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THE DEBT MANAGEMENT OFFICE'S FINANCING REMIT FOR 2005-06

Objectives

5.1 The UK Debt Management Office (DMO), an Executive Agency of HM Treasury, has been given the following objectives in respect of Government debt management:

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

Quantity of gilt sales

5.2 The DMO, on behalf of the Government, will aim for gilt sales of £53.5 billion (cash) in 2005-06.

Amount and maturity mix of index-linked gilt issuance

5.3 Over 2005-06, the DMO aims to sell £11.0 billion (cash) in index-linked gilts.

5.4 11 auctions of index-linked gilts are planned in 2005-06. This will include regular issuance at long maturities. From 2005-06, any new index-linked gilt will have a three-month indexation lag, but the DMO may also re-open any existing eight-month lag index-linked gilt.

5.5 The Government has an ongoing commitment to the index-linked gilt market. The current assumption is that issuance of index-linked gilts will be consistent with approximately a quarter of the Government's marketable debt portfolio being in the form of real exposure.

5.6 Amount and maturity mix of conventional gilt issuance:

- 15 auctions of conventional gilts are planned in 2005-06:
- 4 in the short (1-7 years) maturity area, aiming to raise £12.5 billion cash;
- 4 in the medium (7-15 years) maturity area, aiming to raise £11.5 billion cash;
- 7 in the long (15 years and over) maturity area, aiming to raise £18.5 billion cash.

5.7 The gilt sales targets in paragraphs 5.3 and 5.6 above are specified in cash terms, but the gilt auctions are sized in nominal terms, typically in £0.25 billion increments. Therefore all gilt sales targets are expressed in approximate terms.

Ultra-long gilt issuance

5.8 From 2005-06 the DMO may issue conventional and index-linked gilts with maturities of up to approximately 50 years. Decisions on specific maturities for issuance in any one quarter will be announced at the end of the preceding quarter, in the regular quarterly announcement on gilt issuance plans. Auctions remain the preferred means of issuance for all gilts. However, the DMO, with the agreement of HM Treasury, reserves the right to issue ultra-long gilts initially by syndicated offerings. Syndicated offerings would only take place in cases where HM Treasury was satisfied that this method of issuance would better meet the Government's debt management policy objective of minimising long-term costs, whilst taking account of risk.

Contingencies

5.9 Any changes in the published financing requirement will be met by: (a) increasing or reducing planned gilt sales broadly in proportion to the splits planned in the remit; and/or (b) increasing or decreasing planned sales of T-bills; and/or (c) adding or cancelling gilt auctions. Adding or cancelling gilt auctions will only be undertaken when changes in the published financing requirement are judged to be sufficiently large to warrant such actions. Decisions to modify gilt and T-bill sales plans or revise the gilt auction calendar will be taken subject to considerations about debt portfolio objectives and evolving market conditions.

Method of issuance of gilts

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

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

5.12 The expected timing of gilt sales is set out in the auction calendar in Table 5.1 below. A more detailed auction calendar for the first quarter of the financial year will be announced by the DMO at 3.30pm on 31 March 2005. Full details of these, and subsequent, auctions will generally be announced at 3.30pm on the Tuesday of the week preceding the auction.

Table 5.1: Gilt auction calendar 2005-06

Date	Type
2005	
12 April	Index-linked
14 April	Conventional
28 April	Conventional
24 May	Index-linked
26 May	Conventional
7 June	Conventional
23 June	Index-linked
14 July	Conventional
26 July	Index-linked
2 August	Conventional
6 September	Conventional
22 September	Index-linked
27 September	Conventional
11 October	Index-linked
13 October	Conventional
25 October	Index-linked
8 November ¹	Conventional
24 November ¹	Index-linked
6 December ¹	Conventional
2006	
10 January	Conventional
24 January	Index-linked
26 January	Conventional
7 February	Index-linked
16 February ¹	Conventional
1 March ¹	Conventional
7 March ¹	Index-linked

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

In the event that the General Election is held in the week of an auction date(s), the DMO will reschedule the auction(s).

