will be announced by the DMO at 3.30pm today, Tuesday 28 March 2006. In discussion, the following main points emerged:

All GEMMs: There was a clear majority of opinion in favour of re-opening 4¼% 2055 on 4 April. Some advised the launch of a new 40-year gilt on that date, but most proposed that a new 40-year gilt be brought on two of the dates 11 May, 25 May and 7 June. Views were divided between sequencing of the 40-year auctions within these dates. Some attendees also suggested that consideration be given to opening a new 25- to 30-year gilt, or re-opening existing 2028s or 2032s, at some stage in the quarter. All recommended the re-opening of 4¼% 2011 and 4% 2016 for the short and medium auctions with most advising one of the auction dates in May and 22 June for such issuance, but with no strong preference on sequencing.

IL GEMMs: Most recommended a re-opening of 1¼% IL 2017 on 11 April, but with some suggesting issuance in the 20-year area of the curve on that date. In general, there was strong support for the re-opening of the 2024 bond or the launch of a new 20-year index-linked gilt at least once in this quarter. There was also some support for the launch of a new 40-year index-linked gilt, while others advised re-openings of the 2035 and/or 2055 maturities.

End investors

Conventional: Most attendees favoured a re-opening of 4¼% 2055 in April, but there were also isolated calls for the re-opening of other existing longs (2038s) or the launch of a new 40-year gilt on this date. However, the majority preferred to wait until May for the launch of such a gilt, with a swift re-opening on 7 June to coincide with the index extension, although a couple of attendees suggested that an index-neutral gilt be auctioned on this date. Most saw 11 May and 22 June as the preferred dates for short and medium issuance (of 4¼% 2011 and 4% 2016) with views divided over the sequencing.

Index-linked: There was virtual unanimity regarding the choice of the 2017 maturity for the 11 April date. Recommendations for issuance at the long end included re-opening(s) of existing gilts with maturities from 2024 to 2055, along with calls for the launch of new 20- and/or 40-year index-linked gilts. Again, there was no

obvious consensus on the sequencing of these auctions, although most agreed that it would be desirable to have a 40-year conventional gilt established before the introduction of a similar maturity index-linked gilt.

Published 28 March 2006

RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE JULY-SEPTEMBER 2006 GILT AUCTION ANNOUNCEMENT

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 22 May 2006. The meetings were primarily intended to inform the allocation of the £2.5 billion of supplementary gilt issuance in the second quarter of the financial year and the choice of gilts to be issued in the scheduled auctions.

Eight gilt auctions are currently scheduled in July-September 2006: four conventional gilt auctions (one each of short- and medium- and two of long-dated gilts) and four of index-linked gilts (at least three of which are scheduled to be long-dated). The conventional auctions will be held on 4 July, 1 August, 5 September and 21 September. The index-linked auctions will be held on 11 July, 25 July, 23 August, and 27 September. The final gilt issuance calendar for July-September 2006 will be announced by the DMO at 3.30pm on Wednesday 31 May 2006. In discussion, the following main points emerged:

All GEMMs: There was a consensus that the supplementary gilt issuance should be directed towards longer maturities, with most favouring a split between conventional and index-linked gilts. Views were divided between adding auction(s), particularly in the index-linked sector, and increasing the sizes of the currently scheduled auctions.

In terms of the core programme for conventional gilts, all attendees recommended a re-opening of 4¼% 2046 at least once in the quarter, with 4 July and 5 September the preferred dates for the long auctions. Those who did not advocate two new auctions of this bond suggested the launch of a new gilt in the 20-30-year maturity band, or a re-opening of an existing long. All respondents were agreed on the choice of 4¼% 2011 and 4% 2016 as other auction candidates, but views on sequencing differed.

IL GEMMs: Most favoured an auction of the IL2017 on 11 July, but views expressed on the maturity and scheduling of long index-linked auctions were very mixed. Virtually all recommended a re-opening of the 2027 maturity at least once and there were also a number of calls for the launch of a new 40-year index-linked gilt towards the end of the quarter. There were also calls for a re-opening of the 2030 or 2035 maturities. Others pointed to a relative lack of liquidity in some of the older shorter-dated bonds, with various calls received for re-openings of the 2013, 2016, 2020, 2024 issues, either as part of the core programme or as supplementary issuance.

End investors

Here too, most attendees favoured directing supplementary issuance to longer maturities (both conventional and index-linked, although there were some calls for

all to be directed at index-linked). Views were again divided as to whether this should be achieved through adding auctions or by increasing the size of already scheduled auctions.

Conventional: There was a general consensus to build up 4¼% 2046 to benchmark status, with most recommending two further auctions of the bond. Some attendees expressed a desire to see the addition of a third long conventional auction in the quarter, to ensure a regular flow of supply here, with 6% 2028, a new 20-year gilt or even a third auction of 2046s suggested. 4¼% 2011 and 4% 2016 were seen as the obvious candidates for short and medium issuance.

Published 23 May 2006

RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE OCTOBER-DECEMBER 2006 GILT AUCTION ANNOUNCEMENT

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 21 August 2006. The meetings were primarily intended to inform the allocation of the £2.5 billion of supplementary gilt issuance in the third quarter of the financial year and the choice of gilts to be issued in the scheduled auctions.

Eight gilt auctions are currently scheduled in October-December 2006: four conventional gilt auctions (one each of short- and medium- and two of long-dated gilts) and four of index-linked gilts (at least three of which are scheduled to be long-dated). The conventional auctions will be held on 3 October, 23 November, 5 December and 6 December. The index-linked auctions will be held on 12 October, 24 October, 28 November, and 14 December. The final gilt issuance calendar for October-December 2006 will be announced by the DMO at 3.30pm on Thursday 31 August 2006. In discussion, the following main points emerged:

All GEMMs. There was a general view that the supplementary issuance should be split in various suggested proportions between conventional and index-linked and that the bias should be toward long maturities. Early November was seen as the best date for any additional auction. In terms of conventional issuance, almost all suggested either a re-opening of the new 2027 gilt (to be launched on 5 September) or 4¼% 2046 for the auction on 3 October. 4% 2016 was also the virtual unanimous choice for the 23 November auction. All recommended a short and a long for 5 and 6 December but views were mixed on the scheduling. 4¼% 2011 and 4¼% 2046 were the preferred gilts.

IL GEMMs. There were some calls for a new 40-year index-linked gilt to be launched in the next quarter. Generally however, most IL GEMMs suggested that demand was in the 20-30 year area of the curve. Maturities suggested for issue were the 2017s, 2020s, 2027s, 2030s and 2035s with isolated calls for a new 2022 and the 2024s.

