United Kingdom
Debt Management
Office

DMO Annual Review

2012-13

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

August 2013

Page No

Foreword by the DMO Chief Executive

2012-13 was the fourteenth year the DMO has been responsible for UK debt management operations. Once again we successfully delivered the Government's gilt financing programme in a challenging and volatile financial market environment, which saw gilt yields fall to record lows. The DMO raised £165.1 billion through gilt sales in 2012-13, the fifth year in succession the gilt sales programme has exceeded £140 billion, and over which period the size of the gilt market has quadrupled to some £1.2 trillion.

The DMO continued to use supplementary distribution methods, principally syndicated gilt offerings, to support the core gilt auction programme. A programme of eight syndicated gilt offerings raised £32.8 billion in 2012-13. The syndication programme ensured that large amounts of long-dated conventional and index-linked gilts could be sold effectively, as well as helping to target our core domestic investor base more directly.

A programme of four mini-tenders also raised £6.3 billion via sales of short and medium conventional gilts; 2012-13 was the first year in which all types of gilt could be sold via mini-tender. In all, the DMO held 56 gilt financing operations (including 44 auctions).

I was pleased with the efficient way in which the gilt market continued to absorb the high level of issuance. There seemed to be widespread recognition and appreciation, including from overseas investors, of increased liquidity in the gilt market. Aggregate average daily turnover in 2012-13 was £28.8 billion per day; this was an 89% increase on five years earlier.

The DMO performed strongly in 2012-13 in carrying out its cash management function. All related objectives were met, despite challenging money market conditions. The DMO also saw on-going strong demand for Treasury bills from an increasingly diverse set of investors, at the weekly tenders and also via bilateral sales. As with gilts, Treasury bills continued to attract significant overseas investor interest, with 43% of the market being held by such investors at the end of 2012-13.

During the year, total loans outstanding from the Public Works Loan Board increased by £1.6 billion to £63.5 billion. This increase included £3.2 billion of new loans.

The DMO again successfully provided a cost-effective service to its clients through the fund management operations of the Commissioners for the Reduction of the National Debt. The market value of these funds was £34.4 billion as at 31 March 2013.

During the year, the DMO also smoothly executed the final five auctions of EU Allowances for the UK's Emissions Trading System in Phase II of the Scheme. This concluded the DMO's responsibility for conducting these auctions since being appointed to this role by the Department of Energy and Climate Change in 2008.

In summary, the DMO has performed strongly this year across its range of activities and operations. It is therefore with confidence that we face the challenges of 2013-14.

Robert Stheeman
August 2013

Chapter 1: The Economy and Financial Markets

Fiscal and macroeconomic developments

Global activity in the financial year was characterised by contraction in the euro area, particularly in the peripheral countries, and slower growth in a number of emerging economies. Activity in the United States was relatively strong but fiscal tightening was seen as having the potential to drag on future growth.

In the UK, real Gross Domestic Product (GDP) was relatively volatile on a quarter-on-quarter basis during the year with the London Olympics and the Diamond Jubilee impacting usual spending and working patterns. Additionally, there were periods of significant disruption to output in the extraction and construction industries[1]. In the first three months of the financial year UK activity contracted 0.5% before rebounding strongly, growing 0.7% in Q2[2]. There was further contraction of 0.2% in Q3, and with bad weather depressing output early in Q4 there was widespread speculation that the UK could slip back into recession, but a pick-up in activity pushed growth up by 0.3%. Underlying growth for the year was broadly flat.

Consumer Prices Index (CPI) inflation remained above the Bank of England's target rate of 2.0% year-on-year (y-o-y) throughout the financial year. Starting at 3.0% the rate trended down in the first half of the year reaching a low of 2.2% in September largely as a result of relative falls in utility prices. Higher tuition fees helped to drive the rate back up to 2.7% in October and it remained at or close to that rate for the rest of the year. At the period end the rate stood at 2.8%.

The Retail Prices Index (RPI) measure of inflation, which is used to set the cash flows on index-linked gilts, started the financial year at 3.5% y-o-y, easing to 2.8% by the end of Q1 and remaining in a range between 2.6% and 3.3% for the remainder of the period finishing on 3.3% in March 2013.

Money market developments

Policy interest rates remained unchanged in the UK and US at 0.50% and 0.25% respectively in 2012-13. In the euro area, the Governing Council of the ECB cut its main policy rate by 25bps in July 2012 to 0.75%. Policy rates in the euro area remained at this level for the rest of the financial year (see Chart 1).

In the UK, the MPC announced, in July 2012, a further extension to its asset purchase programme, by £50 billion to a total of £375 billion. In addition, the Bank deployed its Extended Collateral Term Repo (ECTR) and launched the Funding for Lending Scheme (FLS). The ECTR is a contingent liquidity facility designed to mitigate risk to the financial stability arising from a market-wide shortage of short-term sterling liquidity. The FLS is designed to incentivise bank and building societies to boost lending to UK households and non-financial companies.

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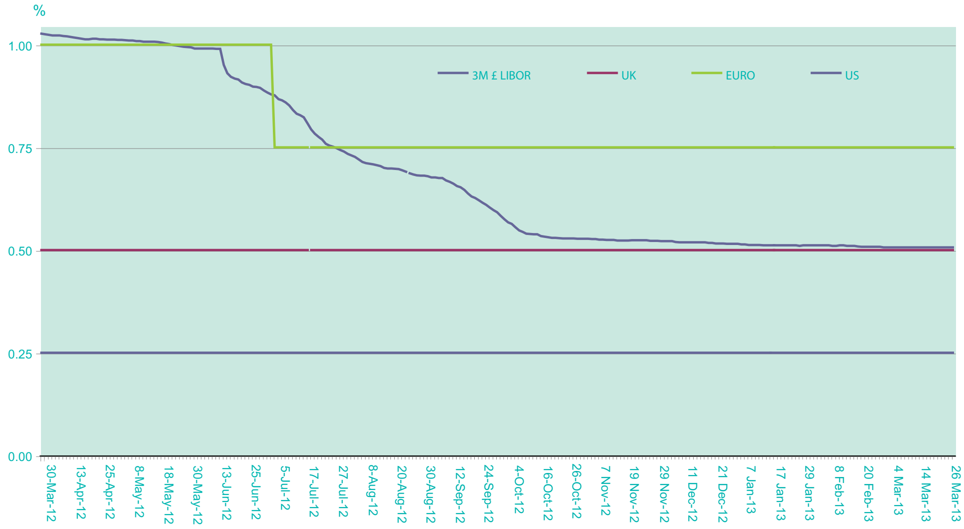
[1] Reflecting the impact of oil platform repair/maintenance and bad weather.
[2] All references are to financial year quarters.

In the euro area, the ECB announced a programme of Outright Monetary Transactions (OMT). Under the OMT the ECB would offer to purchase euro area countries' short-term bonds in the secondary market to bring down market interest rates.

In the US, the Federal Open Market Committee (FOMC) continued to indicate that economic conditions were likely to warrant exceptionally low levels for the federal funds rate until 2014. The FOMC also continued its programme of extending the average maturity of its holdings of securities and in September agreed that it would purchase additional agency Mortgage Backed Securities at a rate of $40 billion per month in additional to its existing policies of reinvesting principal payments of agency securities. The FOMC estimated that these measures taken together would increase its holdings of longer-term securities by about $85 billion each month.

Chart 1
Official interest rates and 3 month LIBOR

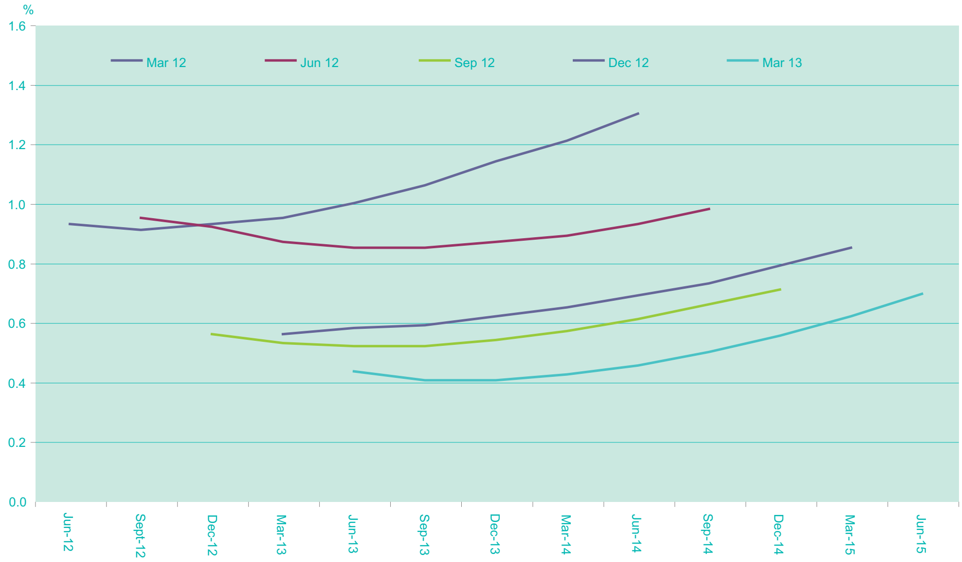


Source: Bloomberg/British Bankers' Association (BBA)

Chart 1 also shows the path of three-month Sterling LIBOR rates in 2012-13. In the UK the spread of the three-month LIBOR rate over the Bank Rate peaked at 53bps on 2 April 2012 but fell significantly to 1bps by the end of the financial year.

The changing path of future interest rate expectations over the financial year can be seen in the implied yields of short Sterling contracts shown in Chart 2. These curves show a fall interest rate expectations over the course of the year.

Chart 2
Implied curves from short Sterling contracts



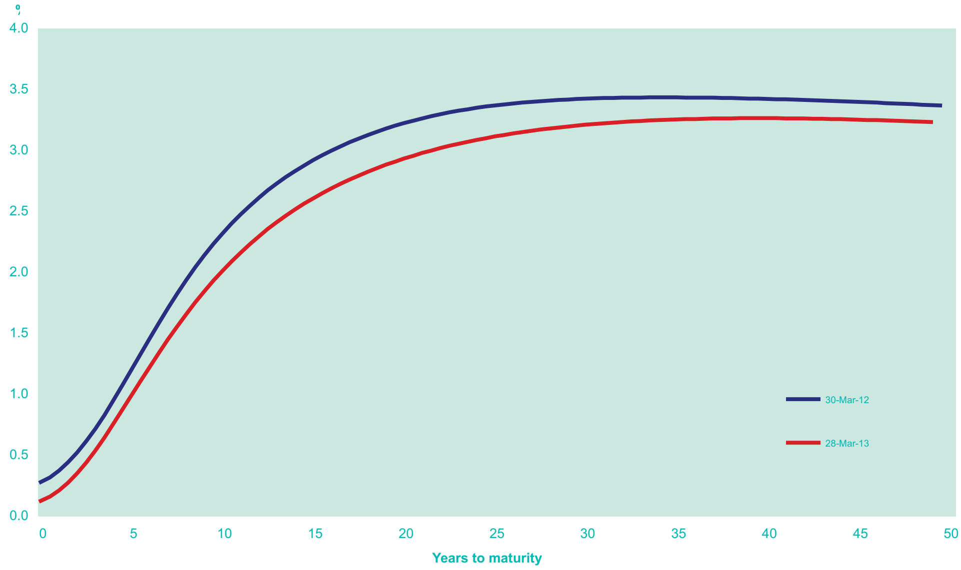
Source: Bloomberg

Gilt market developments

Par gilt yields

Nominal yields fell further in 2012-13, most notably in the 10-15 year maturity area, in a continuation of the previous year's downward trend. For the financial year as a whole, 2-year yields fell by 23 basis points to 0.20%, 5-year yields by 32 basis points to 0.74%, 10-year yields by 39 basis points to 1.83%, 30-year yields by 23 basis points to 3.18% while 50-year yields fell by 14 basis points to 3.22%. See Chart 3.

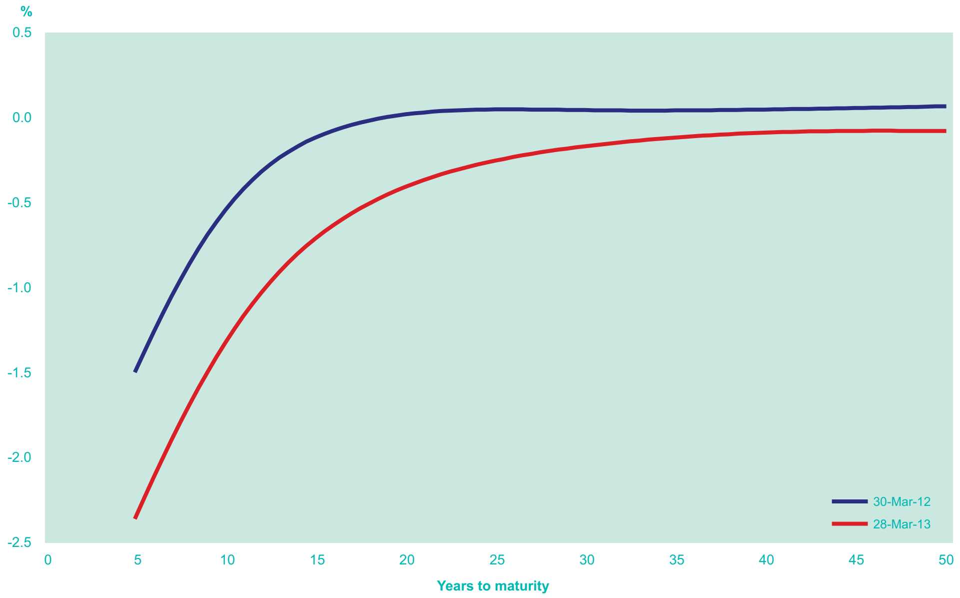
Chart 3
Nominal par yields



Source: DMO

Real yields also fell, particularly at short and medium maturities, and for long periods in 2012-13, many maturities traded at negative real yields. 10-year real par yields fell by 78 basis points to -1.33%, 30-year par yields by 21 basis points to -0.18% and 50-year yields by 15 basis points to -0.09%. See Chart 4.

Chart 4
Real par yields



Source: DMO

Conventional benchmark yields

The UK Government bond market continued to benefit from on-going flight to quality flows throughout 2012-13 on concerns about the sustainability of the fiscal and external positions of Greece and some of the euro area periphery countries, compounded by concerns about the sustainability of the global economic recovery (particularly in the first half of the financial year). The market was also supported by a slow pace of global economic recovery.

At the start of the financial year gilt yields remained at historically low levels following confirmation that with two consecutive quarters of negative growth, the UK had returned to recession[3].

By the end of the summer, market speculation had increased about both a possible rate cut by the Monetary Policy Committee (MPC) and a further extension to the asset purchase programme to provide further stimulus to the UK economy; in anticipation of the former the market began to price in the possibility of a rate cut by March 2013. By the autumn, however, the MPC minutes revealed a concern that a reduction in the Bank Rate could prove counterproductive for aggregate demand as a whole and as a consequence a further reduction in the Bank rate was seen as unlikely in the near future. The market continued, however, to speculate whether the asset purchase programme would be extended above £375 billion.

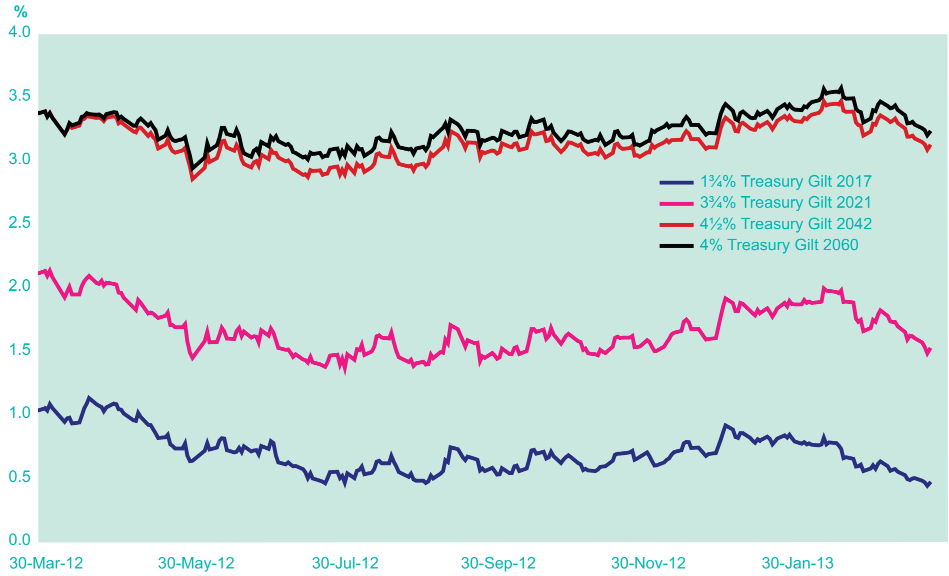
The Chancellor of the Exchequer delivered his Autumn Statement on 5 December 2012 alongside the Office for Budgetary Responsibility's (OBR's) revised fiscal forecasts; as a consequence of the reduction in the net financing requirement, planned gilt sales in 2012-13 were reduced by £0.2 billion to £164.2 billion, while planned Treasury bill sales were reduced by £15.0 billion.