5.13 The programme of conventional and index-linked gilt auctions may be supplemented between auctions by official sales of gilts by the DMO "on tap". Taps of gilts will be used only as a market management instrument in conditions of temporary excess demand in a particular gilt or sector. The DMO would only contemplate taps in exceptional circumstances.

5.14 After an auction, the DMO will generally refrain from issuing gilts of a similar type or maturity to the auctioned gilt for a reasonable period. Such gilts will only be issued if there is a clear market management case for doing so.

5.15 For the purposes of market management, the DMO may create and repo out stock in accordance with the provisions of its Standing Repo Facility launched on 1 June 2000.

Reverse auctions

5.16 The DMO has no plans for a programme of reverse auctions in 2005-06.

Coupons

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

Buy-ins of short maturity debt

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

Conversions and switch auctions

5.19 The DMO may conduct such operations in accordance with the prevailing issue of its Operational Notice on operations in the gilt-edged market.

Reviews to the remit

5.20 The remit, and in particular the number of auctions and the allocation between conventional maturity bands and index-linked, may be varied during the year in the light of substantial changes in the following:

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

5.21 Any revisions to this remit will be announced.

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THE DEBT MANAGEMENT OFFICE'S EXCHEQUER CASH MANAGEMENT REMIT FOR 2005-06

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

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

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

Exchequer cash management objective

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

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

Instruments and operations used in Exchequer cash management

6.5 The range of instruments and operations that the DMO may use for cash management purposes is set out in its Operational Notice.⁷

6.6 One component of the debt sales planned to meet the Government's annual financing requirement is the year-on-year change in the outstanding stock of T-bills (excluding bills issued solely for collateral purposes). This change is announced as part of the financing remit given by HM Treasury to the DMO (see Chapter 5 above).

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

⁷ The current edition of *Exchequer Cash Management Operational Notice and Treasury Bill Information Memorandum* is available on the money market section of the DMO website and can be found under "Press Releases" at: <http://dmo.gov.uk/cash/flmoney.htm>.

6.8 The DMO may also issue T-bills to the market to assist the Bank of England in its management of the sterling money markets. In response to a request from the Bank, the DMO may add a specified amount to the size(s) of the next bill tender(s) and deposit the proceeds with the Bank, remunerated at the weighted average yield(s) of the respective tenders. The amount being offered to accommodate the Bank's request will be identified in the DMO's weekly Treasury bill tender announcement. T-bill issues made at the request of the Bank will be identical in all respects to T-bills issued in the normal course of DMO business.

DMO collateral pool

6.9 To assist the DMO in the efficient execution of its cash management operations a combination of T-bills and gilts, which shall be chosen to have a negligible effect on relevant indices, shall be issued to the DMO on the third Wednesday of April, July and October 2005 and January 2006. Any such issues to the DMO will only be used as collateral in the DMO's cash management operations and will not be available for outright sale. The precise details of any such issues to the DMO will be announced in advance.

Box 6.1: Explanation of the new Exchequer cash management objective

The cash management objective has been re-phrased this year to provide a stronger statement that clarifies the primacy of the cost minimisation goal, within the context of an approved risk appetite.

The introduction of the approved risk appetite will make it easier to form objective and measurable parameters within which the DMO will conduct its cash management operations and be accountable to Ministers.

This change is part of a series of improvements being introduced over the next year or so, which are all aimed at upgrading the effectiveness and accountability of Exchequer cash management.

In particular, the new wording replaces terms used in the old objective that could be interpreted as more or less demanding or constraining by different stakeholders. Thus it will better facilitate delegation, accountability and performance measurement.

The new wording also extends the application of the cash management objective to the wider arrangements supporting Exchequer cash management, such as banking arrangements.