End-investors – expressed a range of views on supplementary issuance, from a total allocation to index-linked to a broad split consistent with the remit but the general preference was for issuance to be biased toward longs. Early November was seen as the best slot for any additional auction.

Conventional: There was a clear preference to begin the quarter with a long-dated gilt with views broadly split between the new 2027 gilt and a re-opening of 4¼% 2046. Those who favoured the 2027 in October preferred the 2046 in December (and vice versa). 4% 2016 was seen as the obvious candidate for 23 November and either a re-opening of 4¼% 2011 or a new 2012 on the date next to a long auction in December.

Index-linked: Most preferred a re-opening of the 2017 gilt on 12 October, although there were a few calls for a new 2021 or 2022 maturity or a re-opening of the 2020. Views were divided over the attractiveness of launching a new 40-year index-linked gilt in Q3, with some preferring issuance in the 20-30 year part of the curve. Most recommended at least one re-opening of the 2027 maturity.

Published 22 August 2006

RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE JANUARY-MARCH 2007 GILT AUCTION ANNOUNCEMENT

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 20 November 2006. The meetings were primarily intended to inform the allocation of the £2.5 billion of supplementary gilt issuance in the final quarter of the financial year and the choice of gilts to be issued in the scheduled auctions.

Eight gilt auctions are currently scheduled in January-March 2007: four conventional gilt auctions and four of index-linked gilts (at least three of which are scheduled to be long-dated). The conventional auctions will be held on 9 January, 22 February, 6 March and 15 March. The index-linked auctions will be held on 18 January, 25 January, 20 February and 27 March. The final gilt issuance calendar for January-March 2007 will be announced by the DMO alongside any change to the DMO's financing remit after the Chancellor's Pre-Budget Report speech on Wednesday 6 December 2006. In discussion, the following main points emerged:

GEMMs.

Supplementary issuance: Most suggested a continued bias towards long-dated issuance (conventional and index-linked) with a range of splits mentioned, from 50:50 to an exclusive focus on long conventionals. Some also suggested using some of the supplementary issuance to increase the initial size of any new short and medium conventional gilts.

Conventional: Virtually all recommended re-opening the 2027 and 2046 maturities although there were isolated calls for 4¼% 2036, 4¼% 2055 or a new 30-year (a 2034 was mentioned). Views were divided, however, on the case for launching new 5- and 10-year bonds in the final quarter. Most supported the case for the launch of new bonds in one or both of the two maturity sectors but others suggested that alternatives existed, eg. 4¼% 2011 or 5% 2012 at 5-year, and 4% 2016 at 10-year, for the sector(s) where they did not suggest a new issue. There were also isolated calls for a re-opening of 8¾% 2017 to aid liquidity in the futures basket.

Index-linked: Virtually all recommended the quarter begin with an auction of the 2017 maturity. Views were divided over the maturity of a new long bond, with a majority preferring a new 40-year (2046 or 2047) bond, and a substantial minority a

new 30-year (2038). There were also some calls for the DMO to consider launching a new 2022 maturity bond and isolated calls for re-openings of each of the existing 8-month lagged index-linked gilts from 2016 to 2035 and the 1¼% I-L 2055.

End-investors

Supplementary issuance: A range of views was expressed from those (a majority) who advocated continued bias toward longs conventional and/or index-linked to those who suggested some be allocated to increase the initial size of any new short and medium conventional gilts.

Conventional: All supported the case for re-opening the 2027 and 2046 gilts in the fourth quarter, but views were divided about the case for the launch of new 5- or 10-year bonds. Some said that 5% 2012 could serve as the 5-year benchmark and others that 4% 2016 could be re-opened at least once more, but most supported the case for the launch of at least one new conventional bond.

Index-linked: All supported the re-opening of the 2017 bond with most recommending the 18 January slot, most also recommended a re-opening of the 2027 although there was a range of views on the dates for this auction. Views were divided on whether to launch a new 30- or a new 40- year bond in the final quarter (with 2038 and 2046 mentioned as the likely maturity years), but almost all proposed two auctions of the new bond within the quarter to boost initial liquidity. There were also isolated calls for re-openings of the 2020, 2030 and 2055 maturities.

Published 21 November 2006

D: Gilt issuance performance

Gilt issuance counterfactuals

The DMO has been publishing the results of its measurement of auction performance against counterfactuals in its Annual Review since 2001. Over time, the DMO has extended the range of the counterfactuals which are designed to indicate whether different non-discretionary issuance patterns during the year would have resulted in higher or lower costs of financing (measured by comparing the cash weighted yield of issuance). The cash weighted average yield of actual issuance at the 36 gilt auctions in 2006-07 was 4.409%.

Table 12
Cash weighted average yield of gilt issuance 2006-07

	Gilt	Real yield (%)	Nominal yield* (%)	Cash £mn
04-Apr	4¼% 2055		3.96	2,123.7
11-Apr	1¼% IL 2017	1.42	4.42	1,177.6
25-Apr	1¼% IL 2027	1.38	4.38	1,072.5
11-May	4¼% 2046		4.24	2,253.2
23-May	1¼% IL 2055	1.09	4.08	751.8
25-May	4% 2016		4.55	2,624.8
07-Jun	4¼% 2046		4.20	2,774.5
22-Jun	4¼% 2011		4.80	2,442.4
27-Jun	1¼% IL 2027	1.40	4.40	884.9
04-Jul	4¼% 2046		4.24	2,255.2
11-Jul	1¼% IL 2017	1.60	4.60	1,174.8
25-Jul	2½% IL 2024	1.32	4.32	1,068.3
01-Aug	4% 2016		4.61	2,377.1
23-Aug	1¼% IL 2027	1.14	4.13	1,042.0
05-Sep	4¼% 2027		4.32	2,229.1
19-Sep	1¼% IL 2017	1.55	4.55	1,191.7
21-Sep	4¼% 2011		4.85	2,437.9
27-Sep	2% IL 2035	0.95	3.94	960.3
03-Oct	4¼% 2027		4.25	2,249.0
12-Oct	1¼% IL 2017	1.53	4.53	1,195.5
24-Oct	1¼% IL 2055	0.83	3.82	787.1
07-Nov	4¼% 2046		3.91	2,403.2
23-Nov	4% 2016		4.57	2,387.1
28-Nov	1¼% IL 2027	1.09	4.08	1,061.9
29-Nov	4¼% 2011		4.84	2,442.1
05-Dec	4¼% 2027		4.22	2,259.9
14-Dec	2% IL 2035	1.02	4.01	914.9
09-Jan	4¼% 2027		4.41	2,199.6
18-Jan	1¼% IL 2017	1.71	4.72	1,185.9
25-Jan	1¼% IL 2055	0.83	3.82	762.5
06-Feb	4¼% 2046		4.16	2,289.3
20-Feb	1⅛% IL 2037	1.08	4.07	1,011.2
22-Feb	4% 2016		4.90	2,559.3
06-Mar	4¼% 2027		4.45	2,189.5
15-Mar	5¼% 2012		5.00	2,781.0
27-Mar	1¼% IL 2027	1.30	4.30	978.7
			4.409	**62,499.8**

**Index-linked nominal yields assume 3% inflation.*

The actual yield of 4.409% is compared with two main counterfactuals.