Towards the final quarter of the year gilts benefitted from further flight to quality flows on market speculation that the US would go over a "fiscal cliff" before the Senate was able to approve a Budget. Although this scenario was averted, the debate then shifted to the timing of a further rise in the US debt ceiling. An announcement in December by S&P that the UK had been placed on negative outlook caused little surprise in the market and the downgrade of the UK to Aa1 from Aaa by Moody's in February also prompted little reaction, suggesting that the downgrade had already been priced in by the market. By the end of the financial year market confidence in the euro area was again fragile following the unfolding sovereign debt crisis. As a result, the flight to quality into gilts resumed and yields ended the financial year falling to new lows.

The path of benchmark conventional nominal gilt yields over 2012-13 is shown in Chart 5.

[3] Although the return to recession was subsequently shown not to be the case, following data revision.

Chart 5
Conventional benchmark nominal yields

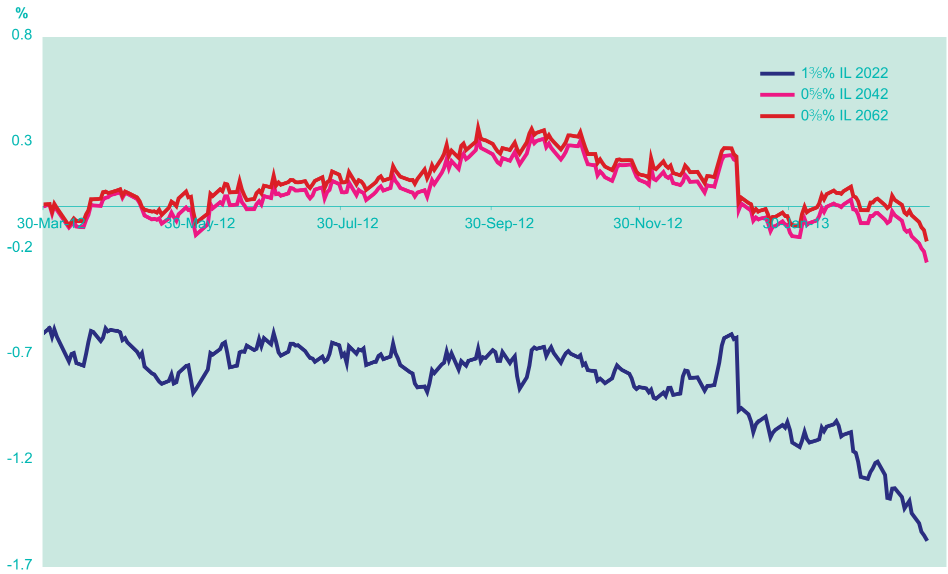


Source: DMO

Index-linked real yields

Chart 6 shows the real yield in selected benchmark index-linked gilts in 2012-13 and indicates that for the entire financial year the real yield on 1⅞% Index-linked Treasury Gilt 2022 traded at negative real yileds. Year-on-year the real yield on 1⅞% Index-linked Treasury Gilt 2022 fell by 97 basis points to -1.58%, whilst the yield on 0⅝% Index-linked Treasury Gilt 2042 fell by 25 basis points to -0.26% and that of 0⅜% Index-linked Treasury Gilt 2062 by 17 basis points to -0.17%. A key topic of concern for the UK inflation-linked market was the ONS consultation on RPI methodology which prompted increased volatility in the market. The outcome of the consultation was expected to reduce the value of RPI-linked gilt cash flows and led to index-linked market underperformance (see below). On 10 January 2013, however, the Board of the UK Statistics Authority announced that no change was to be made to the aggregated formula of the RPI, and this, alongside the Government's confirmation that it would continue to issue gilts linked to the RPI, resulted in a sharp fall in real yields.

Chart 6
Index-linked benchmark real yields

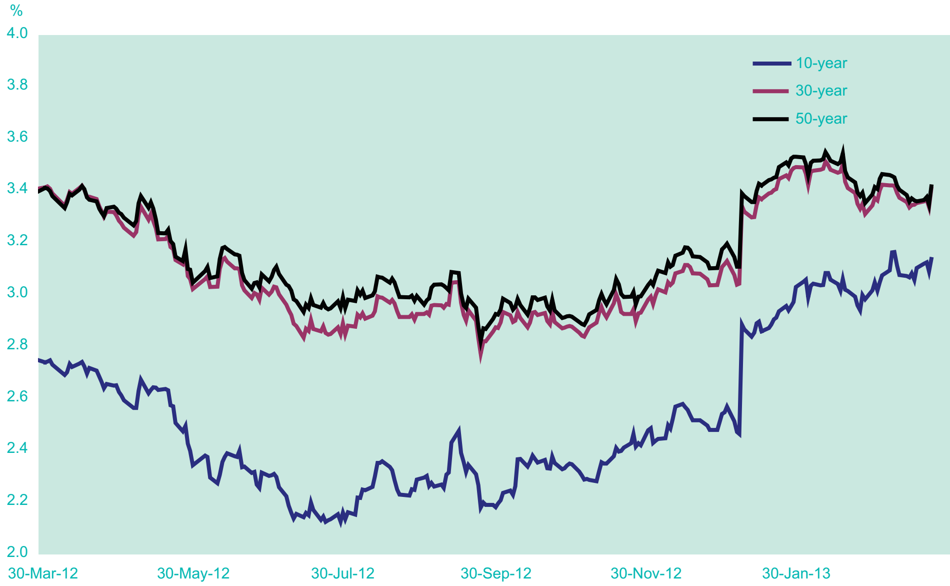


Source: DMO

Break-even inflation rates

Index-linked gilts, as measured by break-even inflation rates slightly underperformed their conventional counterparts for most of the first half of 2012-13, as shown in Chart 7. This reflected, in part, changing views about the path of inflation, uncertainty as to the outcome of the ONS review into RPI methodology and the ongoing backdrop of index-linked gilts' exclusion from the Bank of England's Asset Purchase Facility (APF) purchases. The conclusion of the review on 10 January 2013 caused index-linked gilts to rally sharply and led to a sharp rise in break-even inflation rates towards the end of the financial year - particularly for shorter-maturities.

Chart 7
10- 30- and 50-year break-even inflation rates

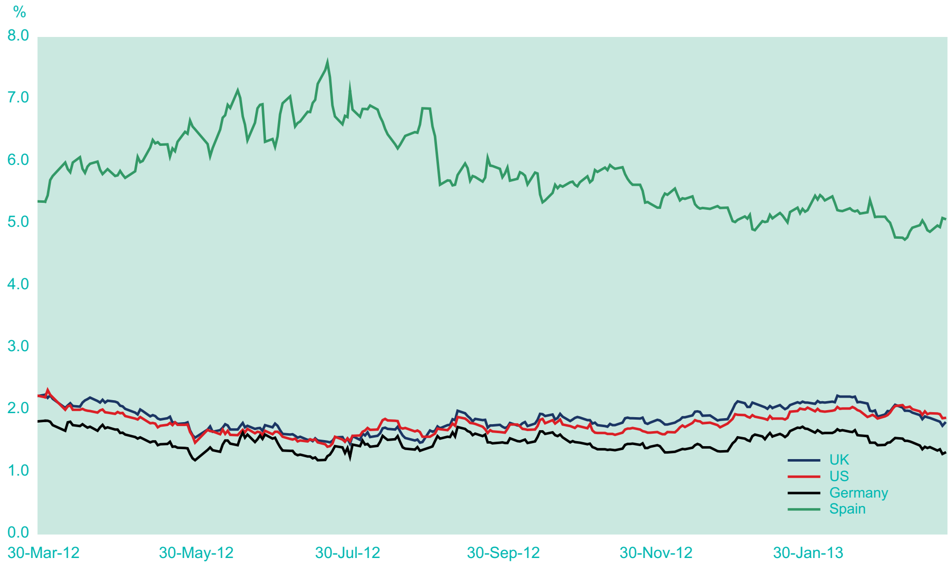


Source: DMO

International comparisons

Yields on 10-year UK, US, and German government bonds all continued to fall in 2012-13 (by 44, 36, and 51 basis points respectively), relative to the start of the financial year (see Chart 8). All three bond markets, to different degrees, experienced flight to quality flows against a backdrop of global uncertainty about the pace of economic recovery. By contrast, the yield on Spanish bonds for example rose sharply in the first third of the financial year but recovered later, in part reflecting the market's positive re-assessment of parts of the euro area following the ECB's commitment to the Outright Monetary Transactions programme. Spanish 10-year yields ended the financial year 28 basis points lower than they had started it.

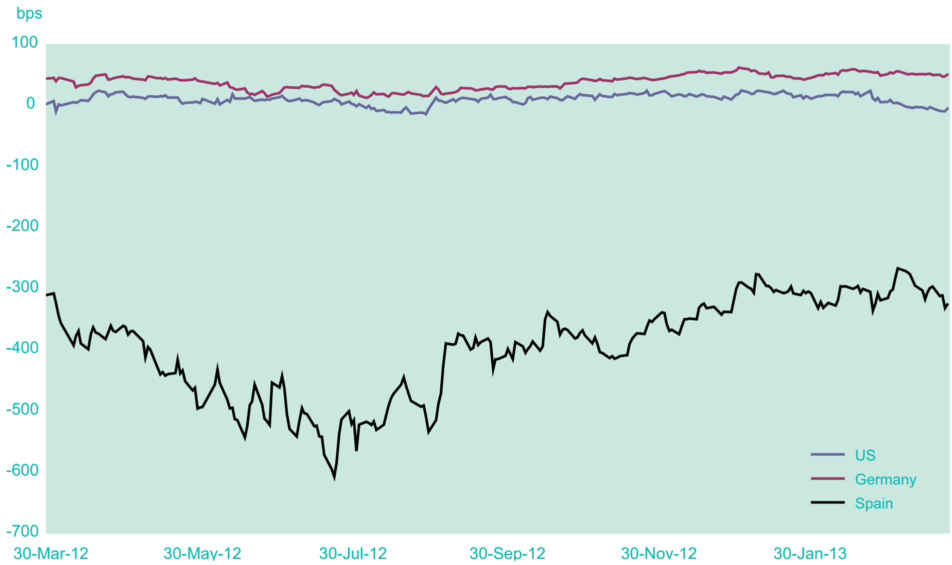
Chart 8
Selected international 10-year benchmark bond yields



Source: Bloomberg

The spread between 10-year gilt and US Treasury yields began the financial year at -0.5 basis points and then widened to +22 basis points in January before narrowing to -8 basis points at end-March 2013[4]. The 10-year spread between gilts and German government bonds (Bunds) began the financial year at +41 basis points, then narrowed over the summer to +10 basis points, widened to a peak of +60 basis points in January and then narrowed slightly to +48 basis points at end-March 2013. The 10-year spread between UK gilts and Treasuries and Bunds followed relatively similar movements over the course of the year. The 10-year spread between UK gilts and Spanish government bonds widened from -313 basis points at the start of the financial year to -610 basis points in July, reflecting heightened concerns about the Spanish economy and the prospects for parts of the euro area. By end-March 2013 the spread had narrowed to -328 basis points.

Chart 9
Spreads of 10 year gilt yields over selected international 10 year bonds



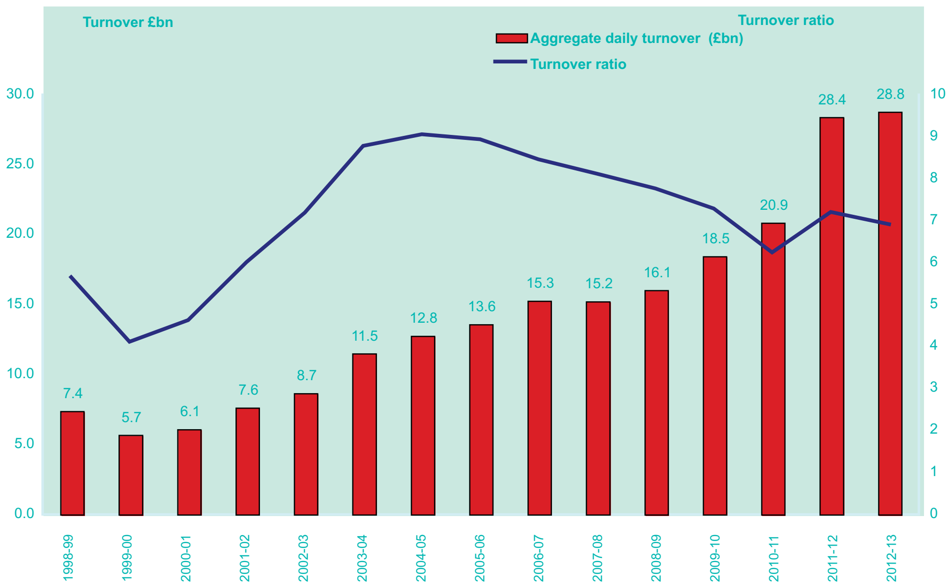
Source: Bloomberg

[5] In this section a positive spread means the yield on the gilt is higher than that on the comparator bond, a negative spread mends the gilt yield is lower.

Gilt market turnover

Aggregate daily turnover by value in the gilt market in 2012-13 increased by 0.4% compared with the previous financial year (from £28.4 billion to £28.8 billion). Trading intensity (as measured by the turnover ratio[5]) fell, however, relative to 2011-12, from 7.2 to 6.9, reflecting the significantly larger portfolio against which the ratio was calculated (see Chart 10).

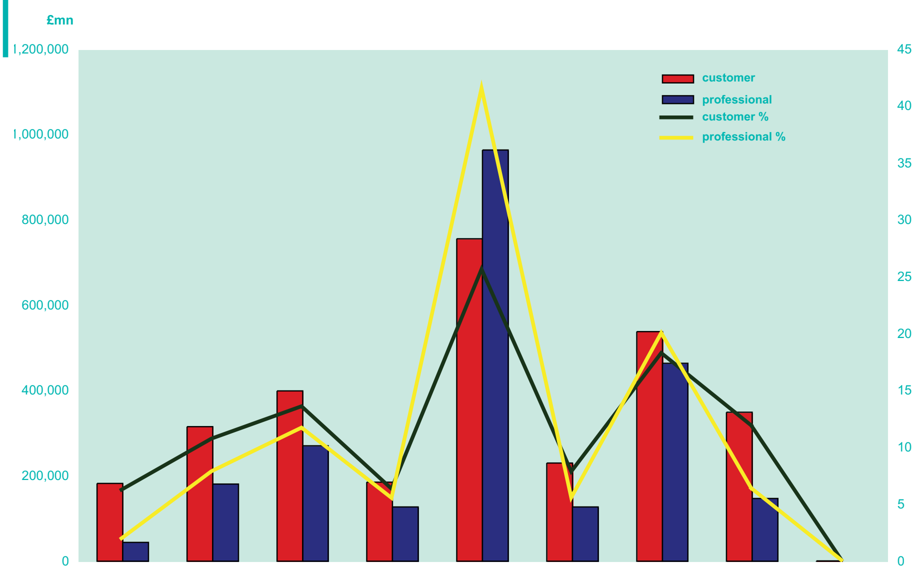
Chart 10
Gilt market turnover



Source: GEMMs

As in previous years, gilt market turnover was weighted heavily towards the 7-10 year maturity sector, with the over 15-year and the 3-5 year maturity sectors the next most actively traded parts of the curve (see Chart 11)[6].

Chart 11
Gilt market turnover by maturity and type



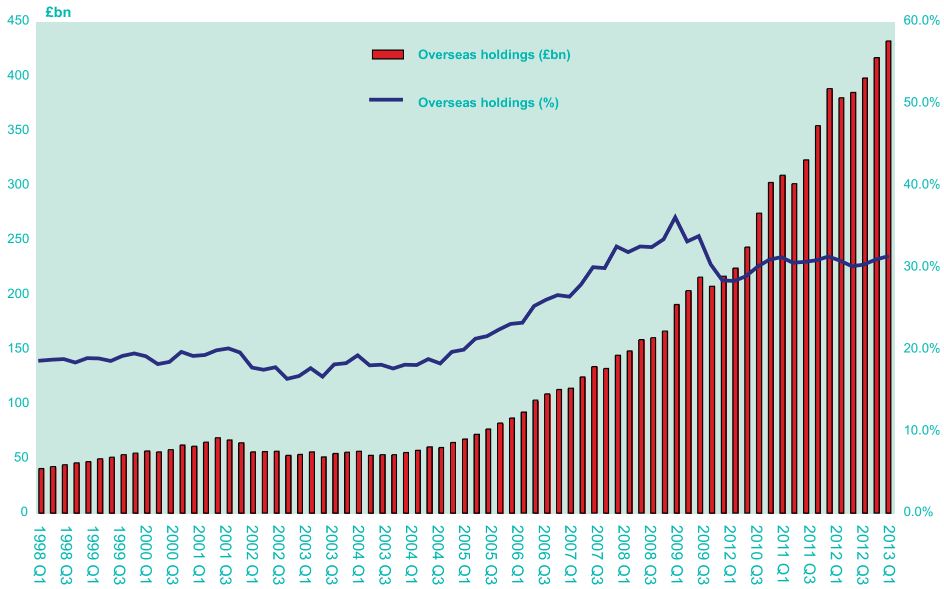
Source: GEMMs

[5] The turnover ratio for a given year is the aggregate turnover in that financial year relative to the market value of the gilt portfolio at the start of that year.
[6] Customer turnover refers to trade directly with an end investor, and professional turnover refers to trade with other official market participants including GEMMs, brokers, the DMO and the Bank of England.

Overseas holdings of gilts

Chart 12 shows the trend in overseas holdings of gilts to end-March 2013, according to data published by the Office for National Statistics (ONS). Since the end of 2003 there has been a rise (of around £368 billion) in the value of gilts held by overseas investors and in 2010 overseas investors became the largest sectoral holder of gilts, overtaking the domestic pension and insurance sectors for the first time. In 2012-13 the value of overseas holdings rose by £51.8 billion to £432.2 billion. The generally rising trend in overseas holdings has been attributed to ongoing purchases of (mainly short, but increasingly also medium and longer) gilts by central bank reserves managers, sovereign wealth funds and hedge funds.

Chart 12
Overseas holdings of gilts



Source: ONS

As a proportion of the portfolio, however, overseas holdings stabilised at around 30%, (having peaked at 35.9% at end-September 2008); overseas holdings stood at 31.2% at end-March 2013 (0.5% higher than the previous year). This reflects primarily the significant increase in the size of the gilt portfolio.

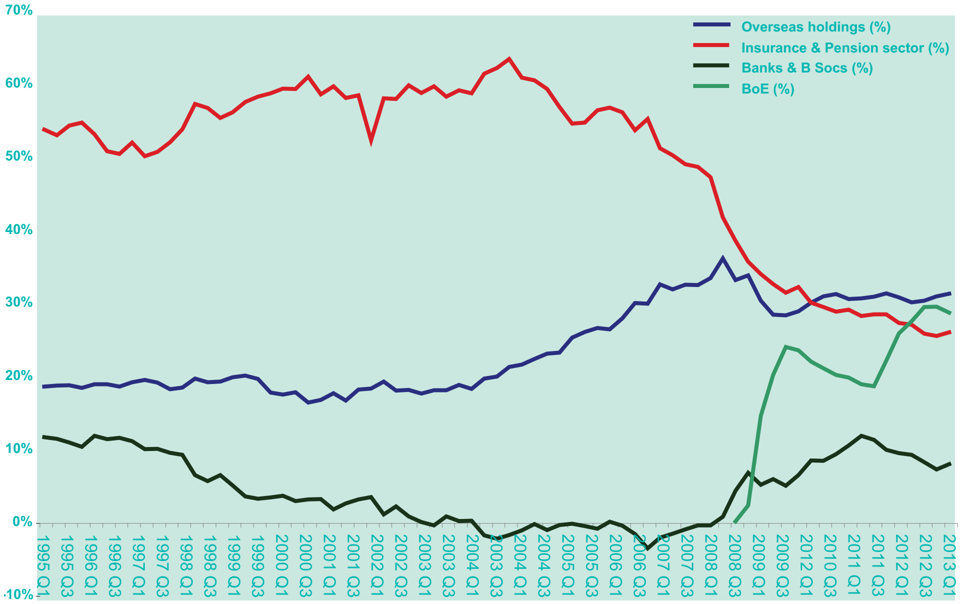
The major sectoral holders of gilts

In the final quarter of 2011-12, the Bank of England overtook the UK pension and insurance sector to become the second largest sectoral holder of gilts, reflecting the impact of a renewed programme of APF purchases. The Bank had originally purchased £200 billion worth of gilts via the APF between March 2009 and January 2010. In October 2011 the MPC decided to increase gilt purchases by a further £75 billion and in February 2012 by a further £50 billion. In July 2012 planned purchases were again increased by £50 billion, taking total planned purchases to £375 billion. The market value of the Bank's APF gilt holdings at end-March 2013 was approximately £396 billion.

Separately, the proportion of gilt holdings accounted for by the pension and insurance sector fell from 27% to 26%, continuing the downward trend since 2004 (when they had peaked at 63%). The proportionate fall disguised a growth in absolute terms by £23 billion to £359 billion reflecting the faster growth of holdings by the overseas sector and Bank of England.

The changing proportion of the gilt portfolio held by the major sectoral holders is shown in Chart 13[7].

Chart 13
Official interest rates



Source: ONS and Bank of England

[7] The negative reported position for Banks and Building Societies in the period before Q3 2008 reflected a net aggregate negative repo position.

Chapter 2: 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 objective is achieved by:

- meeting the principles of openness, transparency and predictability;
- developing a liquid and efficient gilt market;
- issuing 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; 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 needs to take 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;
- investors' demand for gilts; and

The DMO's financing remit for 2012-13

Provisional financing remit

The financing remit for 2012-13 was published alongside the Budget on 21 March 2012. The Central Government Net Cash Requirement (CGNCR) forecast for 2012-13 was £121.0 billion, and the DMO's net financing requirement was forecast to be £166.4 billion - for details of the financing arithmetic see Table 3 on page 20).

Total planned debt sales were split as follows:

- Outright gilt sales: £167.7 billion
- Net Treasury bill sales: -£1.3 billion

The gilt financing remit structure

The planned gilt sales programme of £167.7 billion, comprised:

- a core gilt sales programme of £126.7 billion in 47 auctions,
- supplementary gilt sales programmes of £41.0 billion, split as follows:
  - £33.5 billion of gilt sales via up to eight syndicated offerings; and
  - £7.5 billion of gilt sales via mini-tenders.

The planning assumption was that, as in previous years, the programme of syndicated offerings would be directed exclusively at long conventional and index-linked gilt sales. The use of mini-tenders was, however, extended to include the sale of short and medium conventional gilts, so that all types and maturities of gilts were eligible for sale via mini-tender in 2012-13.

Overall planned issuance was split as follows:

- £51.6 billion of short conventional gilt sales in 12 auctions;
- £34.9 billion of medium conventional gilt sales in 10 auctions;
- £37.6 billion of long conventional gilt sales in 11 auctions (aiming to raise £23.6 billion) and up to three syndicated offerings (aiming to raise £14.0 billion); and
- £36.1 billion of index-linked gilt sales in 12 auctions (aiming to raise £16.6 billion) and up to five syndicated offerings (aiming to raise £19.5 billion); and
- £7.5 billion by mini-tenders.

Planned gilt sales fell by £11.7 billion compared with 2011-12 and the planned split of issuance was maintained at broadly similar levels compared with the previous year. The table below shows the outturn for gilt sales in 2011-12 compared to the plans for 2012-13 at Budget 2012 (excluding any assumption about the allocation of sales via mini-tenders).

Table 1
Gilt sales 2011-12 and plans at Budget 2012 for 2012-13

	2011-2012		2012-2013	
	£bn	(%)	£bn	(%)
Short	60.6	33.8	51.6	32.2
Medium	40.1	22.4	34.9	21.8
Long	39.7	2.17	36.1	22.5
Index-linked	39.0	21.7	36.1	22.5
	179.4		**160.2**	
Unallocated (mini tenders)			7.5	
			167.7	

Short conventional issuance remained the largest single component of the plans in both absolute and proportional terms (despite falling by £9.0 billion and 1.6% respectively compared with 2011-12) while planned medium issuance was reduced by £5.2 billion or 0.6% in proportional terms. In proportional terms planned sales of both long conventional and index-linked gilts rose marginally compared to the previous year by 1.4% and 0.8% respectively. The overall small adjustments to the split of issuance reflected an assessment of the prevailing relative cost effectiveness of issuance at different parts of the yield curve within the wider overall context of achieving the debt management objective.

There were no plans to hold any switch auctions, reverse auctions, or conversion offers in 2012-13 (and none were held).

The 2012-13 remit also provided for the continuation of the post-auction option facility (PAOF), under which successful bidders (GEMMs and investors) at each auction have the option to purchase additional stock of up to 10% of the amount allocated to them at the auction within a two hour window from noon to 2.00 pm on the day of the auction.

Consultation on super-long and/or perpetual gilts

The remit announcement included a provision that the DMO would launch a consultation towards the end of the first quarter of 2012-13 on the case for extending the gilt curve - with maturities beyond those then in issue (i.e. in excess of 50 years) and also the potential issuance of perpetual gilts - see the box on page 26.

Royal Mail Pension Plan: gilt holdings

The DMO remit announcement also included reference to the Government's plans to transfer the assets (including around £11 billion of gilts) of the Royal Mail Pension Plan (RMPP) into the public sector in April 2012. The Government stated its intention to cancel these gilts in 2012-13 and to consult the market on the appropriate timing thereof - see the box on page 28.

In-year revisions to the remit

There are two main events which may trigger revisions to the remit in any financial year:

- the publication, usually in the third week of April, of an outturn CGNCR for the previous financial year if the outturn differs from the forecast published in the Budget; and/or

- the publication, in the Autumn Statement (usually in the November-December period), of a different forecast financing requirement for the prevailing financial year.

Outturn of the 2011-12 CGNCR: 24 April 2012

On 24 April 2012 the outturn CGNCR for 2011-12 was published. At £126.4 billion it was £3.5 billion lower than the forecast in the March 2012 Budget. In addition, the outturn for the sale of Treasury bills via the DMO's bilateral facility was £0.6 billion higher than the forecast in the March Budget.

Overall, the DMO's forecast net financing requirement for 2012-13 fell by £3.9 billion[8] compared with the position at the March Budget and the financing remit was revised as follows:

- o **short conventional** sales at auctions were reduced by £1.2 billion to £50.4 billion;
- o **medium conventional** sales at auctions were reduced by £0.4 billion to £34.5 billion;
- o **long conventional** sales were reduced by £0.4 billion to £37.2 billion, with planned sales at auctions rising by £0.1 billion to £23.7 billion and sales via syndication falling by £0.5 billion to £13.5 billion;
- o **index-linked** sales were reduced by £0.8 billion to £35.3 billion, with sales at auctions falling by £0.3 billion to £16.3 billion and sales via syndication falling by £0.5 billion to £19.0 billion; and
- o the size of the **mini-tender** programme was reduced by £0.5 billion to £7.0 billion.

- Planned Treasury bill sales were reduced by £0.6 billion (resulting in a revised planned stock change of -£1.9 billion) and implying an anticipated stock of £68.5 billion by end-March 2013.

Autumn Statement 2012

The Economic and Fiscal Outlook 2012 was published on 5 December 2012 by the OBR, and included new forecasts for the public finances, including the CGNCR. Alongside this, HM Treasury published the Autumn Statement (AS) 2012 which included the consequent revision to the DMO's financing remit.

The DMO's net financing requirement for 2012-13 fell by £15.2 billion at the AS 2012 remit revision. The main factors contributing to the change were:

- a reduction of £17.5 billion (to £103.5 billion[9]) in the forecast CGNCR for 2012-13; (this principally reflected the expected receipt of £11.5 billion of coupon payments from the Bank of England's Asset Purchase Facility in 2012-13 and expected receipts of £3.5 billion from the sale of the 4G Spectrum licences); and
- a reduction of £2.0 billion (to -£2.0 billion) in the forecast contribution to financing from National Savings & Investments.

The £15.2 billion reduction in the net financing requirement was met by:

- a reduction of £15.0 billion in net Treasury bill sales, taking the planned stock at end-March 2012 to £53.5 billion; and
- a reduction of £0.2 billion to £164.2 billion in planned gilt sales, taken off mini-tenders and reducing the size of that programme to £6.3 billion.

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[8] Also reflecting a £0.3 billion downward adjustment to the net contribution to financing from National Savings & Investments (NS&I). Figures may not sum due to rounding.
[9] Including an adjustment of -£2.6bn arising from the re-classification of Northern Rock (Asset Management) and Bradford and Bingley to Central Government.

Accommodating most of the change in the net financing requirement with a reduction in net Treasury bill sales protected the gilt sales programme from a significant in-year reduction. An adjustment was also made to the structure, but not the size, of the long conventional sales programme with £0.75 billion of planned sales switched from the syndication programme to the auction programme. The rationale for the switch was to support the remaining long conventional auctions, the average sizes of which in the post AS period would have been only £1.45 billion (cash) without such a change.

In accordance with the operational rule for the PAOF, the average required sizes of gilt auctions were adjusted at the AS 2012 remit revision to accommodate the proceeds from the PAOF in the period before the AS. This resulted in significant reductions in required auction sizes.

PAOF proceeds in the pre-AS 2012 period totalled £5.68 billion, split as shown below:

- Short conventional £1.73 billion
- Medium conventional £2.25 billion
- Long conventional £1.08 billion
- Index-linked £0.62 billion

In addition a forward looking adjustment was made in accordance with the provisions of the remit, which specified that: "the DMO will assume that proceeds from the PAOF up to that point (i.e. AS) will continue to accrue for the remainder of the financial year at the same rate per type and maturity of gilt".

Based on the pre-AS rate of take up of PAOF at AS 2012, the sums below were also deducted from the target sums used to calculate average auction sizes:

- Short conventional £0.56 billion
- Medium conventional £0.68 billion
- Long conventional £0.20 billion
- Index-linked £0.26 billion

Table 2 below shows the impact of the PAOF on average auction sizes before and after the increase in auction targets.

Table 2
Adjustment to required average auction sizes at AS 2013

Gilt	April Revision	Pre AS 2011	Post AS 2011
Short	4.58	4.63	3.89
Medium	3.45	3.42	2.44
Long	2.16	2.07	1.80
Index-linked	1.36	1.35	1.13

Budget March 2013

The Debt and reserves management report (DRMR) 2013-14 published on 20 March 2013 alongside the Budget included a new forecast for the 2012-13 CGNCR of £102.4 billion[10], a reduction of £1.1 billion since the AS 2012. The revised net financing requirement for 2012-13 was £144.9 billion (a reduction of £2.4 billion relative to AS 2012).

The other main changes (since the AS 2012) impacting on financing were:

- a net increase in Treasury the bill stock of £2.6 billion[11] (increasing the forecast end-March 2013 stock from £53.5 billion to £56.1 billion);
- gilt sales which were estimated to be £0.6 billion higher than planned at £164.8 billion (largely because of higher than anticipated sales of short and medium conventional gilts); and
- an increased contribution of £1.2 billion in the forecast net contribution to financing by NS&I (from -£2.0 billion to -£0.8 billion).

The combination of these factors led to a forecast net cash position for the DMO at end-March 2013 of £6.1 billion relative to a planned net cash position of £0.5 billion. As usual in these circumstances, it was planned that the additional cash position would be run down in 2013-14 (reducing the financing requirement in that year by £5.6 billion).

Outturn CGNCR for 2012-13 and the financing outturn

An outturn CGNCR for 2012-13 was published on 22 April 2013 and, at £109.5 billion[12], it was £7.1 billion higher than the forecast at the March Budget. This increase was offset, however, by:

- the outturn for Treasury bill sales in 2012-13 which was £1.1 billion higher than forecast at Budget 2013 as a result of additional bills sold via the bilateral facility (as a result of this the outturn Treasury bill stock at 31 March 2013 was £57.2 billion compared to the Budget 2013 forecast of £56.1 billion);
- the outturn for gilt sales in 2012-13, which at £165.1 billion was £0.3 billion higher than forecast at Budget 2013; and
- an updated provisional outturn for the net contribution to financing by NS&I which at -£0.8 billion was £0.1 billion higher than forecast at Budget 2013.

As a result of these developments the DMO net cash position at end-March 2013 was £0.5 billion, £5.6 billion lower than forecast at Budget 2013 and in line with plan; there was, therefore, no short-term financing adjustment to be carried forward to the financing arithmetic in 2013-14.