Counterfactual 1 assumes that:

- for conventional issuance the total cash raised (£45.28 billion) was achieved through sales split equally between 4¾% 2010, 4¾% 2015 and 4¼% 2036, using the average close of business (cob) yield of each of the gilts over the quarter;
- for index-linked issuance the total cash raised (£17.22 billion) was achieved by sales of equal amounts of all index-linked gilts with a maturity of 2013 or longer, using the average of the cob yield of the relevant gilts in the quarter.

The counterfactual yield on this basis was 4.536%, so actual issuance out-performed counterfactual 1 by 12.7bps – this reflects the greater proportion of shorter- and medium-dated (and higher yielding) gilts (in particular index-linked gilts) in the counterfactual issuance compared to actual which was heavily biased toward longer-dated maturities.

Counterfactual 2 assumes that:

- for conventional issuance the cash amounts of the auctions are raised at the average of the close of business yields of three counterfactual gilts (4¾% 2010, 4¾% 2015 and 4¼% 2036) at:
  - 2a) the day before the auction;
  - 2b) the day of the auction.

- for index-linked issuance the cash amounts of the auctions are raised at the average close of business yields of all index-linked gilts (2013 maturity or longer) at:
  - 2a) the day before the auction;
  - 2b) the day of the auction.

The average yields calculated on this basis were: counterfactual 2a: 4.531% and counterfactual 2b: 4.536%.

Actual issuance, therefore, out-performed counterfactual 2a by 12.2bps and counterfactual 2b by 12.7bps; again this reflected the higher proportion of higher yielding short and medium-dated maturities in the counterfactual compared to actual issuance.

The split of issuance in percentage terms between shorts, mediums and longs in both conventional and index-linked gilts in both actual issuance and the assumed counterfactual issuance is shown in Table 13. A comparison of the resultant actual yield and three types of counterfactual yields is shown in Table 14.

Table 13
Issuance maturity splits in 2006-07 (actual vs counterfactual assumptions)

	Actual	Counterfactual
Conventional %		
Short	22.3	33.0
Medium	22.0	33.0
Long	55.7	33.0
Index-linked %		
Short	0	11.0
Medium	34.4	33.0
Long	65.6	56.0

Table 14
Comparison of actual issuance yield with counterfactual yields

2006-07	%	spread bps
Cash weighted average yield of actual issuance	**4.409**	
Counterfactual 1	4.536	12.7
Counterfactual 2a	4.531	12.2
Counterfactual 2b	4.536	12.7

Auction concession analysis

Table 15 compares the (nominal) yield of all gilts that have been auctioned at the close of business (cob) on the day before the auction and on the day of the auction itself, with the nominal yield at the average accepted price at the auction. The nominal yields reported for index-linked gilts assume 3% inflation. This gives an indication of the extent of any concessions around the auctions. On average, cob yields on the day before auctions were 0.7bps below the auction yields themselves (this is a marginal improvement on the previous financial year when this figure was 0.9bps). The average cob yield on the day of the auction itself was 0.5bps lower – a significant improvement on 2005-06 (1.5bps lower).

Table 15
Movement in yields around gilt auctions in 2006-07

Auction date	Gilt	Yield cob day before auction (%)	Nominal yield at auction (%)	Yield cob of auction (%)
04-Apr	4¼% 2055	3.968	3.960	3.957
11-Apr	1¼% IL 2017	4.441	4.419	4.429
25-Apr	1¼% IL 2027	4.355	4.378	4.383
11-May	4¼% 2046	4.218	4.240	4.197
23-May	1¼% IL 2055	3.933	4.084	4.029
25-May	4% 2016	4.575	4.550	4.536
07-Jun	4¼% 2046	4.200	4.200	4.180
22-Jun	4¼% 2011	4.812	4.800	4.812
27-Jun	1¼% IL 2027	4.382	4.399	4.384
04-Jul	4¼% 2046	4.254	4.240	4.187
11-Jul	1¼% IL 2017	4.613	4.602	4.576
25-Jul	2½% IL 2024	4.351	4.317	4.389
01-Aug	4% 2016	4.595	4.610	4.611
23-Aug	1¼% IL 2027	4.101	4.135	4.110
05-Sep	4¼% 2027	4.286	4.320	4.311
19-Sep	1¼% IL 2017	4.544	4.551	4.519
21-Sep	4¼% 2011	4.826	4.850	4.816
27-Sep	2% IL 2035	3.923	3.942	3.938
03-Oct	4¼% 2027	4.268	4.250	4.269
12-Oct	1¼% IL 2017	4.540	4.531	4.535
24-Oct	1¼% IL 2055	3.826	3.820	3.765
07-Nov	4¼% 2046	3.930	3.910	3.879
23-Nov	4% 2016	4.549	4.570	4.572
28-Nov	1¼% IL 2027	4.083	4.084	4.052
29-Nov	4¼% 2011	4.833	4.840	4.849
05-Dec	4¼% 2027	4.205	4.220	4.243
14-Dec	2% IL 2035	4.021	4.013	4.033
09-Jan	4¼% 2027	4.434	4.413	4.435
18-Jan	1¼% IL 2017	4.718	4.715	4.683
25-Jan	1¼% IL 2055	3.789	3.823	3.831
06-Feb	4¼% 2046	4.220	4.159	4.201
20-Feb	1⅛% IL 2037	4.026	4.075	4.047
22-Feb	4% 2016	4.882	4.900	4.930
06-Mar	4¼% 2027	4.425	4.449	4.444
15-Mar	5¼% 2012	4.979	4.999	5.019
27-Mar	1¼% IL 2027	4.297	4.295	4.327
	Average	**4.345**	**4.352**	**4.347**
	Difference (bps)	**-0.7**		**-0.5**

As Table 15 shows, there was a significant range of results, reflecting the prevailing market conditions at the time of the auctions.