The developments in the 2012-13 financing arithmetic over the course of the financial year are shown in Table 3.

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[10] Including the adjustment for the reclassification of Northern Rock (Asset Management) and Bradford & Bingley.
[11] As a result of Treasury bill sales via the DMO's bilateral facility.
[12] Including the adjustment for the reclassification of Northern Rock (Asset Management) and Bradford & Bingley.

Table 3
Financing arithmetic updates throughout 2012-13

(£ billion)	Budget 2012	Apr 2012	AS 2012	Budget 2013	Outturn*
CGNCR	121.0	121.0	106.1	105.1	112.2
Adjustment for NRAM and B&B*			-2.6	-2.7	-2.7
Redemptions	52.9	52.9	52.9	52.9	52.9
Financing for reserves	6.0	6.0	6.0	6.0	6.0
Buy-backs	0.0	0.0	0.0	0.0	0.0
Planned short-term financing adjustment[1]	-13.6	-17.4	-17.2	-17.2	-17.2
Gross Financing Requirement	166.4	162.5	145.3	144.1	151.3
Less					
NS&I	0.0	0.0	-2.0	-0.8	-0.7
Net Financing Requirement	**166.4**	**162.5**	**147.3**	**144.9**	**151.9**
Financed by					
1. Debt issuance by the DMO					
a) T-bills	-1.3	-1.9	-16.9	-14.4	-13.2
b) Gilt sales	167.7	164.4	164.2	164.8	165.1
Short conventionals	51.6	50.4	50.4	50.8	50.8
Medium conventionals	34.9	34.5	34.5	34.7	34.7
Long conventional	37.6	37.2	37.2	37.5	37.5
Index-linked	36.1	35.3	35.3	35.9	35.9
Mini-tenders	7.5	7.0	6.3	6.0 6.3	
2. Other planned change in short term debt[2]					
Ways and Means	0.0	0.0	0.0	0.0	0.0
3. Change in short term cash position[3]	0.0	0.0	0.0	5.6	0.2
Total financing	**166.4**	**162.5**	**147.3**	**150.5**	**151.9**
Short-term debt levels at end of financial year					
T-bill stock (in market hands)	68.5	68.5	53.5	56.1	57.2
Ways and Means	0.4	0.4	0.4	0.4	0.4
DMO net cash position	0.5	0.5	0.5	6.1	0.5

**Reflecting the reclassification of Northern Rock Asset Management and Bradford & Bingley to Central Government.*

Figures may not sum due to rounding

1. To accommodate changes to the stated year's financing requirement resulting from: (i) publication of the previous year's CGNCR outturn, (ii) an increase in the DMO's cash position at the Bank of England, and/or (iii) carry over of unanticipated changes to the cash position from the previous year.

2. Total planned changes to short-term debt are the sum of (i) the planned short-term financing adjustment, (ii) net Treasury bill sales, and (iii) changes to the level of the Ways and Means Advance.

3. The change in the short-term cash position for 2012-13 (and the level of the net short term cash position at the end of the financial year) reflects changes to the public finance forecasts, any changes to financing from NS&I and Treasury bills (including those sold direct to counterparties separately from weekly tenders). It will also reflect any variances between the gilt sales outturn and plans. In addition, the change will include any impact on financing arising from other activities carried out within Government (e.g. issuance of tax instruments, transfers between central government and other sectors, and foreign exchange transactions). A positive (negative) number here indicates a reduction in (increase in) the financing requirement for the following financial year.

The DMO's gilt financing operations in 2012-13

The DMO issued six new gilts in 2012-13, three each of conventional and index-linked gilts, as detailed in Table 4. Three were launched by syndication - the 2044 and 2052 maturity index-linked gilts and the 2044 maturity conventional gilt, while the others were launched by auction.

Table 4
New gilts issued in 2012-13

Gilt	First issued
1¾% Treasury Gilt 2022	22-Jun-12
0⅛% index-linked Treasury Gilt 2044	25-Jul-12
0¼% Index-linked TreasuryGilt 2052	26-Sep-12
0⅛% index-linked Treasury Gilt 2024	12-Oct-12
3¼% Treasury Gilt 2044	24-Oct-12
1¼% Treasury Gilt 2018	15-Feb-13

Implementing the 2012-13 remit

a) Auctions

As usual, auctions comprised the core of the DMO's gilt sales programme in 2012-13 and, together with associated proceeds from the PAOF, accounted for 76.3% of gilt sales.

Auction dates for the financial year as a whole are usually announced before the start of each financial year, but the choice of gilts to be sold on each date is made following the regular quarterly cycle of consultation meetings with representatives of the GEMMs and investors. In 2012-13 these meetings again also considered the interaction between gilts to be issued at auctions and those at syndicated offerings – see below.

The consultation meetings were held in March 2012 (to discuss issuance in April-June), May 2012 (to discuss issuance in July-September), August 2012 (to discuss issuance in October-December) and December 2012 (to discuss issuance in January-March 2013). Ahead of the meetings, the DMO published on its wire service screens and website an agenda to steer the discussion. On the morning after each meeting, summary minutes were published describing the main areas of discussion. The calendars, which specify the particular bonds to be sold at each auction date together with advance notice of some of the details of forthcoming syndicated offerings, were published on the last business days of March, May, and August, and on 14 December respectively[13].

44 gilt auctions were held: 11 of short conventional gilts, 10 of medium conventional gilts, 11 of long conventional gilts and 12 of index-linked gilts. The results of gilt auctions are available on the DMO's website at:
http://www.dmo.gov.uk/ceLogon.aspx?page=Auction_Results&rptCode=D2.1A

The average cover ratio at gilt auctions in 2012-13 was 1.86, marginally up on an average of 1.83 in 2011-12, and the concentration of bidding at conventional gilt auctions, as measured by the tail[14], was also marginally tighter at 0.4 basis points, compared with 0.6 basis points in the previous year (see Table 4).

[13] The Q4 calendar announcement was delayed (from end November) because of the scheduling of the Autumn Statement 2012 on 5 December 2012.
[14] The tail is the difference in basis points between the yield at the average and lowest accepted prices at multiple price auctions.

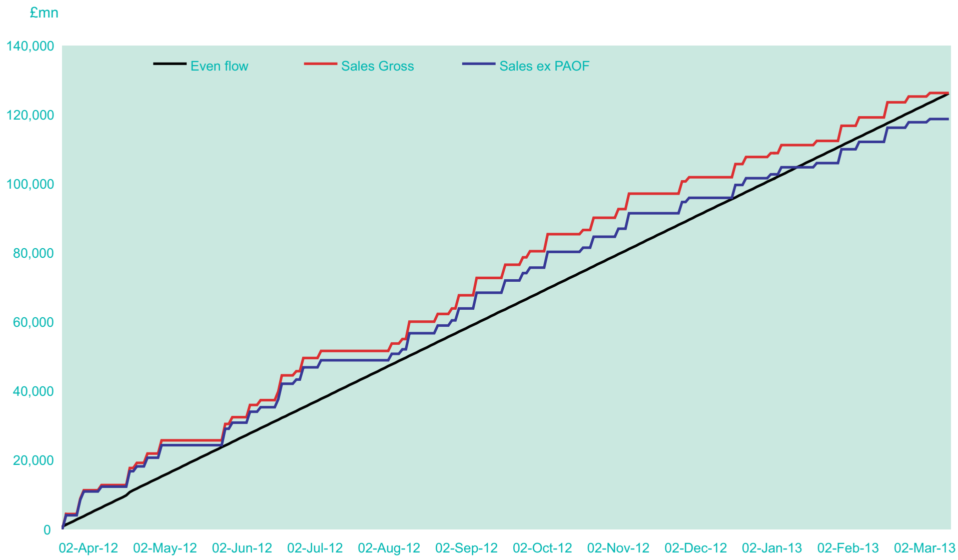
Table 5
Auction cover and tail 2011-12 and 2012-13

	2012-13		2011-12	
	Cover	**Tail (bps)**	**Cover**	**Tail (bps)**
Short conventional	1.64	0.5	1.68	0.8
Medium conventional	2.03	0.2	1.81	0.6
Long conventional	1.81	0.4	1.85	0.4
Index-linked	1.97	na	1.95	na
Average	**1.86**	**0.4**	**1.83**	**0.6**

Gilt auction proceeds were received on a broadly even-flow basis throughout the year as illustrated in Chart 14, which shows cumulative proceeds including and excluding proceeds from the PAOF.

Chart 14 also shows the impact of the downward adjustment to auction sizes at the AS at which point previously accumulated PAOF proceeds were factored into the auction sizing calculations along with anticipated future PAOF proceeds. Consequently, auction sizes were smaller later in the financial year, which meant that the contribution made by auctions alone to meeting the overall target slipped below the even-flow pace. Relative to the target sales of £125.7 billion the DMO raised £126.0 billion from the combination of auctions (£118.4 billion) and PAOF (£7.5 billion): i.e. the target was exceeded by £0.3 billion (0.2%).

Chart 14
Gilt auction evenflow



Source: DMO

b) Syndicated Offerings

Given the ongoing elevated financing requirement of recent years in 2012-13 the DMO used syndicated offerings for the fourth year in succession as an integral part of the remit, to supplement auctions and facilitate the primary gilt distribution process. In particular, syndicated offerings again enabled the Government to issue more long conventional and index-linked gilts than it judged would have been possible via the auction process alone.

The DMO announced in its remit announcement alongside Budget 2012 that (as in 2011-12) it planned to raise finance via the syndication programme in a broadly even-flow basis throughout the year. However, the remit allowed the DMO to vary the size of each sale to take account of the market and demands conditions at the time, but to maintain a degree of predictability in relation to sizing the remit constrained such discretion to +/- £1 billion (cash) around the prevailing average size[15].

The DMO also announced a planning assumption that it would hold eight syndications in the financial year, i.e. two each quarter. Given the split of planned sales (£14.0 billion long conventional and £19.5 billion index-linked), the planning assumption was that there would be three long conventional and five index-linked syndications in the financial year.

An outline pattern for the approximate timing of syndications and the scheduling of gilt sales by type in the quarter ahead was discussed at the quarterly consultation meetings in 2012-13 and planning assumptions about the syndication programme were published in the quarterly operations calendar announcements. A greater level of precision was typically given in the announcement about the type and maturity of those sales by syndication planned closest to the date of the calendar announcement. Around two weeks in advance of the anticipated operation, a series of further DMO announcements began, including the appointment of the syndicate and the maturity of the bond to be sold.

In total, £32.8 billion was raised through eight syndicated offerings in 2012-13 (£0.3 billion more than originally planned), all of long conventional and index-linked gilts.

Two new index-linked gilts (the 2044 and 2052 maturities) and a new long conventional gilt maturing in 2044 were launched by syndication in 2012-13. The other sales were re-openings of gilts that had previously been issued by syndication. The results of the syndication programme in 2012-13 are summarised in Table 6.

Table 6
Syndicated gilt offerings in 2012-13

Date	Gilt	Size £mn (nominal)	Issue Price (£)	Issue Yield (%)	Proceeds (£mn)
24 Apr 2012	3¾% Treasury Gilt 2052	4,750	106.587	3.446	5,053
29 May 2012	0⅜% IL Treasury Gilt 2062	4,000	116.520	0.040	4,750
24 Jul 2012	0⅛% IL Treasury Gilt 2044	4,000	100.311	0.115	4,004
25 Sep 2012	0¼% IL Treasury Gilt 2052	4,000	96.062	0.357	3,833
23 Oct 2012	3¼% Treasury Gilt 2044	4,250	99.594	3.271	4,225
22 Nov 2012	0⅛% IL Treasury Gilt 2044	3,250	93.874	0.331	3,064
29 Jan 2013	3¼% Treasury Gilt 2044	4,000	96.795	3.4185	3,865
26 Feb 2013	0¼% IL Treasury Gilt 2052	3,750	105.312	0.111	4,018

Source: DMO

As in the previous financial years, strong domestic order books were a feature throughout the 2012-13 syndication programme, with the domestic investor base taking an average of 90% of each sale. Domestic investor orders largely comprised asset managers, pension funds and insurance companies, reflecting their structural demand for liability-matching long-dated fixed income assets. The proportion of overseas allocations, at around 10% was, however, almost double that of the previous financial year.

[15] In the event that proceeds from syndications varied from plan, the mini-tender programme was designed to act as a buffer, with the size of that programme capable of being reduced if syndication sales were higher than planned or increased if syndication sales fell short of plan. In addition, in the event that the balance of sales required to meet either of the long conventional or index-linked syndication targets was deemed too small to permit a viably sized final offer, the size of each of those sales programmes could be increased by up to 10%.

c) Mini-tenders

The DMO enhanced the extent to which the mini-tender programme could be responsive to market demand in year by extending their use to include all maturities and type of gilts in 2012-13 (previously their use had been confined to long conventional and index-linked gilts only).

Mini-tenders had originally been introduced in 2008-09 to target pockets of demand in specific (long conventional and index-linked) gilts as they emerged in-year. However, over the successive financial years the mini-tender programme came to be used more as a support to the syndication programme, with the size of the mini-tender programme being varied to accommodate unexpected variances in syndication proceeds. In practice, syndication proceeds tended to err on the high side and the size of mini-tender programmes were reduced.

Currently the remit provides that mini-tenders are scheduled to take place depending on market demand and the progress of the syndication programme and with the DMO required to re-state the prevailing planning assumption of the respective sizes of the syndication and mini-tender programmes after each syndicated offer.

The initial planned size of the mini-tender programme in 2012-13 was £7.5 billion; this was reduced to £7.0 billion at the remit revision on 24 April 2012. Following the £4.0 billion syndication of 0⅜% Index-linked Treasury Gilt 2062 on 29 May 2013, which was increased in size in response to the scale and quality of demand received, planned sales of the index-linked gilts via syndication were increased by £0.5 billion and the size of the mini-tender programme was reduced to £6.5 billion.

The size of the programme was reduced to £6.3 billion at the remit revision at the Autumn Statement 2012 and again to £6.0 billion on 29 January 2013 following a larger than anticipated syndication of 3¼% 2044.

Four mini-tenders were held in 2012-13, raising £6.3 billion - as shown in Table 7. Three were of ultra-short gilts, with the final mini-tender being for a medium maturity.

Table 7
Gilt mini-tenders in 2012-13

Date	Gilt Name	£mn nominal	£mn cash
17-May-12	5% Treasury Stock 2014	1,500	1,660
09-Aug-12	5% Treasury Stock 2014	1,500	1,650
30-Oct-12	4¾% Treasury Stock 2015	1,500	1,688
26-Mar-13	5% Treasury Gilt 2025	1,000	1,304
			6,302

Gilt sales outturn for 2012-13

The outturn for gilt sales versus the different remit targets in 2012-13 is shown in Table 8 The DMO exceeded its overall gilt sales target by £0.9 billion (0.5%), via marginally higher proceeds across all forms of issuance.

In aggregate the proceeds from auctions and PAOF came in £0.3bn (0.2%) above plan despite sales of long conventional and index-linked gilts falling marginally short of target.

In aggregate, sales from the supplementary programmes were £0.6 billion (1.6%) above the remit plans.

Table 8
Gilt sales outturn relative to remit targets

(£mn)	Short	Medium	Long	ILG	Total
Total sales	**55,752**	**35,958**	**37,511**	**35,855**	**165,076**
Target					**164,200**
V target					**876**
Auctions (& PAOF)	**50,754**	**34,654**	**24,368**	**16,186**	**125,962**
Target	50,400	34,500	24,450	16,300	**125,650**
V Target	354	154	-82	-114	**312**
Syndications			**13,143**	**19,669**	**32,812**
Target			13,050	19,500	**32,550**
V Target			93	169	**262**
Mini-tenders	**4,998**	**1,304**			**6,302**
Target					6,000
V Target					302
% sales split	**33.8%**	**21.8%**	**22.7%**	**21.7**	

Source: DMO
(Figures may not sum due to rounding).

Consultation on super-long and/or perpetual gilts

On 25 May 2012 the DMO launched a consultation* on the case for issuing gilts with maturities potentially significantly longer than those then in issue (i.e. in excess of 50-years), referred to as super-long gilts, and/or perpetual gilts. Plans for such a consultation had been announced alongside Budget 2012 and the publication of the DMO's financing remit for 2012-13.

The DMO sought feedback from as wide a range of stakeholders as possible in order to inform the decision to be taken about whether such gilts should be issued. Central to this assessment, the consultation aimed to establish the likely sources, strength and sustainability of demand for such gilts, the cost effectiveness and risks of issuance, and the impact on gilt market.
No presumption was made upfront that issuance of such instruments would take place. The DMO sought views by 17 August 2012.

44 written responses to the consultation were received from Gilt-edged Market Makers, end investors, industry bodies and individuals. The DMO published a summary of the market feedback and the Government's response** on 5 December 2012, alongside the Autumn Statement.

Market feedback on super-longs

Regarding super-longs, respondents in general felt that any potential demand for issuance would be concentrated at relatively short extensions to the curve (e.g. up to 60-year maturities) with limited demand for much longer maturities. Demand was expected to come from a subset of the gilt investor base, specifically from pension funds seeking to match liabilities in excess of 50 years. Respondents also expected that the size of these liabilities would decline over time and potentially reduce appetite for such maturities in the future.

Reflecting this anticipated demand profile, respondents suggested that in general shorter-dated super-long issuance would be more cost effective than issuing at longer-dated maturities - with the former seen as pricing to yield either flat or slightly above yields on existing ultra-long gilts.

Respondents also highlighted a number of potential risks associated with issuance of super-long gilts, including the risk of fragmenting market liquidity in the ultra-long sector, as well as the potential impact of supply on the shape of the yield curve and consequent implications for the cost effectiveness of existing maturities. To mitigate these risks, the majority view among respondents was that the Government should take a cautious approach to any super-long issuance, balancing supply with demand as it emerges and focusing supply on a small number of new gilts at maturities close to the end of the existing yield curve.

*available at
http://www.dmo.gov.uk/documentview.aspx?docname=publications/giltsmarket/consultationpapers/cons20120525.pdf&page=Gilts/Consultation
**available at
http://www.dmo.gov.uk/documentview.aspx?docname=publications/giltsmarket/consultationpapers/cons20121205.pdf&page=Gilts/Consultation

Market feedback on perpetuals

Responses to the consultation suggested little evidence of demand for perpetual gilts, in the absence of a natural investor base for such instruments. Respondents saw new perpetual gilts as being an imperfect match for the liabilities of investors such as pension funds or insurance companies, and expected the appetite for these instruments from other investor groups (such as fund managers or international investors) to be small because of their unique structure and cashflow profile.

Given the very limited demand anticipated for perpetual gilts, they were expected to be relatively expensive to issue compared with existing instruments, and were unlikely to represent a cost effective source of financing for the Government.

The Government's response

After thorough consideration of the feedback the Government decided:

- to remove the prevailing maturity cap on gilt issuance set at around 50 years;

- for the DMO to look to launch new issuance in the 50-60 year area in 2013-14, subject to demand and market conditions; and

- not to introduce new perpetual gilts at the current time.

The decision reflected the Government's judgement that issuance of super-long gilts with maturities in excess of 50 years could represent cost-effective financing for the Exchequer, while contributing to effective risk management of the Government's debt portfolio. However, it recognised that the strength of demand for these instruments was uncertain and that a cautious approach to issuance and, therefore, to extension of the yield curve was appropriate. Decisions on specific maturities for issuance in-year were to be taken by the DMO after consultation with the market through the normal channels.

The launch of super-long issuance

On 28 March 2013 the DMO announced plans to sell via syndication a long conventional gilt maturing in the 50-60 year maturity area, in the second half of June 2013. This decision followed the regular quarterly consultation meetings with market participants which had revealed market support for the launch of a super-long gilt in that maturity range in the first quarter of 2013-14. (Market feedback has suggested that there might be marginally more structural demand for a super-long index-linked gilt rather than a conventional but that it made sense operationally to issue a conventional first to aid pricing of a new super-long index-linked gilt).

On 25 June 2013, and following further dialogue with the market, the DMO sold via a syndicated offer £5.0 billion (nominal) of a new 55-year maturity, 3½% Treasury Gilt 2068 - thereby extending the existing nominal yield curve by eight years. £12.8 billion of high quality demand was mobilised by the syndicate for the new gilt in a 55 minute book-build.

Royal Mail Pension Plan: cancellation of gilt holdings

The Government announced alongside the Budget on 21 March 2012 that it intended to transfer the assets (and liabilities) of the Royal Mail Pension Plan (RMPP), a private sector pension scheme, into the public sector in April 2012 (subject to State Aid clearance - which was subsequently received).

As a result, around £11 billion (by market value) of gilts - of which some 80% were index-linked - were transferred into public ownership and the Government stated its intention to cancel these gilts in 2012-13. It was confirmed that the cancellation of the gilts would have no impact on the CGNCR, the net financing requirement or any of the fiscal aggregates.

The exact composition of the portfolio of gilts to be cancelled was not known with certainty at the time of the initial announcement - dependent as it was on a number of factors associated with the transfer of ownership. The DMO undertook to publish the full portfolio breakdown once the process of transfer had been completed.

The DMO also undertook to invite feedback from market participants on the appropriate timing of the cancellation given that cancellation would impact on various gilt indices and to provide the market with good notice of any cancellations, including the stocks and the amounts to be cancelled.

On 21 May 2012 the DMO published details of the RMPP portfolio to be cancelled* - comprising holdings of 19 conventional gilts (£2,240.1 million nominal) and of 18 index-linked gilts (£5,736.0 million nominal). The DMO also invited market feedback at its regular quarterly consultation meeting on 28 May 2012 on the preferred timing of the cancellations.

Market views were mixed on the recommended timing of cancellations with some advising early cancellation and others advising an operation in November 2012 to coincide with the IL 2017 gilt falling out of the over 5-year gilt index. A single cancellation date was preferred and seven working days prior notice of cancellation was seen as sufficient.

On 31 August 2012 the DMO announced that it planned to cancel the entirety of the Government holdings of RMPP gilts on 22 November 2012.

The DMO subsequently confirmed on 22 November 2012 that the cancellations were being duly implemented on that day.

* http://www.dmo.gov.uk/documentview.aspx?docName=/gilts/press/pr210512.pdf

DMO remit 2013-14 (March 2013 Budget)

The DMO remit for 2013-14 was published in the Debt and reserves management report 2013-14 on 20 March 2013 alongside the Budget.

Total debt sales by the DMO of £162.9 billion were planned in 2013-14, split as follows:

Outright gilt sales	£151.0 billion
Net Treasury bill sales	£11.9 billion

The structure of the gilt financing remit

It was intended that the gilt sales plans be met through a combination of:

- £121.0 billion sales in 43 outright auctions; and
- £30.0 billion sales via supplementary distribution methods split as follows:
    - o £20 billion in a programme of up to eight syndicated offerings; and
    - o 10 billion in a programme of sales by mini-tender.

The planning assumption was that (as in previous years) sales via the syndication programme would be of long conventional and index-linked gilts only. As in 2012-13, all maturities and types of gilt are eligible for sale via mini-tender in 2013-14.

The following planned split of issuance was announced:

- £42.6 billion of short conventional gilt sales in 9 auctions;
- £30.0 billion of medium conventional gilt sales in 9 auctions;
- £32.6 billion of long conventional gilt sales (£24.6 billion in 10 auctions and £8.0 billion via syndicated offerings);
- £35.8 billion of index-linked gilts sales (£23.8 billion in 15 auctions; and £12.0 billion via syndicated offerings) and;
- £10.0 billion of sales via mini-tender that could be for any maturity and type of gilt.

In terms of delivering the remit, priority was given by the DMO to meeting the individual target cash amounts for different types and maturities of gilts. The composition of issuance methods to deliver these targets was, however, a planning assumption. Total financing by supplementary methods (and the split between methods) was to be dependent on market and demand conditions at the time the operations were conducted.

The supplementary distribution programme

- **Syndicated Offerings**

The DMO announced some modifications to the implementation of the syndication programme in 2013-14. It was envisaged that the programme would only be used to launch new bonds and re-openings of high duration bonds. Rather than an upfront assumption of even-flow delivery over the financial year in eight operations (i.e. two per quarter) as in the previous year, the remit specified that the DMO would hold at least one syndication per quarter but provided that the DMO could schedule additional transactions after discussion with the market. Sizing decisions for syndications are to have specific regard to the size and quality of end investor demand in the order book.

The clear link between the respective sizes of the syndication and mini-tender programmes was maintained. The remit provided that in circumstances where the discretion to increase syndication sizes is exercised consistently, the size of the mini-tender programme would be reduced (and vice versa). In addition, in the event that a number of syndications were increased in size such that the remaining balance of sales required to reach the planned target was too small to hold viable operations toward the year-end, then the remit allows the DMO to increase the size of the syndication programmes by up to 10%.

- **Mini-Tenders**

Mini-tenders are to be scheduled in-year, depending on market demand and the progress of the syndication programme, and will be added to the calendar with at least seven working days notice, after market consultation. As in 2012-13 mini-tenders can be for any type or maturity of gilt.

The remit also provided for the continued application of the PAOF in 2013-14.

Other operations

The remit also specified that the DMO has no current plans to hold any switch auctions, reverse auctions or conversion offers in 2013-14.

New gilt instruments

Prior to introducing any new types of gilt instrument the DMO would consult market participants and seek HM Treasury's approval.

Treasury bill financing

The stock of Treasury bills in market hands was scheduled at Budget 2013 to rise by £11.9 billion in 2013-14, implying a projected stock of Treasury bills at end-March 2014 of £68.0 billion.

CGNCR outturn 2011-12 revision to the 2012-13 financing remit

The publication of the CGNCR outturn for 2012-13 on 23 April 2013 which, at £109.5 billion, was £7.1 billion higher than the Budget forecast, resulted in an increase in planned gilt sales in 2013-14 of £4.7 billion to £155.7 billion and an increase in Treasury bill sales of £2.0 billion (taking the planned end-March 2014 stock to £70.0 billion).

The remit adjustment was accommodated by increasing sales broadly in line with the planned split of issuance announced at Budget 2013, as follows:

• Short conventional	£0.3 billion (to £42.9 billion)
• Medium conventional	£2.5 billion (to £32.5 billion)
• Long conventional	£0.9 billion (to £33.5 billion)
• Index-linked gilts	£1.0 billion (to £36.8 billion)
• Mini-tenders	Unchanged (£10.0 billion)

Planned gilt sales at auctions were increased by £3.7 billion to £124.7 billion but no additional gilt auctions needed to be scheduled. Most auction sizes increased only marginally. The decision to direct most of the increase in gilt sales to medium conventional issuance reflected a judgement about the greater scope to increase the average size of these auctions.

Average auction sizes (cash)	March Budget	April revision
• Short conventional	£4.73 billion	£4.77 billion
• Medium conventional	£3.33 billion	£3.61 billion
• Long conventional	£2.46 billion	£2.50 billion
• Index-linked	£1.59 billion	£1.62 billion

Planned sales at syndications were increased by £1.0 billion to £21.0 billion, with the increase split equally between the long conventional and index-linked programmes. The size of the mini-tender programme was left unchanged at £10.0 billion.

The remit structure following the April 2013 revision is shown in Table 9.

Table 9
Structure of the 2013-14 gilt financing remit following the April 2013 revision

	Auction	Syndication	Mini-tender	Total
Short-dated conventional				
£ billion	**42.9**			**42.9**
Per cent				27.6%
Medium-dated conventional				
£ billion	**32.5**			**32.5**
Per cent				20.9%
Long-dated conventional				
£ billion	**25.0**	**8.5**		**33.5**
Per cent				21.5%
Index-linked				
£ billion	**24.3**	**12.5**		**36.8**
Per cent				23.6%
Total	**124.7**	**21.0**	**10.0**	**155.7**
	80.1%	13.5%	6.4%	

Future financing projections

The Budget in March 2013 also included projections for the CGNCR as a percentage of GDP out to 2017-18. Table 10 sets out the resulting CGNCR projections in cash terms together with current redemption totals to produce illustrative gross financing projections. Note that these are not gilt sales forecasts, as they take no account of possible contributions to financing by NS&I or Treasury bill sales, or of the possibility of increases in redemption totals in the forecast period.

Table 10
March 2013 Budget: illustrative financing projections

(£bn)				
	2014-15	2015-16	2016-17	2017-18
CCGNCR projections	113	100	83	6
Adjustment for NRAM and B&B	-3	-2	-1	-3
Gilt redemptions	62	68	69	79
Financing for the reserves	6	0	0	0
Illustrative gross financing requirement	**178**	**166**	**150**	**138**

(Figures may not sum due to rounding).

Chapter 3: Exchequer Cash Management

Exchequer cash management remit 2012-13

The DMO's cash management remit for 2011-12, published alongside the Budget on 21 March 2012, specified that the Government's cash management objective is:

> *"to ensure that sufficient funds are always available to meet any net daily central Government cash shortfall and, on any day when there is a 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 2012-13 the DMO carried out its cash management objective primarily through a combination of:

- bilateral market operations with DMO counterparties; and
- Treasury bill sales via the DMO's bilateral facility.

Bilateral Treasury bill facility

Since November 2007, the DMO has had access to a facility which allows it to re-open existing Treasury bills and issue them on a bilateral basis, on request from its cash management counterparties (provided that such issuance is consistent with the DMO's cash management operational requirements). In particular, Treasury bills sold through the bilateral facility can contribute to smoothing cumulative cash positions. Monthly issuance of Treasury bills via the bilateral facility is shown in the "Other" category in Table 11. At end-March 2013, £5.7 billion of Treasury bills sold bilaterally were in issue and these formed part of the £57.2 billion stock in market hands on that date.

Table 11
Treasury bill issuance 2012-13 (£mn)

Month End	One Month (£ million)	Three Month (£ million)	Six Month (£ million)	Other Issuance (£ million)	Total Issuance (£ million)	Total Stock Outstanding (£ million)
Apr	5,500	6,000	7,500	4,798	23,798	64,863
May	2,500	4,000	6,000	4,835	17,335	63,388
Jun	7,000	6,000	6,000	6,965	25,965	71,916
Jul	3,500	5,000	7,500	7,037	23,037	68,113
Aug	2,000	3,500	6,000	4,314	15,814	65,139
Sep	4,000	2,000	6,000	4,090	16,090	62,424
Oct	2,500	2,500	7,500	7,815	20,315	57,374
Nov	2,000	2,000	6,000	2,439	12,439	53,749
Dec	2,000	2,000	6,000	3,533	13,533	51,970
Jan	2,000	2,000	6,000	2,020	12,020	51,127
Feb	2,000	2,500	6,000	1,477	11,977	51,126
Mar	5,500	4,000	6,000	6,065	21,565	57,240

The maturity breakdown of the Treasury bill portfolio (including amounts issued bilaterally) at end-March 2013 is shown in Table 12.

Table 12
Treasury bills outstanding at 31 March 2013

Bill maturity date	Amount in issue (£mn)
02/04/2013	3,209.2
08/04/2013	3,621.4
15/04/2013	3,536.6
22/04/2013	3,677.7
29/04/2013	2,327.7
07/05/2013	2,038.0
13/05/2013	2,205.8
20/05/2013	2,143.1
28/05/2013	2,646.4
03/06/2013	2,936.8
10/06/2013	2,849.4
17/06/2013	3,427.5
24/06/2013	2,510.7
08/07/2013	1,775.3
15/07/2013	2,445.0
22/07/2013	1,506.6
29/07/2013	1,531.6
05/08/2013	1,557.2
12/08/2013	1,514.2
19/08/2013	1,567.0
27/08/2013	1,534.0
02/09/2013	1,542.5
09/09/2013	1,604.0
16/09/2013	1,775.8
23/09/2013	1,500.0
21/10/2013	228.1
18/11/2013	18.0
16/12/2013	10.0
	57,239.7

Bilateral cash management operations

In practice, a large majority of cash management operations in 2012-13, as in previous years, were negotiated bilaterally by the DMO with market counterparties. To ensure competitive pricing, the DMO maintains relations with a wide range of money market counterparties with whom it transacts both directly and via voice and electronic brokers.