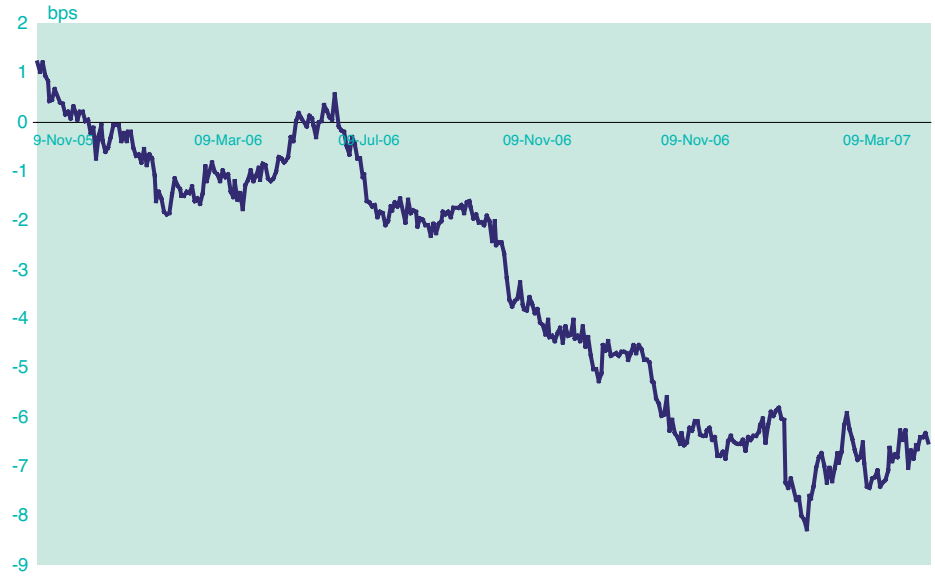
Benchmark premia

One of the ways in which the DMO seeks to deliver its debt management objectives is to issue gilts that deliver a benchmark premium, i.e. they acquire a premium relative to adjacent gilts on the yield curve by virtue of their size and liquidity. The chart below shows how the yield spread between the gilt issued to become the 5-year benchmark (4¼% Treasury Gilt 2011) moved relative to a previous 5-year benchmark (4¾% Treasury Stock 2010).

At the time of issue (November 2005) 4¼% Treasury Gilt 2011 yielded some 1bp more than 4¾% Treasury Stock 2010 and moved in a range of flat to -2bps in the first seven months of its existence. However, in the second half of 2006-07, its benchmark status became more pronounced and its yield moved to more than 7bps below 4¾% Treasury Stock 2010; its yield ended 2006-07 6.5bps below that on 4¾% Treasury Stock 2010. See Chart 15.

The modest evidence of benchmark premia reported above is likely to reflect a combination of factors, in particular that the conventional gilt yield curve is now predominantly made up of benchmark issues, and the inverted shape of the curve itself.

Chart 15
Spread between the yields on 4¼% Treasury Gilt 2011 and 4¾% Treasury Stock 2010



Source: DMO

E: Gilt redemptions and the gilt portfolio

Gilt redemptions

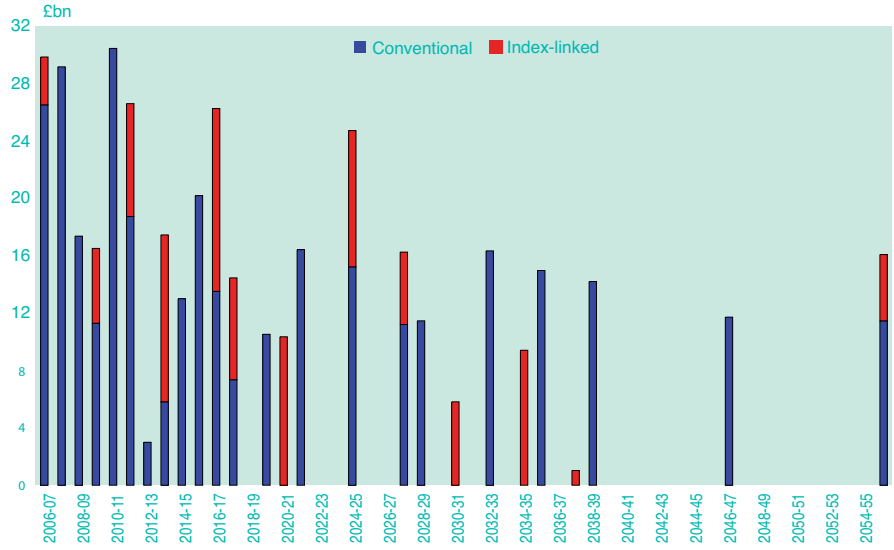
£29.85 billion of gilts in market hands redeemed in 2006-07, as detailed in Table 16.

Table 16
Gilt redemptions in 2006-07

Date	Gilt	Amount in issue (£ mn)	Government holdings (£ mn)	Redemptions to market (£ mn)
19-Jul-06	2% I-L Treasury Stock 2006	2,109	109	3,326
08-Sep-06	7¾% Treasury Stock 2006	4,064	548	3,516
15-Nov-06	9¾% Conversion Loan 2006	1	0	1
07-Dec-06	7½% Treasury Stock 2006	12,394	862	11,532
07-Mar-07	4½% Treasury Stock 2007	12,071	596	11,475
		30,639	**2,115**	**29,850**

The future profile of gilt redemptions at end-March 2007 is shown in Chart 16.

Chart 16
Gilt redemption profile at end-March 2007



Source: DMO

The Gilt portfolio

The key statistics of the gilt portfolio at end-March 2007 compared to the position at the end of the previous financial year are shown in Table 17.

Table 17
Key portfolio statistics

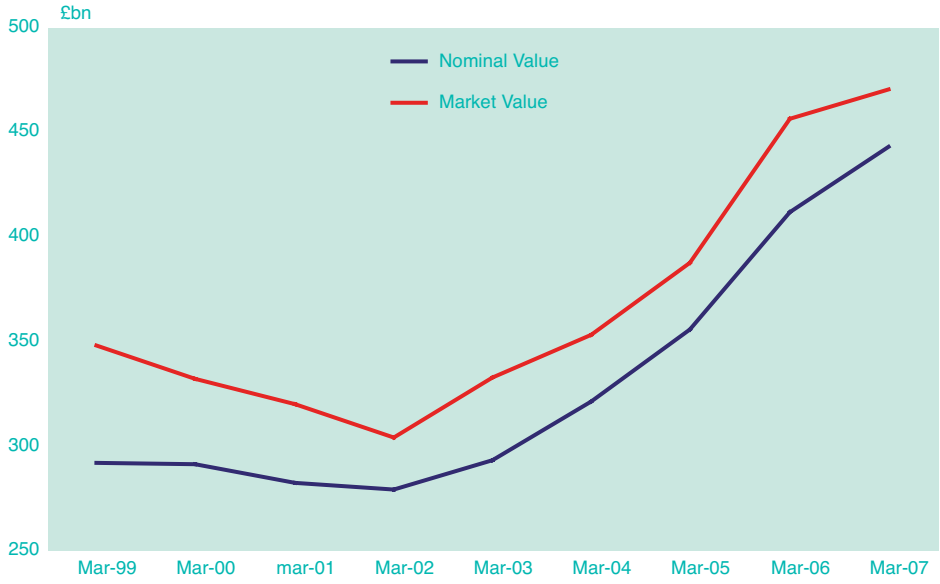
Gilt Portfolio Summary Statistics	End-March 2006	End-March 2007
Nominal value of the gilt portfolio (£):	411.57 billion	442.86 billion
Market value of the gilt portfolio (£):	456.27 billion	469.95 billion
Weighted average market yields		
conventional gilts:	4.34%	4.94%
index-linked gilts:	1.40%	1.72%
Portfolio average maturity	13.09 years	14.16 years
conventional gilts:	12.77 years	13.92 years
index-linked gilts:	13.95 years	14.77 years
Weighted average modified duration		
conventional gilts:	7.97 years	8.51 years
index-linked gilts:	11.95 years	12.10 years
Average amt outstanding of largest 20 (£):	14.46 billion	14.77 billion