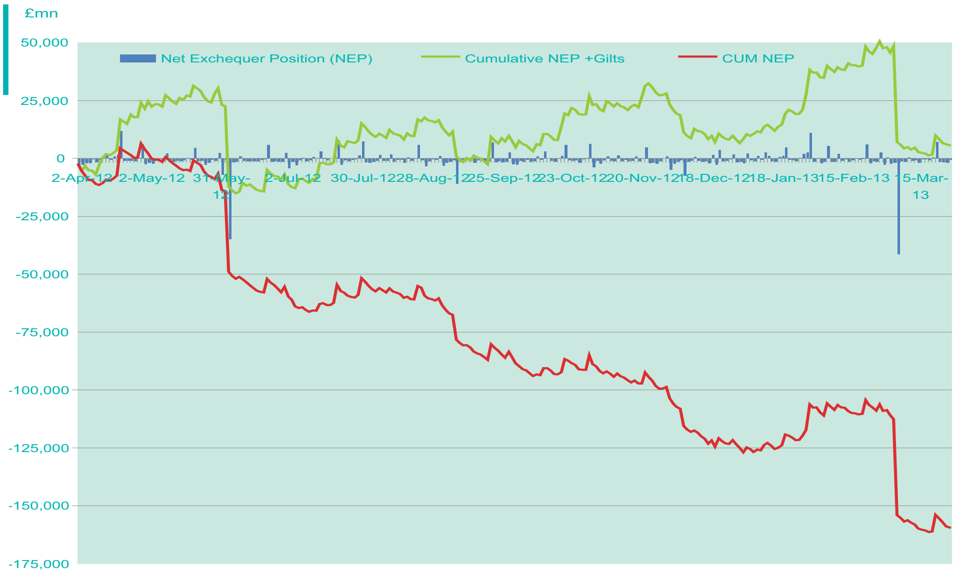
Cash management is conducted through a diversified set of money market instruments in order to minimise cost whilst operating within agreed risk limits. Sterling-denominated repo and reverse repo instruments play a particularly important role, though short cash bonds, Certificates of Deposit, Commercial Paper, reverse repo of foreign currency bonds swapped into Sterling and unsecured loans and deposits can also be used.

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 obtains 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 so far as that is necessary to offset forecast future cash flows.

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

Chart 15 shows the scale of daily cash flows measured in terms of the Net Exchequer Position (NEP) in 2012-13. It excludes the effects of Treasury bill issuance and NS&I's overall net contribution to Government financing, but highlights the predominant contribution of gilt sales to reducing the cumulative deficit in-year.

Chart 15
Exchequer cash flows 2012-13



Source: HM Treasury/DMO

Active cash management performance framework

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

This active cash management framework allows the exercise of considerable discretion by specialist cash managers in selecting the appropriate counterparties, instruments and maturities with which to deliver the cash management remit at minimum cost subject to the agreed risk limits. The Cash Management Review of 2004-05[16] recommended this discretion be captured through a quantifiable measure of net interest saving as a means of enhancing effectiveness and ensuring accountability. In 2006-07 HM Treasury and the DMO announced their intention to begin formal performance reporting, commencing with the 2007-08 outturn. The results for 2012-13 are presented in Annex B under Key Performance Indicator (KPI) 1.4.

HM Treasury and the DMO equally recognise that to measure performance solely in terms of net interest savings is a somewhat narrow interpretation that does not fully capture the ethos or the wider policy 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 while playing no role in the determination of Sterling interest rates. Consequently the DMO and HM Treasury monitor and assess overall performance in meeting the Government's objectives using a number of quantitative and qualitative KPIs and controls. A full report on performance in 2012-13 is presented in Annex B.

[16] See Chapter 5 of the Annual Review 2004-05 published in July 2005.

Chapter 4: Fund management and local authority lending for Central Government

Fund management

The origins of the Commissioners for the Reduction of the National Debt (CRND) date back to the passing of the National Debt Reduction Act of 1786. From their earliest days the Commissioners had associations with the stock market and this led to a diversification of CRND operations, including in particular responsibility for the investment of major Government funds. This now constitutes the main function of CRND, which had £34.4 billion under its control at end-March 2013, 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 or risk profiles agreed with Fund owners, but essentially investments are restricted to cash deposits or government-issued 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. The main funds under CRND management at end-March 2013 were as follows:

- Court Funds Investment Account
- Insolvency Services Investment Account
- National Insurance Fund Investment Account
- National Lottery Distribution Fund Investment Account
- Northern Ireland Court Service Investment Account
- Northern Ireland National Insurance Fund Investment Account, and
- Olympic Lottery Distribution Fund Investment Account.

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

Public Works Loan Board (PWLB) responsibilities and objectives

The PWLB is an independent statutory body, headed by Commissioners. Its function is to consider loan applications from local authorities and, where loans are made, to collect the repayments. Nearly all borrowers are local authorities requiring loans for capital purposes. Loans are automatically secured by statute on the revenue stream of the authority and are sourced from the NLF. Rates of interest are determined by the DMO in accordance with methodologies agreed with HM Treasury and the day to day activities of the Board are performed by DMO staff. The Board's accounts are audited by the Comptroller & Auditor General, whose reports on them are laid before Parliament. The accounts meet the duty of the Commissioners to report annually to Parliament.

PWLB operations in 2012-13

New loans of £3.2 billion (cash) were made to local authorities during 2012-13 (via 311 applications). After taking account of loan repayments, the PWLB's portfolio of loans grew by £1.6 billion so that by end-March 2013, the outstanding balance of principal was £63.5 billion, with a market value of £80.4 billion.

Chapter 5: The DMO

The DMO was established on 1 April 1998 and aims to be a centre of excellence for HM Treasury in the provision of policy advice on and the delivery of HM Government's financing needs, while acting as a gateway for HM Government to the wholesale financial markets.

In organisational terms, the DMO is legally and constitutionally part of HM Treasury, however, as an executive agency, it operates at arm's 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.

This policy and operational framework is encapsulated within an annual financing remit that is issued to the DMO from HM Treasury before the beginning of each financial year. The timing of this remit usually coincides with the March Budget and will specify the annual total of gilt sales planned for the forthcoming financial year and a breakdown between index-linked and conventional gilts, the latter being also broken down by maturity bands (short, medium and long).

The remit also specifies the dates of scheduled outright auctions and provides the basis for the conduct of mini-tenders, syndications, the PAOF and any switch, conversions or buy-back operations in that particular financial year.

For each sale of gilts, by whichever method, the DMO decides on the size and the choice of gilts to be offered for sale. The DMO also decides the size and maturity breakdown of Treasury bill tenders.

Opportunities exist for the DMO remit to be revised during each financial year. This usually occurs in either April when the outturn of the CGNCR for the previous financial year is published, or in November/December when the revised forecasts for the public finances are published in the Autumn Statement.

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), 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 that sets out the DMO's targets and objectives for the year ahead, and the strategies for achieving them. This document also reviews the preceding year's achievements. The DMO's business plan is drafted taking into account the organisation's strategic objectives issued by the Chancellor of the Exchequer, which are 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 each business area, taking into account budget constraints and the priority of delivery objectives.

The DMO consists of two main operational areas: Policy & Markets and Operations & Resources. These areas are in turn split into a number of business teams across which there is substantial cross-team cooperation to ensure that both policy and operational requirements are adequately met by ensuring that the relevant skills are applied to appropriate activities and that essential operations are resourced efficiently and effectively.

The DMO's Managing Board considers all major strategic decisions and comprises the Chief Executive, the Joint Heads of Policy and Markets (one of whom is the Deputy Chief Executive) and the Chief Operating Officer. During 2012-13, the DMO's Managing Board also consisted of three non-executive directors: Brian Larkman, Brian Duffin and an HM Treasury representative. The HM Treasury representative was Sam Beckett until July 2012 when James Richardson was appointed.

The role of the DMO's Managing Board is supplemented by a number of internal committees supporting individual business activities and overarching governance procedures. In particular, committees discuss activities relating to debt management, cash management and fund management, which are all supported by a Credit and Market Risk Committee, an Operational Risk committee and a Business Delivery Committee. The DMO also has an independent audit committee that oversees matters relating to risk, internal control and governance.

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 has been the development of a comprehensive risk management framework to address all risks the DMO faces. This included the introduction of an Operational Risk Committee and redefinition of the responsibilities of the Credit and Market Risk Committee.

Financial performance

The operational budget within which the DMO performs its functions is approved annually by Parliament and forms part of HM Treasury's Supply Estimate. The budget is approved taking into account the administrative and operational cost of running the DMO and the income received from business activities.

Details of the financial performance against this budget can be found in the DMO's Annual Report and Accounts, which is available on the DMO website. This document provides separate accounts of both the DMO and the Debt Management Account (DMA), through which trading activity in gilts and the other treasury management activities of the DMO are recorded.

Operating costs

The DMO's net operating cost for 2012-13 was £16.2 million, an increase of £4.9 million from 2011-12.

This change was principally due to lower fee income associated with the PWLB lending activity to local authorities. During 2011-12, the PWLB facilitated a Housing Self-financing initiative alongside the Department for Communities and Local Government, which planned to replace council housing subsidy with self-financing housing revenue accounts. The operation crystallised on 28 March 2012 and generated fee income for the DMO of £4.5 million. This was not repeated during 2012-13.

The DMO successfully managed its operations within the expenditure limits agreed with HM Treasury and voted by Parliament.

The DMO's contribution to the Government's activities to support financial markets and the UK banking sector

During 2012-13, the DMO continued to undertake a range of activities at the request of HM Treasury that had been put in place to help stabilise financial markets, support the UK banking sector and to help businesses access cheaper finance. This involved participation in a number of schemes (as listed below) alongside HM Treasury and the Bank of England.

i) Credit Guarantee Scheme (CGS)

The operational elements of the 2008 Credit Guarantee Scheme are administered by the DMO acting as an agent for HM Treasury. The DMO's role involved assessing applications to the scheme, issuing guarantees for eligible instruments and collecting the fees payable from participating institutions.

The scheme closed to new applicants and new issuances on 28 February 2010. However, until 9 April 2012, and subject to the agreement of HM Treasury, some guaranteed liabilities could be rolled over for an additional two years up to the scheme end date of 9 April 2014. Following the maturity of the last guarantee, the scheme closed on 26 October 2012.

ii) National Loan Guarantee Scheme (NLGS)

On 20 March 2012, HM Treasury launched the National Loan Guarantee Scheme. The scheme was designed to help businesses access cheaper finance by reducing the cost of bank loans under the scheme by 1 percentage point. To be able to benefit from the scheme, businesses with a turnover of not more than £50 million[17] could apply for loans at a participating bank. The scheme worked by providing banks with up to £20 billion of guarantees to issue unsecured debt, thereby enabling them to borrow at a cheaper rate. The banks pass on all the benefit that they receive to smaller businesses through cheaper loans.

The DMO worked with the participating banks to confirm that the debt instruments that they proposed to issue, in order to raise funds to finance loans under the scheme, met the legal and other requirements to qualify for a government

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[17] Since July 2012, £250million.

guarantee. Once confirmed, the DMO issued a Guarantee Certificate, on behalf of HM Treasury, for each qualifying debt instrument. The DMO also worked with HM Treasury on the collection of lending data under the scheme and the process for ensuring participating banks were complying with the scheme rules.

Following the introduction of the Funding for lending Scheme (FLS) (see below) banks who were offering NLGS Loans are now, instead, delivering credit easing through the FLS. However, previously issued NLGS debt remains under guarantee.

iii) Funding for Lending Scheme (FLS)

On 13 July 2012, the Bank of England and HM Treasury launched the Funding for Lending Scheme. The scheme was designed to reduce funding costs for banks and building societies so that they could make loans cheaper and more easily available to UK households and non-financial companies. The DMO facilitates this operation by purchasing Treasury bills issued by the NLF and lending them to the Bank of England when required.

European Union Emissions Trading System: DMO involvement

The DMO, on behalf of the Department of Energy and Climate Change (DECC), successfully conducted the final five auctions of EU Allowances in the UK for Phase II of the EU Emissions Trading System (EU ETS). This concluded the DMO's responsibility for conducting these auctions since being appointed to the role by DECC in 2008.

In 2012-13 the Government auctioned a total of 20.3 million allowances across the final five auctions. All auctions were successfully covered with an average bid to cover ratio of 3.4 times the amount offered.

The results of the EU ETS auctions conducted by the DMO and a report by the Independent Observer from each auction have been published on the DMO's website at:

http://www.dmo.gov.uk/index.aspx?page=ETS/AuctionInfo

Annexes:

A) List of GEMMs and Inter Dealer Brokers (IDBs) at 31 March 2013

B) Debt and cash management performance

C) The gilt portfolio

A: List of GEMMs and IDBs at 31 March 2013

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

GEMM	Website
Bank of America Merrill Lynch Merrill Lynch Financial Centre 2 King Edward Street London EC1A 1HQ	www.baml.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.credit-suisse.com
Deutsche Bank AG (London Branch) Winchester House 1 Great Winchester Street London EC2N 2DB	www.db.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
Jefferies International Limited[18] Vintners Place 68 Upper Thames Street London EC4V 3BJ	www.jefferies.com

[18] Jefferies ceased to be a Wholesale GEMM on 19 June 2013 and, following a separate application, were endorsed by the DMO as a Retail GEMM from 20 June 2013.

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

Lloyds TSB Bank plc www.lloydstsb.com
25 Gresham Street
London
EC2V 7AE

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

Nomura International plc www.nomura.com
One Angel Lane
London
EC4R 3AB

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

Santander Global Banking & Markets UK www.santander.com
2 Triton Square
Regents Place
London NW1 3AN

Scotiabank Europe plc www.scotiabank.com
201 Bishopsgate
London EC2M 3NS

Société Général Corporate & Investment Banking www.socgen.com/
SG House
41 Tower Hill
London EC3M 4SG

The Toronto-Dominion Bank (London Branch)* www.tordom.com/
60 Threadneedle Street
London EC2R 8AP

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

* Retail GEMM

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

GFI Securities Limited www.gfigroup.com
1 Snowden Street
London
EC2A 2DQ

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.tulletprebon.com
155 Bishopsgate
London EC2N 3DA

B: Debt and cash management performance

Gilt issuance counterfactuals

The DMO has published the results of its measurement of relative performance of outright issuance in each financial year against counterfactuals in its Annual Reviews since 2001. Although the UK's debt management objective is concerned with minimising the average cost of issuance *"over the long term"* rather than in any one year, the intention here is to illustrate whether different non-discretionary issuance patterns during a particular year could have resulted in higher or lower costs of financing.

The calculations compare the cash weighted yield of actual issuance with the yield on various counterfactual issuance patterns but on the basis of a key assumption that the different issuance patterns modelled would not have impacted the levels of yields relative to those achieved in practice (see below).

There are a number of limitations to this analysis. In particular, a major assumption that is unlikely to hold in practise is that the shape of the yield curve remains fixed over time. This is particularly relevant when considering the refinancing timeframes associated with different maturities of debt (i.e. short issuance needs to be refinanced much more frequently than long) so this analysis is not comparing like-for-like in this regard. In principle therefore if yields evolve as reflected by the forward yield curve it would be too simplistic to say that in any one year one issuance pattern has outperformed another.

Another relevant assumption is that the counterfactual issuance patterns themselves would not have had any impact on yields. This is unlikely to hold in practice particularly where the gilt issuance pattern under the counterfactual is significantly different from actual issuance (e.g. a heavy skew to a certain maturity). Whilst it is likely, certainly over the medium to longer-term, that the greatest influences on the level of yields will be macro-economic conditions, market expectations of interest rates, and other external factors over which the debt manager has no control, establishing the extent to which changes in volumes and patterns of supply might affect yields is more difficult.

The underlying rationale for considering issuance performance against counterfactuals is that it provides one means by which to analyse the performance of the debt management authorities in achieving the debt management objective in particular regarding the decisions on the split between maturities/types of gilt sold in a given year. It is worth noting in this context that measuring performance against the primary debt management objective is not straightforward, a fact widely acknowledged by many other sovereign debt managers. Hence, presentation of annual counterfactuals should not be interpreted as a complete or authoritative means by which to test achievement against the debt management objective – which as noted above is a long-term test.

For these reasons, caution is required when interpreting the yield impact of counterfactual issuance patterns set out in this annex in comparison with the actual issuance yield.

The cash weighted average yield of actual issuance at the gilt auctions, syndicated offerings and mini-tenders in 2012-13 was 2.092%[19] (significantly lower than 2.663% in the previous financial year). The cash weighted average yield of issuance by type of gilt and maturity is shown in Table B1.

Table B1
Average issuance yield by type and maturity of gilt 2012-13

	Cash	%
All issuance	**165,076**	**2.092**
By maturity		
Short (conventional)	55,751	0.775
Medium (conventional and index-linked)	40,198	1.769
Long (conventional and index-linked)	69,127	2.726
Conventional		
Short	55,751	0.775
Medium	35,959	1.721
Long	37,511	2.626
Total conventional	**129,221**	**1.576**
Index-linked		
Medium	4,240	2.172
Long	31,616	2.845
Total Index-linked	**35,856**	**2.766**

This yield of 2.092% can be compared with yields derived by applying the actual annual cash weighted yield of different maturities/types of gilt to different gilt issuance patterns. Table B2 contrasts the actual average issuance yield in 2012-13 with three counterfactuals which assume:

a) an even-distribution approach to financing;
b) a significantly greater skew towards long issuance;
c) a significantly greater skew towards short issuance.