The nominal value of the gilt portfolio rose by 7.6% to £442.86 billion as gross gilt issuance greatly exceeded gilt redemptions (see above). The market value of the portfolio rose by only 3.0%, however, to £469.95 billion – reflecting the fall in gilt prices over the year (evidenced by the rise in market yields).

The rise in nominal and market values of the portfolio continued the trend of the previous few financial years, reflecting the step change in levels of gilt issuance since 2002-03.

Chart 17 shows the nominal and market values of the gilt portfolio at end-March in each year since 1999.

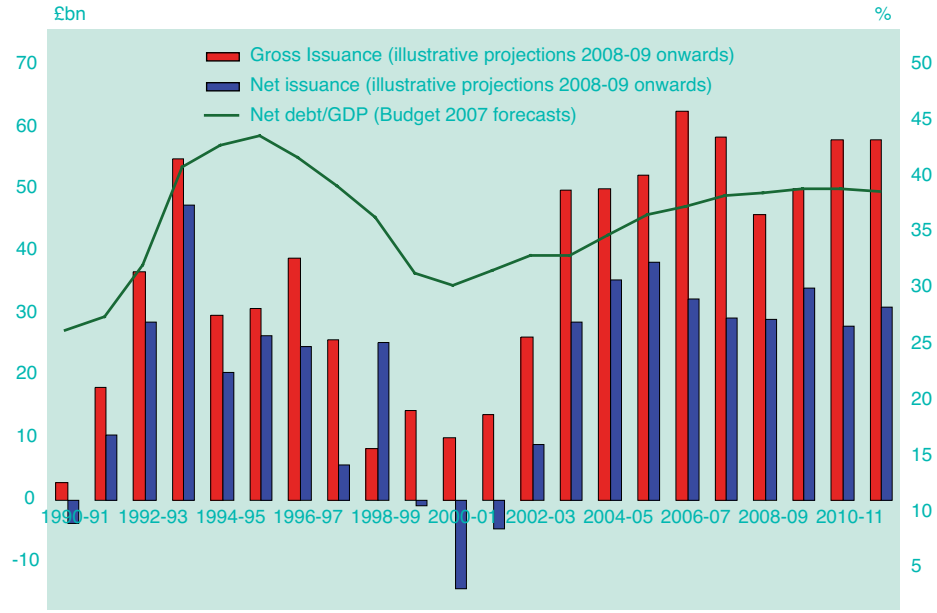
Chart 17
Nominal and market values of the gilt portfolio (to end-March 2007)



Source: DMO

On the basis of future financing projections, the trend of rising nominal values is expected to continue. Chart 18 shows past and projected gross and net gilt issuance levels (and net debt/GDP data).

Chart 18
Gross and net issuance history and projections



Source: HMT/DMO

Breakdown of the gilt portfolio by type and maturity

Table 18 and Chart 19 show the evolution of the gilt portfolio by type and maturity since March 1999. They show the steadily rising proportion of long conventional gilts (from 15% to 25% of the portfolio), and index-linked gilts, (from 21% to 27% of the gilt portfolio).

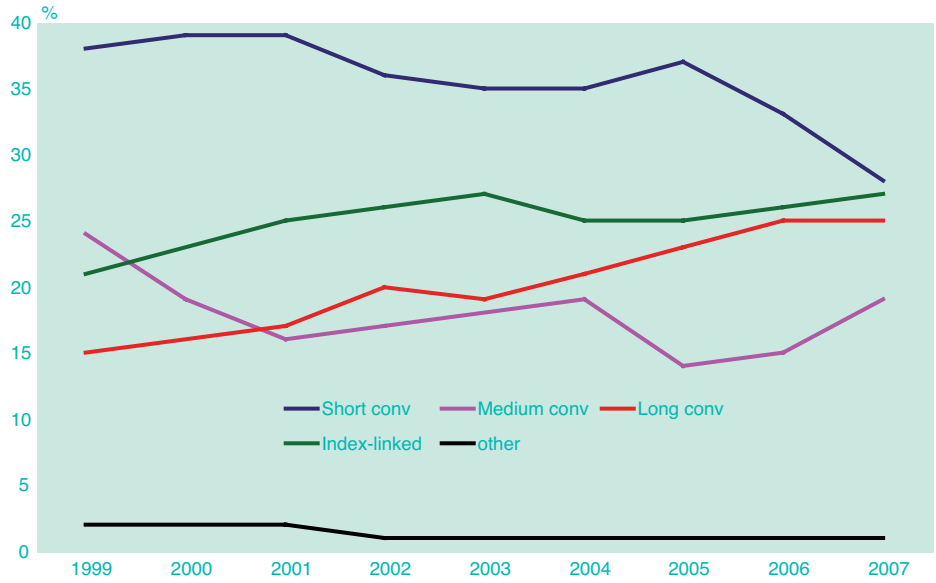
Table 18
Portfolio composition 1999-2007

At end-March	1999	2000	2001	2002	2003	2004	2005	2006	2007
Conventional									
0-3 years	16	17	17	18	16	16	20	19	14
3-7 years	22	22	22	18	19	19	17	14	14
7-15 years	24	19	16	17	18	19	14	15	19
Over 15 years	15	16	17	20	19	21	23	25	25
Total Conventional	**76**	**75**	**73**	**73**	**73**	**74**	**74**	**73**	**72**
Index-linked*	**21**	**23**	**25**	**26**	**27**	**25**	**25**	**26**	**27**
Undated	1	1	1	1	1	1	1	1	1
Floating rate	1	1	1	0	0	0	0	0	0

*including index-linked uplift
(Figures may not sum due to rounding)

Chart 19 includes both the 0-3 years and 3-7 years data within the "short conventional" category and undated and floating rate gilts in the "other" category.