Table B2
Illustrative yields assuming different issuance patterns

Conventional		**Remit**	**Even-flow**	**Very long**	**Very short**
	%		**(£bn)**	**(£bn)**	**(£bn)**
Short	0.775	55.8	43.1	20.0	89.2
Medium	1.721	36.0	43.1	20.0	20.0
Long	2.726	37.5	43.1	89.2	20.0
		129.2	**129.2**	**129.2**	**129.2**
Index linked					
Medium	2.172	4.2	17.9	0.0	35.9
Long	2.845	31.6	17.9	35.9	0.0
		35.9	**35.9**	**35.9**	**35.9**
Total gilt sales		**165.1**	**165.1**	**165.1**	**165.1**
Average yield %		**2.092**	**1.816**	**2.394**	**1.430**
Difference (basis points)			**-27.7**	**30.2**	**-66.2**

[19] Index-linked real yields have been converted to nominal equivalents, assuming 3% RPI inflation.

An even-split approach to financing by maturity produces a slightly lower average yield of issuance (down 27.7 basis points or 12.2%); this mainly reflects a sharp reduction in highest yielding long-dated index-linked gilts. The skews much longer and shorter produce significantly larger under- and over-performances respectively compared with the actual remit. The greater bias to long issuance is 30.2 basis points or 140.49% higher and the greater bias to short issuance is 66.2 basis points or 31.6% lower, both primarily reflecting the current steep upward slope of the conventional gilt yield curve.

The results from counterfactual modelling of this kind need to be considered in the context of an objective that requires the DMO (and many other sovereign issuers with similar objectives) to pursue policies designed to minimise long-term cost whilst taking account of the risks to which debt issuance exposes the Exchequer – i.e. the DMO does not seek exclusively to minimise yield at the expense of other considerations. In order to determine the maturity and composition of debt issuance, the Government takes into account 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
- investors' demand for gilts.

Auction concession analysis

There are a number of ways to measure auction concessions. The method presented in Table B3 uses the same methodology as adopted since 2008-09 and shows the extent of any concession/premium in the immediate run up to auctions by measuring the difference between the actual proceeds received and those that would have been generated had each auction been priced at the close of business reference price on the previous day.

Table B3
Concessions (-) and premia ahead of gilt auctions in 2012-13

Operation Date	Gilt	concession (-)/ premium (£mn)
03-Apr-12	4% Treasury Gilt 2022	-0.3
11-Apr-12	1% Treasury Gilt 2017	-0.9
12-Apr-12	4¼% Treasury Gilt 2032	-0.4
19-Apr-12	0⅛% Index-linked Treasury Gilt 2029	-16.5
01-May-12	4½% Treasury Gilt 2019	-2.3
03-May-12	0¾% Index-linked Treasury Gilt 2034	-3.4
09-May-12	4½% Treasury Gilt 2042	-1.8
15-May-12	5% Treasury Stock 2025	-7.4
12-Jun-12	1% Treasury Gilt 2017	-10.0
14-Jun-12	4% Treasury Gilt 2060	-12.8
21-Jun-12	1¾% Treasury Gilt 2022	-0.7
26-Jun-12	0⅛% Index-linked Treasury Gilt 2029	0.3
03-Jul-12	4¾% Treasury Gilt 2030	-11.7
04-Jul-12	1% Treasury Gilt 2017	-13.5
10-Jul-12	0½% Index-linked Treasury Gilt 2050	0.3
12-Jul-12	1¾% Treasury Gilt 2022	-13.0
19-Jul-12	3¾% Treasury Gilt 2052	-15.4
16-Aug-12	4½% Treasury Gilt 2034	-1.5
21-Aug-12	0⅛% Index-linked Treasury Gilt 2029	-8.9
23-Aug-12	5% Treasury Gilt 2018	3.0
05-Sep-12	4½% Treasury Gilt 2042	-4.2
11-Sep-12	0¾% Index-linked Treasury Gilt 2034	-3.0
13-Sep-12	1¾% Treasury Gilt 2022	2.8
20-Sep-12	1% Treasury Gilt 2017	2.3
02-Oct-12	1¾% Treasury Gilt 2022	-7.4
09-Oct-12	4¼% Treasury Gilt 2032	-3.3
11-Oct-12	0⅛% Index-linked Treasury Gilt 2024	8.4
18-Oct-12	4½% Treasury Gilt 2019	-2.6
01-Nov-12	0¾% Index-linked Treasury Gilt 2047	-0.5
06-Nov-12	1¾% Treasury Gilt 2022	1.3
15-Nov-12	3¾% Treasury Gilt 2052	4.2
20-Nov-12	1% Treasury Gilt 2017	0.5
11-Dec-12	1¾% Treasury Gilt 2022	-9.1
13-Dec-12	0⅛% Index-linked Treasury Gilt 2024	2.4
03-Jan-13	1% Treasury Gilt 2017	-0.8
08-Jan-13	4¾% Treasury Gilt 2030	6.5
17-Jan-13	0⅛% Index-linked Treasury Gilt 2029	5.5
22-Jan-13	4% Treasury Gilt 2022	12.1
05-Feb-13	0⅛% Index-linked Treasury Gilt 2024	0.0
14-Feb-13	1¼% Treasury Gilt 2018	-12.0
21-Feb-13	1¾% Treasury Gilt 2022	9.5
05-Mar-13	1¼% Treasury Gilt 2018	-6.8
13-Mar-13	3¾% Treasury Gilt 2052	0.9
21-Mar-13	0⅛% Index-linked Treasury Gilt 2044	-4.3
	Aggregate all auctions	**-114.6**
	Average all auctions	**-2.6**
	Average conventional auctions	**-3.0**
	Short-dated conventional auctions	-4.2
	Medium-dated conventional auctions	-0.9
	Long-dated conventional auctions	-3.7
	Average Index-linked auctions	**-1.6**

In 28 of the 44 auctions in 2012-13 prices at the auctions were lower than at the close on the previous day. The average concession across all auctions was £2.6 million (compared with £0.4 million in the previous financial year). The aggregate concession was £114.6 million compared with £4.6 million in 2011-12.

On average, the smallest concessions were at medium auctions (£0.9 million). The average concessions at short- and long conventional auctions were similar (£4.2 million and £3.7 million respectively). There were also small (£1.6 million) average concessions at index-linked auctions.

Applying the same methodology to mini-tenders results in an average premium of £0.025 million (by contrast there was an average premium of £1.9 million in 2010-11) and an aggregate premium of £5.6 million (see Table B4).

Table B4
Concessions (-) and premia ahead of gilt mini-tenders in 2012-13

Date	Gilt	Concession (-) Premium (+)
17-May-12	5% Treasury Stock 2014	3.3
09-Aug-12	5% Treasury Stock 2014	-0.5
30-Oct-12	4¾% Treasury Stock 2015	-2.0
26-Mar-13	5% Treasury Gilt 2025	-0.7
	Aggregate	**0.1**
	Average	**0.025**

The DMO's cash management objective: performance report

The DMO's high level cash management objective as set out in Chapter 3 has been subdivided into a series of objectives, to each of which has been attached a Key Performance Indicator (KPI). The following section explains how performance has been delivered against these objectives in 2012-13.

Objective 1.1: DMO must supply sufficient cash each day to enable government to meet its payment obligations. This is fundamental and unconditional.

The core requirement of Exchequer cash management is to secure the day to day funding of Exchequer cash needs. This objective is supported by HM Treasury's daily net cash flow forecasts for 19 weeks ahead and intraday updates of same-day scheduled expenditure and revenue flows. The DMO cash dealers raise and place current and future anticipated net daily balances in the Debt Management Account (DMA) with counterparties in the Sterling money markets, transacting in a range of instruments and at a range of different maturities to smooth the profile of the forecast cumulative net cash position.

Table B5

CASH MANAGEMENT OBJECTIVE	KEY PERFORMANCE INDICATORS & CONTROLS
The Debt Management Office (DMO) must supply sufficient cash each day to enable government to meet its payment obligations. This is fundamental and unconditional.	Way and Means transfers must be avoided for cash management purposes by ensuring that there is always a positive Debt Management Account (DMA) balance. (NB: HM Treasury is responsible for monitoring and reporting performance of the forecasting function against outturns).
Cash management operations and arrangements should be conducted in a way that does not interfere with monetary policy operations.	The DMO will conduct market operations with a view to achieving, within a very small range, the weekly cumulative target balance for the DMA at the Bank of England. The DMO will maintain formal and informal channels of communication with the Bank on conditions in the Sterling money markets. The DMO will seek to avoid holding weekly or ad hoc Treasury bill tenders when the Bank conducts its weekly open market operations.
Cash management operations and arrangements should be conducted without impeding the efficient working of the Sterling money markets	The DMO will advise HM Treasury as appropriate on the impact of Exchequer cash flows on liquidity conditions in the sterling money markets.
The 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.	The DMO will report to HM Treasury on a quarterly basis the details of its cash management activity, its active management performance against the Government's marginal cost of funds and the market and credit risks incurred. Performance may also be reported in the DMO Annual Review.
The DMO should maintain a credible reputation in the market that leads to lower costs in the long term and a cash management system that is sustainable.	The DMO should maintain channels of communication with money market participants and Treasury bill counterparties both formally and informally to explain, as far as possible, the nature and intent of its operations in the money markets. The DMO should monitor compliance with its operational notices; provide complete, accurate and timely instructions to counterparties, agents, external systems and operators; and achieve the successful settlement of agreed trades on the due date.

The DMA is used to manage the Exchequer's net cash position. Balances in central government accounts contained within the Exchequer pyramid are swept on a daily basis into the NLF and the DMA is required to offset the resultant NLF balance through its borrowing and lending in the money markets. The DMA is held at the Bank of England and a positive end of day balance must be maintained at all times; it cannot be overdrawn. Automatic transfers from a Government Ways and Means (II) account at the Bank of England would offset any negative end of day balances, though it is an objective to minimise such transfers. Thus, evidence of meeting this objective is provided by reference to the number of occasions the DMA goes overdrawn.

KPI 1.1: Ways and Means end-of-day transfers for cash management purposes must be avoided by ensuring that there is always a positive DMA balance.

- The DMO ensured a positive end-of-day DMA balance on each day of 2012-13.

Objective 1.2: Cash management operations and arrangements should be conducted in a way that does not conflict with the operational requirements of the Bank of England for monetary policy implementation.

The DMA target balance at the Bank of England serves solely as a buffer against unexpected payments that occur after the wholesale money markets have closed for same-day settlement. It serves to mitigate the risk of going overdrawn. All changes to the daily net cash forecast that occur before markets are closed should be transacted by DMO cash dealers with market counterparties. The DMO cash forecasters are required to notify the Bank of England, in advance of its weekly round of open market operations, of the weekly target balance on the DMA for the week ahead. This contributes to the forecast money market shortage and hence it is important that actual cumulative end-of-day balances do not differ significantly from target.

KPI 1.2: The DMO will conduct market operations with a view to achieving, within a very small range, the weekly cumulative target balance for the DMA at the Bank of England. The DMO will maintain formal and informal channels of communication with the Bank on conditions in the Sterling money markets. The DMO will seek to avoid holding weekly or ad hoc Treasury bill tenders when the Bank conducts its weekly open market operations.

- The DMO achieved its target weekly cumulative balance for the DMA within a very small range (+/-2% of its weekly cumulative target) on 34 out of 52 weeks in 2012-13. In all cases, balances outside this range related to events beyond the DMO's control, largely unexpected late cash flows either on the final day of the week or over long weekends. All significant known daily and forecast cumulative weekly variations from target were notified to the Bank of England in a timely fashion. The DMO and the Bank held regular meetings to review the operation of these arrangements.

- No cash management operations were undertaken that by their nature or timing could be perceived as clashing with the Bank's open market operations.

Objective 1.3: Cash management operations and arrangements should be conducted to avoid undermining the efficient functioning of the Sterling money markets.

While this objective is difficult to capture in a KPI, the DMO interprets this as a responsibility to seek to minimise the impact of individual daily flows on the Sterling money markets while ensuring it deals at competitive prices. The DMO operates as a customer at the core of the money markets, seeking to ensure the widest possible access to maturities, instruments, trading arrangements and counterparties across which to diversify its cash management operations. Limits have been set on the amount of dealing with individual counterparties and in individual instruments; exposure to Sterling overnight liquidity and Sterling interest rates are also subject to limits. In accordance with objective 1.3, limits and controls are intended to avoid concentration of exposures and are reviewed regularly to ensure consistency with market trends and developments.

Objective 1.3: Cash management operations and arrangements should be conducted to avoid undermining the efficient functioning of the Sterling money markets.

- Throughout 2012-13, the DMO undertook regular formal and informal communication with the Bank of England, money market counterparties, and industry groups to assess liquidity in the Sterling money markets. It also maintained frequent and regular dialogue to update HM Treasury on market liquidity and, working with HM Treasury, reviewed its trading policies and risk controls to respond to significant Sterling liquidity trends and developments.

Objective 1.4: The 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.

The active cash management framework encompasses a series of quantitative liquidity, interest rate, foreign exchange and credit risk limits that together reflect the government's risk preferences and are designed to be consistent with the wider policy objectives the Government sets its cash manager.

Under the current approach active cash performance is measured and evaluated directly by comparing actual net interest paid and received with cost of funds (i.e. deducting net interest on daily balances at the Bank of England repo rate and deducting transaction and management costs).

KPI 1.4: The DMO will report to HM Treasury on a quarterly basis the details of its cash management activity, including active cash management performance after cost of funds and the liquidity, interest rate, foreign exchange and credit risks incurred. Performance may also be reported in the DMO Annual Review.

- The DMO reports to the Treasury on a quarterly cycle the details of its cash management activity, including active management performance and usage of liquidity, interest rate, foreign exchange and credit risk limits.

- Net returns (over cost of funds) will be affected by market conditions and the size and volatility of the Exchequer's cumulative cash position, both of which will vary significantly over time.

- Results should be interpreted in the context of the Government's ethos of cost minimisation and not profit maximisation: cash transactions are solely intended to smooth a given cash flow profile over time and across products and instruments, within agreed risk parameters, and are not intended to seek opportunities to generate excess return.

- Active cash management earned positive net interest after cost of funds, but before transaction and management costs, of £33.9 million for 2012-13 compared with £60.9 million for 2011-12. The DMO's estimated transaction and management costs during the year were £7.7 million.

- Positive net interest after cost of funds has been earned by virtue of funding the Exchequer's daily cash needs in the wholesale money markets at rates that have been on average significantly below the prevailing Bank of England Bank Rate and from investing surpluses at market rates that were on average marginally below Bank Rate.

- There were no breaches of the credit, interest rate, foreign exchange or liquidity limits in 2012-13.

Objective 1.5: The DMO should maintain a credible reputation in the market that leads to lower costs in the long term and a system that is sustainable.

The DMO seeks to maintain and enhance its reputation in the market by being open, transparent and consistent about the aims and intentions of its operations and transactions. This has allowed it to continue to widen its market and counterparty access and to deal at fair and competitive rates.

In addition, DMO personnel, processes and internal systems have to be capable of complying with market standards and following market practice in respect of speed and accuracy in negotiation, clearing and settlement of trades.

KPI 1.5: The DMO should maintain channels of communication with money market participants and Treasury bill counterparties both formally and informally to explain, as far as possible, the nature and intent of its operations in the money markets. The DMO should monitor compliance with its operational notices; provide complete, accurate and timely instructions to counterparties, agents, external systems and operators; and achieve the successful settlement of agreed trades on the due date.

- As stated in KPI 1.3 above, in 2012-13 the DMO maintained an active and open dialogue with cash counterparties and other market stakeholders to explain its cash management approach and strategy and to explain the context for and receive feedback on Treasury bill tenders and other market operations.

- There were no breaches of cash management operational targets for trade settlement (percentage by value on the due date) or for announcement of Treasury bill tender results (an average of 7 minutes). There were no breaches of the cash management operational notice in 2012-13.

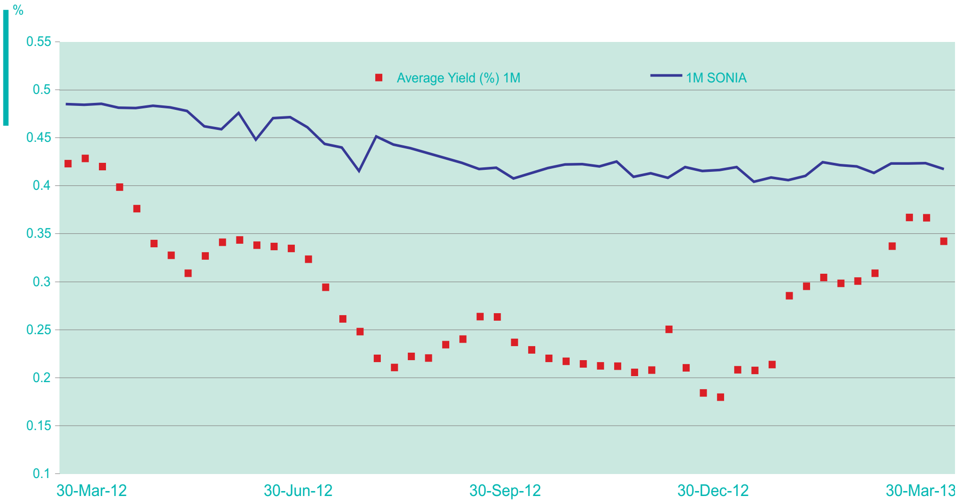
Treasury bill tender performance

Table B5 and Charts B1-3 compare the results (in terms of the average accepted yield) of all Treasury bill tenders held in 2012-13 with the corresponding Overnight Index Swap (OIS) rates on the day of the settlement of the tenders. On average over the financial year the average accepted yields at the tenders out-performed the corresponding OIS rates by between 5 to 15 basis points.

Table B5
Comparison of average tender yields with OIS rates in 2012-13

	Average tender yield %	Average OIS rate %	Tender relative performance (bps)
One-month	0.282	0.435	**-15**
Three-month	0.296	0.418	**-12**
Six-month	0.346	0.396	-**5**

Chart B1
One-month tender yields compared with OIS rates in 2012-13



Source: DMO/Bloomberg

Chart B2
Three-month tender yields compared with OIS rates in 2012-13

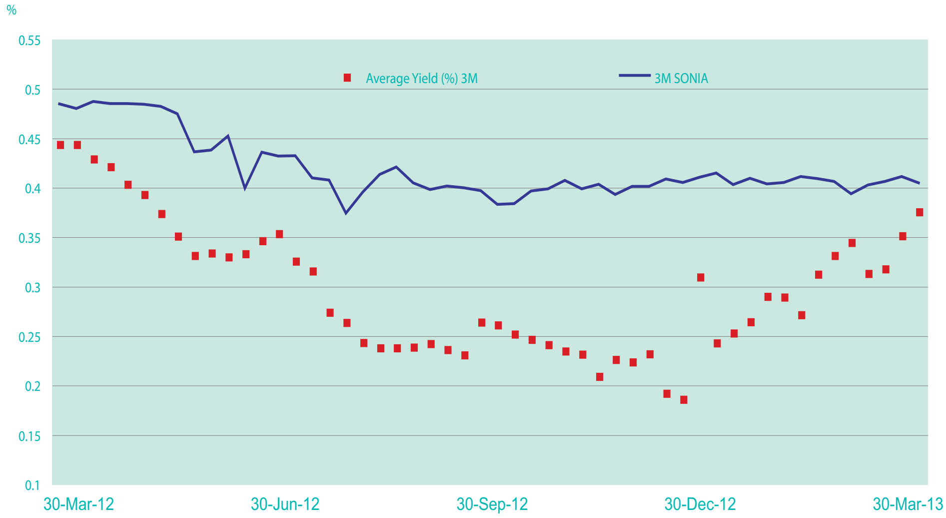
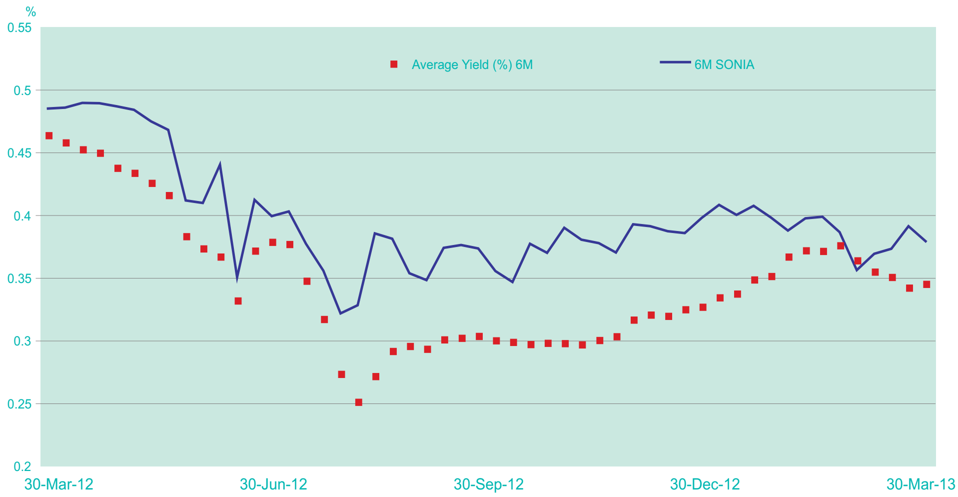


Chart B3
Six-month tender yields compared with OIS rates in 2012-13



Source: DMO/Bloomberg

C: The gilt portfolio

The gilt portfolio

The key statistics of the gilt portfolio at end-March 2013 compared with the position at the end of the previous financial year are shown in Table C1 below. Figures in the net columns next to the nominal and market values of the gilt portfolio are the corresponding totals excluding central government holdings.

Table C1
Key gilt portfolio statistics

	End-March 2012		End-March 2013	
	Gross	Net	Gross	Net
Nominal value of the debt portfolio - inc T-bills (£bn):	1,234.26	1,112.80	1,326.31	1,199.70
Nominal value of the gilt portfolio (£bn):	1,163.84	1,042.38	1,269.07	1,142.46
- conventional gilts[33]:	898.02	788.57	967.56	853.34
- index-linked gilts:	265.82	253.82	301.51	289.12
Market value of the debt portfolio - inc -T-bills (£bn):	1,460.14	1,310.81	1,603.74	1,444.54
Market value of the gilt portfolio (£bn):	1,389.76	1,240.44	1,546.54	1,387.35
- conventional gilts (£bn)	1,051.41	917.74	1,149.60	1,007.06
- index-linked gilts (£bn)	338.36	322.69	396.94	380.29
Weighted average market yields				
- conventional gilts:	1.96%	1.94%	1.65%	1.63%
- index-linked gilts:	-0.55%	-0.53%	-0.93%	-0.91%
Portfolio average maturity - inc Tbills (years)	14.46	14.47	14.86	14.91
Portfolio average maturity - exc Tbills (years)	15.19	15.28	15.40	15.52
- conventional gilts (years)	13.82	13.67	13.88	13.75
- index-linked gilts (years)	19.44	19.84	19.78	20.19
Average modified duration				
- conventional gilts(years)	9.16	9.09	9.19	9.12
- index-linked gilts (years)	17.34	17.71	19.00	19.33

A list of gilts, including first issue and coupon dates and nominal amounts outstanding (updated daily) is available on the DMO website at:
http://www.dmo.gov.uk/ceLogon.aspx?page=D1A&rptCode=D1A

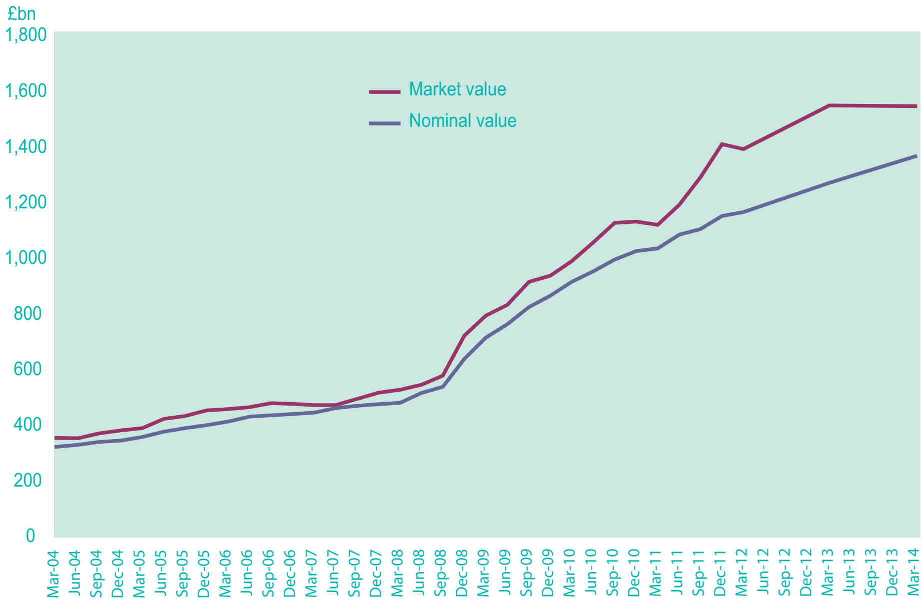
The nominal value[20] of the gilt portfolio rose by 9.1% to £1,269.1 billion as gross gilt issuance greatly exceeded gilt redemptions. The market value of the portfolio rose, however, by 11.3% to £1,546.5 billion as yields fell over the year.

The numbers are, however, inflated by the creation (since 2008-09) of £130 billion (cash) gilt collateral for the DMO's Exchequer cash management operations and the Bank of England's Discount Window Facility – the net data above exclude these holdings.

Chart C1 shows the nominal and market values of the gilt portfolio at end-March in each year since 2005 and projected to end-March 2014 based on the DMO's financing remit for 2013-14.

[20] Including inflation uplift on index-linked gilts.

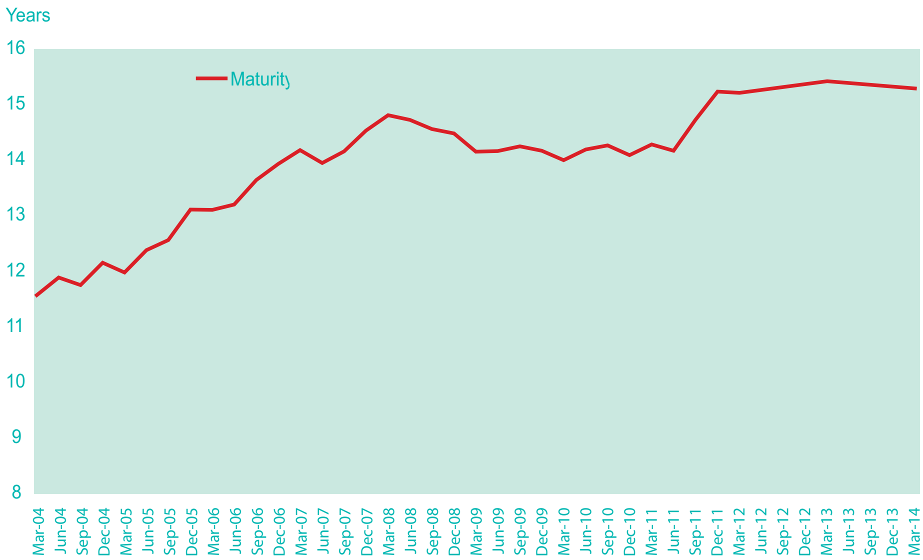
Chart C1
Nominal and market values of the gilt portfolio (projected to end-March 2014)



Source: DMO

Chart C2 shows the average maturity of the gilt portfolio at end-March each year since 1998 and projected to end-March 2014 on the basis of the DMO's 2013-14 financing remit; on this basis, the recent gradual lengthening trend of the last few years is expected to reverse marginally, with the average maturity falling from 15.4 to 15.3 years.

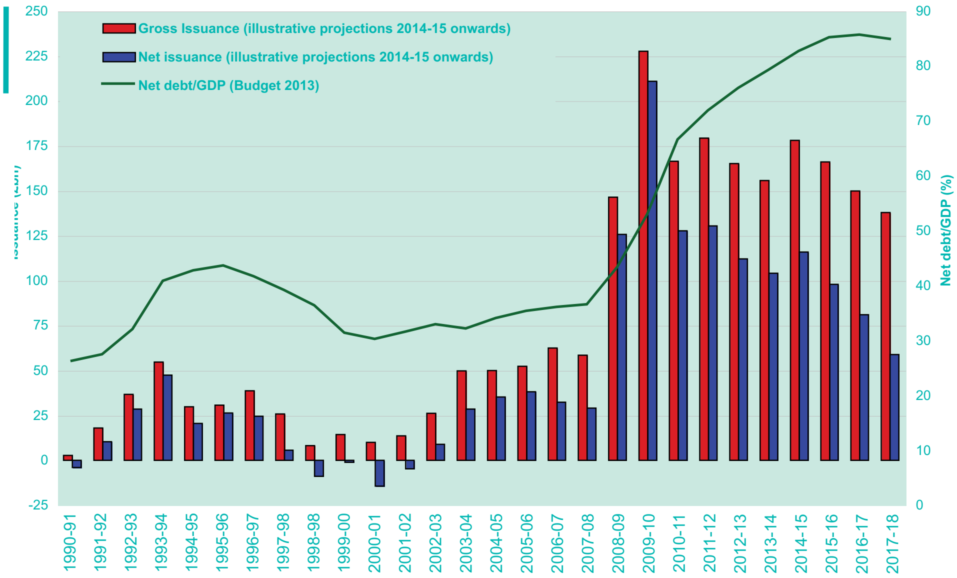
Chart C2
Maturity of the gilt portfolio (projected to end-March 2014)



Source: DMO

Chart C3 shows past and projected gross and net gilt issuance levels (and net debt/GDP data) as published at the Budget on 21 March 2012.

Chart C3
Gross and net issuance history and projections



Source: DMO / Office for Budget Responsibility (OBR)

Table C2 and Chart C4 below 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 29% of the portfolio at the peak in March 2009) although it has fallen back marginally since, reflecting the subsequent very large absolute increase in short conventional issuance at a time of significantly elevated financing requirements. The proportion accounted for by index-linked gilts also rose significantly (from 21% to a peak of 30% at end-March 2008) although this too has fallen back since in the wake of record high gilt sales requirements which necessitated significant absolute increases in conventional gilt sales.

Table C2
Portfolio composition 1999-2013

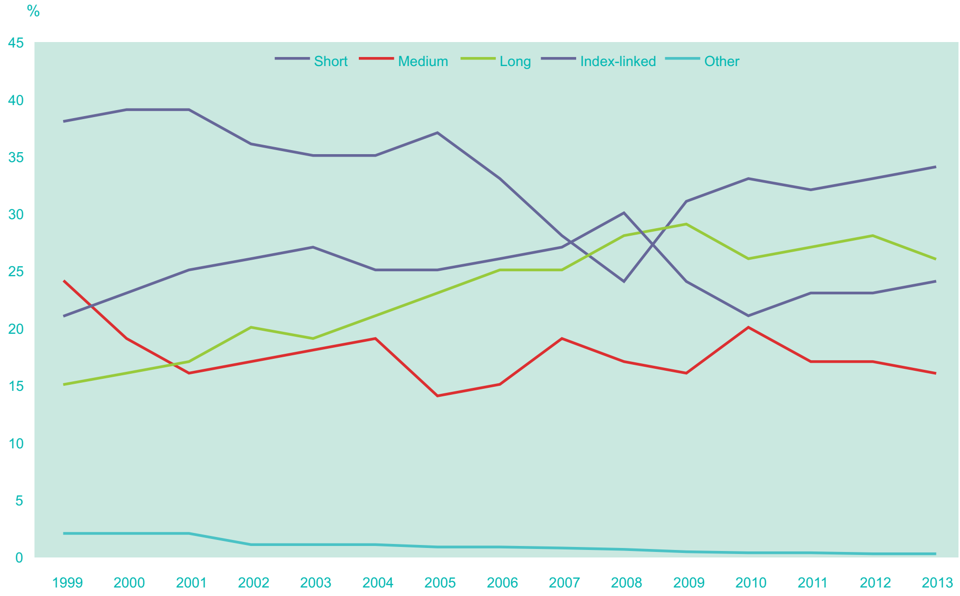
%	Short	Medium	Long	Index-linled	Other*
1999	38	24	15	21	2
2000	39	19	16	23	2
2001	39	16	17	25	2
2002	36	17	20	26	1
2003	35	18	19	27	1
2004	35	19	21	25	1
2005	37	14	23	25	0.8
2006	33	15	25	26	0.8
2007	28	19	25	27	0.7
2008	24	17	28	30	0.6
2009	31	16	29	24	0.4
2010	33	20	26	21	0.3
2011	32	17	27	23	0.3
2012	33	17	28	23	0.2
2013	34	16	26	24	0.2

Data as at end-March. Figures may not sum due to rounding.
**Includes undated and floating rate gilts to 2001; undated gilts only thereafter.*

Source: DMO

Chart C4

Gilt portfolio – breakdown proportion by maturity and type 1999-2013



Source: DMO

United Kingdom
Debt Management
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