Chart 19
Gilt portfolio – breakdown proportion by maturity and type



Source: DMO

F: Treasury bill tender results 2006-07

Table 19
One-month tender results

Tender date	Maturity date	Size £mn	Cover	Avg Yield (%)	Avg price (£)	Yield tail (bps)
07-Apr-2006	08-May-2006	550	6.58	4.4295	99.6614	1
13-Apr-2006	15-May-2006	550	5.48	4.4387	99.6727	0
21-Apr-2006	22-May-2006	550	6.28	4.4350	99.6609	0
28-Apr-2006	30-May-2006	550	5.25	4.4988	99.6561	0
05-May-2006	05-Jun-2006	550	7.19	4.5032	99.6557	3
12-May-2006	12-Jun-2006	550	5.05	4.5271	99.6539	0
19-May-2006	19-Jun-2006	550	5.05	4.5299	99.6537	0
26-May-2006	26-Jun-2006	550	5.65	4.5490	99.6646	0
02-Jun-2006	03-Jul-2006	550	6.99	4.5444	99.6526	1
09-Jun-2006	10-Jul-2006	550	5.24	4.5599	99.6514	0
16-Jun-2006	17-Jul-2006	550	3.51	4.5763	99.6502	0
23-Jun-2006	24-Jul-2006	550	8.34	4.5429	99.6527	1
30-Jun-2006	31-Jul-2006	550	7.98	4.5400	99.6529	0
07-Jul-2006	07-Aug-2006	550	5.25	4.5396	99.6530	0
14-Jul-2006	14-Aug-2006	550	8.95	4.5297	99.6537	0
21-Jul-2006	21-Aug-2006	550	9.74	4.5481	99.6523	0
28-Jul-2006	29-Aug-2006	150	8.37	4.5673	99.6384	0
04-Aug-2006	04-Sep-2006	550	11.02	4.7193	99.6393	0
11-Aug-2006	11-Sep-2006	150	6.84	4.7321	99.6383	1
18-Aug-2006	18-Sep-2006	550	6.89	4.7671	99.6356	0
25-Aug-2006	25-Sep-2006	550	6.91	4.7598	99.6491	0
01-Sep-2006	02-Oct-2006	550	7.37	4.7800	99.6347	0
08-Sep-2006	09-Oct-2006	1,500	4.26	4.7902	99.6339	1
15-Sep-2006	16-Oct-2006	550	7.10	4.8044	99.6328	1
22-Sep-2006	23-Oct-2006	550	7.63	4.8132	99.6321	1
29-Sep-2006	30-Oct-2006	550	9.41	4.7900	99.6339	0
06-Oct-2006	06-Nov-2006	550	7.17	4.7830	99.6344	1
13-Oct-2006	13-Nov-2006	550	5.69	4.8289	99.6309	1
20-Oct-2006	20-Nov-2006	550	6.69	4.8700	99.6278	0
27-Oct-2006	27-Nov-2006	550	6.70	4.9492	99.6218	0
03-Nov-2006	04-Dec-2006	550	4.97	4.9865	99.6189	0
10-Nov-2006	11-Dec-2006	550	5.29	5.0287	99.6157	0
17-Nov-2006	18-Dec-2006	550	4.15	5.0430	99.6146	0
24-Nov-2006	27-Dec-2006	550	7.28	5.0394	99.5875	0
01-Dec-2006	02-Jan-2007	550	3.28	5.0543	99.6000	3
08-Dec-2006	08-Jan-2007	550	4.66	5.0978	99.6105	1
15-Dec-2006	15-Jan-2007	400	3.34	5.1047	99.6099	0
29-Dec-2006	29-Jan-2007	400	6.80	5.0676	99.6265	1
05-Jan-2007	05-Feb-2007	400	6.81	5.0693	99.6126	0
12-Jan-2007	12-Feb-2007	150	7.38	5.3102	99.5943	1
19-Jan-2007	19-Feb-2007	150	8.17	5.3482	99.5914	0
26-Jan-2007	26-Feb-2007	150	7.55	5.3099	99.5943	0
02-Feb-2007	05-Mar-2007	400	6.54	5.3287	99.5929	0
09-Feb-2007	12-Mar-2007	400	5.76	5.2690	99.5974	0
16-Feb-2007	19-Mar-2007	400	4.35	5.2746	99.5970	1
23-Feb-2007	26-Mar-2007	400	4.74	5.2800	99.5966	0
02-Mar-2007	02-Apr-2007	400	5.55	5.2968	99.5953	0
09-Mar-2007	10-Apr-2007	400	7.64	5.2600	99.5838	0
16-Mar-2007	16-Apr-2007	400	5.18	5.2697	99.5974	0
23-Mar-2007	23-Apr-2007	400	7.08	5.3136	99.5940	1
30-Mar-2007	30-Apr-2007	500	6.05	5.3392	99.5921	0

Table 20
Three-month tender results

Tender date	Maturity date	Size £mn	Cover	Avg Yield (%)	Avg price (£)	Yield tail (bps)
07-Apr-2006	10-Jul-2006	1,000	5.97	4.4581	98.9007	0
13-Apr-2006	17-Jul-2006	1,000	6.71	4.4558	98.9132	0
21-Apr-2006	24-Jul-2006	1,000	5.72	4.4723	98.8973	1
28-Apr-2006	31-Jul-2006	1,000	5.52	4.4996	98.9027	0
05-May-2006	07-Aug-2006	950	6.03	4.5412	98.8805	0
12-May-2006	14-Aug-2006	950	5.59	4.5527	98.8777	0
19-May-2006	21-Aug-2006	950	5.21	4.5568	98.8767	0
26-May-2006	29-Aug-2006	950	5.51	4.5643	98.8749	1
02-Jun-2006	04-Sep-2006	950	4.90	4.5880	98.8691	1
09-Jun-2006	11-Sep-2006	950	4.31	4.5957	98.8672	1
16-Jun-2006	18-Sep-2006	950	4.43	4.6067	98.8645	1
23-Jun-2006	25-Sep-2006	950	5.46	4.5897	98.8687	2
30-Jun-2006	02-Oct-2006	950	3.41	4.5870	98.8693	1
07-Jul-2006	09-Oct-2006	950	6.18	4.5667	98.8743	1
14-Jul-2006	16-Oct-2006	950	6.11	4.5480	98.8788	1
21-Jul-2006	23-Oct-2006	950	6.52	4.5989	98.8664	1
28-Jul-2006	30-Oct-2006	950	5.65	4.6296	98.8589	1
04-Aug-2006	06-Nov-2006	950	7.61	4.7991	98.8177	0
11-Aug-2006	13-Nov-2006	950	7.86	4.7977	98.8180	0
18-Aug-2006	20-Nov-2006	550	7.78	4.8157	98.8136	0
25-Aug-2006	27-Nov-2006	500	7.63	4.8218	98.8250	1
01-Sep-2006	04-Dec-2006	500	9.35	4.8297	98.8102	1
08-Sep-2006	11-Dec-2006	500	6.86	4.8373	98.8084	1
15-Sep-2006	18-Dec-2006	950	7.62	4.8979	98.7936	1
22-Sep-2006	27-Dec-2006	950	7.83	4.9192	98.7621	1
29-Sep-2006	02-Jan-2007	950	8.16	4.9273	98.7733	1
06-Oct-2006	08-Jan-2007	1,500	5.00	4.9526	98.7803	1
13-Oct-2006	15-Jan-2007	1,500	4.33	4.9891	98.7714	1
20-Oct-2006	22-Jan-2007	1,500	8.91	5.0073	98.7670	1
27-Oct-2006	29-Jan-2007	950	6.43	5.0398	98.7591	0
03-Nov-2006	05-Feb-2007	950	8.88	5.0472	98.7573	0
10-Nov-2006	12-Feb-2007	950	7.17	5.0697	98.7518	1
17-Nov-2006	19-Feb-2007	950	6.44	5.0628	98.7535	1
24-Nov-2006	26-Feb-2007	950	8.14	5.0758	98.7503	0
01-Dec-2006	05-Mar-2007	950	4.42	5.1087	98.7424	1
08-Dec-2006	12-Mar-2007	950	6.08	5.1081	98.7425	0
15-Dec-2006	19-Mar-2007	650	4.39	5.1409	98.7345	1
29-Dec-2006	02-Apr-2007	650	6.07	5.1740	98.7403	0
05-Jan-2007	10-Apr-2007	650	7.69	5.1816	98.7108	1
12-Jan-2007	16-Apr-2007	650	6.16	5.4113	98.6688	1
19-Jan-2007	23-Apr-2007	650	6.80	5.4695	98.6547	0
26-Jan-2007	30-Apr-2007	650	7.35	5.4390	98.6621	1
02-Feb-2007	08-May-2007	650	7.89	5.4659	98.6410	0
09-Feb-2007	14-May-2007	650	7.99	5.4299	98.6643	0
16-Feb-2007	21-May-2007	650	6.87	5.3698	98.6789	1
23-Feb-2007	29-May-2007	650	6.61	5.3864	98.6605	0
02-Mar-2007	04-Jun-2007	650	5.68	5.3823	98.6759	1
09-Mar-2007	11-Jun-2007	650	7.71	5.3642	98.6803	2
16-Mar-2007	18-Jun-2007	750	6.77	5.3723	98.6783	0
23-Mar-2007	25-Jun-2007	750	8.98	5.4232	98.6660	1
30-Mar-2007	02-Jul-2007	750	6.78	5.4539	98.6585	1

Table 21
Six-month tender results

Tender date	Maturity date	Size £mn	Cover	Avg Yield (%)	Avg price (£)	Yield tail (bps)
21-Apr-2006	23-Oct-2006	850	6.39	4.4998	97.8055	2
19-May-2006	20-Nov-2006	850	5.47	4.6665	97.7261	1
16-Jun-2006	18-Dec-2006	850	4.29	4.6866	97.7165	1
14-Jul-2006	15-Jan-2007	850	6.28	4.6109	97.7525	2
11-Aug-2006	12-Feb-2007	850	8.42	4.9276	97.6019	1
08-Sep-2006	12-Mar-2007	850	6.75	4.9378	97.5970	1
06-Oct-2006	10-Apr-2007	850	6.58	5.0428	97.5341	2
03-Nov-2006	08-May-2007	850	8.14	5.1487	97.4836	0
01-Dec-2006	04-Jun-2007	850	4.48	5.1735	97.4852	1
05-Jan-2007	09-Jul-2007	700	7.80	5.2820	97.4338	1
26-Jan-2007	30-Jul-2007	700	7.50	5.5838	97.2912	1
23-Feb-2007	28-Aug-2007	700	6.73	5.5047	97.3142	1
23-Mar-2007	24-Sep-2007	700	9.51	5.5187	97.3219	1

G: Treasury bill tender performance

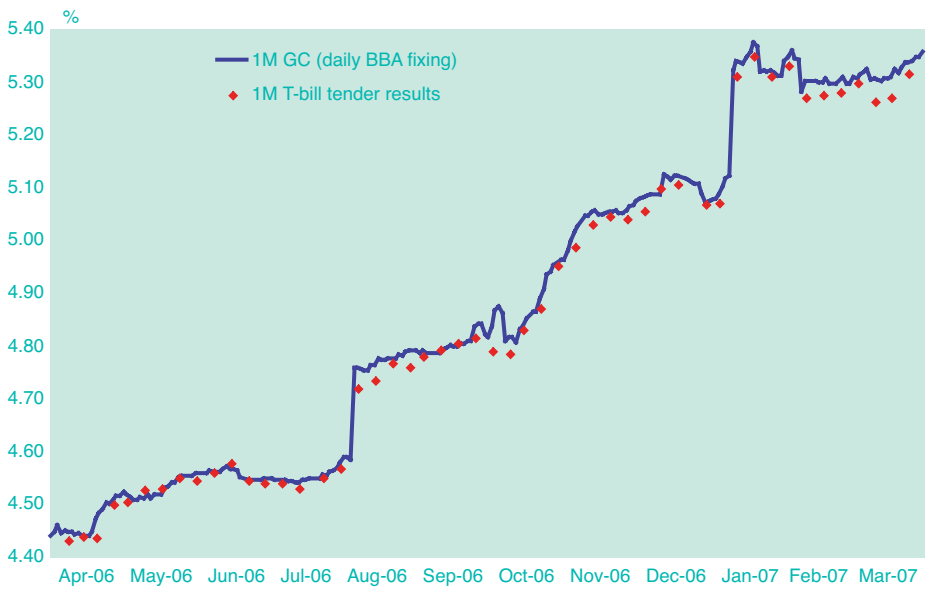
Table 22 and Charts 20-22 compare the results (in terms of the average yield) of all Treasury bill tenders in 2006-07 with the average fixing of the relevant GC repo rate on the day of the settlement of the tenders. On average over the financial year the yields at tenders of bills at all maturities out-performed the average of GC repo fixings by 0.4 to 1.1bps.

Table 22
Comparison of average tender yields with GC repo fixings

Average Treasury bill tender yields compared to average GC fixings on settlement of tenders in 2006-07

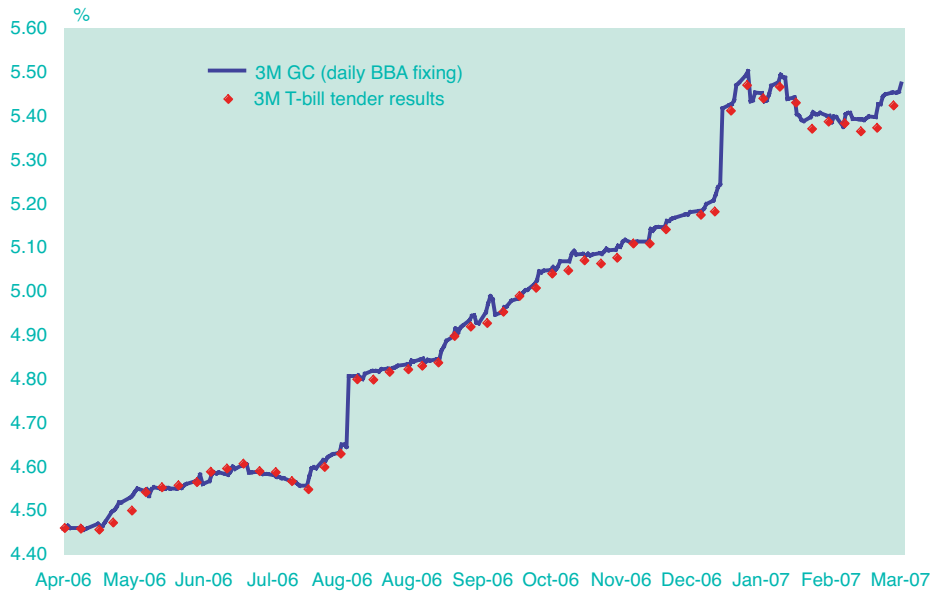
Maturity	Average tender yield (%)	Average GC repo fix (%)	Relative performance (bps)
One-month	4.852	4.863	–1.1
Three-month	4.921	4.926	–0.4
Six-month	5.045	5.054	–0.9

Chart 20
One-month tender yields vs GC repo fixings in 2006-07



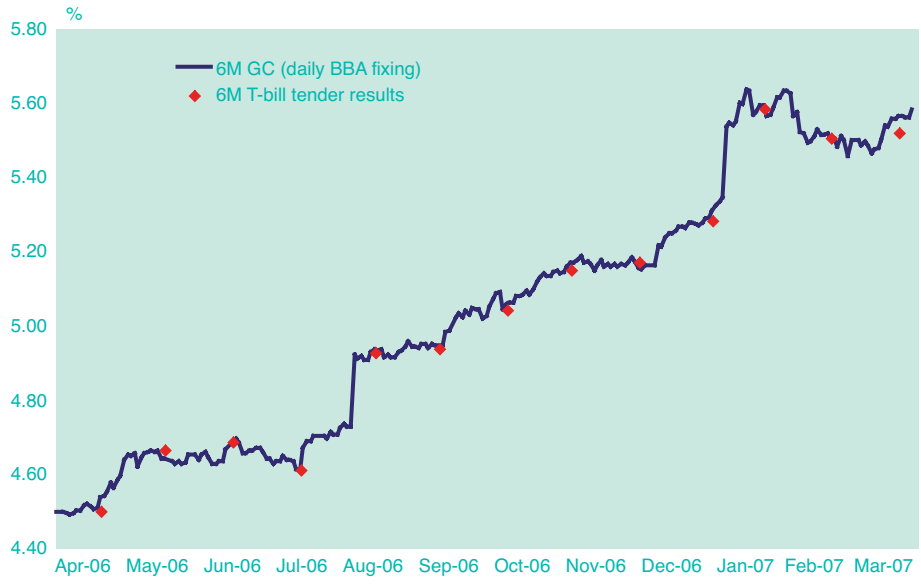
Source: DMO/BBA

Chart 21
Three-month tender yields v GC repo fixings in 2006-07



Source: DMO/BBA

Chart 22
Six-month tender yields v GC repo fixings in 2006-07



Source: DMO/BBA

H: The DMO website: www.dmo.gov.uk

In September 2006 the DMO launched its new website, consolidating its three websites (DMO, PWLB and CRND) into one. This represented the delivery of an earlier commitment to the Treasury Sub-Committee to bring the site of its main constituent business functions in to a single rationalised structure.

The new website provides users with an interactive database and reporting service and allows access to all of the DMO's publications, including:

- the DMO Annual Review, which covers the main developments across the range of the DMO's activities each 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 also for the operation of the Debt Management Account;
- Press releases, gilt and cash market announcements;
- Market consultation documents.

A wide range of current and historical data are also available including;

- gilt and Treasury bill prices and yields;
- details of gilt auction and Treasury bill tender results;
- details of the DMO's annual financing remits;
- characteristics of the gilt and Treasury bill portfolios;
- interest rates for loans from the Public Works Loan Board.

Many of the website reports give users the option for automatic downloads of data. The website also provides users with new analytical tools and calculators, enabling them to estimate the redemption payment on an index-linked gilt or the repayment cost of a fixed interest loan from the PWLB. Data accuracy and the speed of updates have been greatly improved by introducing automatic updates of data from DMO systems.

Some useful links to the DMO website

Private Investor's Guide to Gilts	www.dmo.gov.uk/documentview.aspx?docname=publications/investorsguides/pig201204.pdf
Gilt prices page	www.dmo.gov.uk/index.aspx?page=Gilts/Daily_Prices
Gilts in Issue	www.dmo.gov.uk/ceLogon.aspx?page=D1A&rptCode=D1A
Money Markets section	www.dmo.gov.uk/index.aspx?page=About/TBills
Overseas holdings data	www.dmo.gov.uk/ceLogon.aspx?page=Gilts/Overseas_Holdings&rptCode=D5N
Published cash flows	www.dmo.gov.uk/ceLogon.aspx?page=Nominal_IL&rptCode=D5I
Daily index ratios	www.dmo.gov.uk/ceLogon.aspx?page=D10C&rptCode=D10C
RPI data	www.dmo.gov.uk/ceLogon.aspx?page=D4O&rptCode=D4O
Operational Notice – Gilt Market	www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/opnot260906.pdf
Operational Notice – Cash Management (and T-bill memorandum)	www.dmo.gov.uk/documentview.aspx?docname=publications/moneymarkets/cmopnot110903.pdf
Guidebook – GEMMs	www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/guidebook180507.pdf
Debt and Reserve Management Report 2007-08	www.dmo.gov.uk/documentview.aspx?docname=remit/drmr0708.pdf
The Official Gilt Strip Facility: A paper by the Bank of England	www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/stripfalic.pdf

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