

United Kingdom  
**Debt  
Management  
Office**

# DMO Annual Review

2009-10



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

August 2010



United Kingdom  
**Debt  
Management  
Office**

	Page No
Foreword by the DMO Chief Executive	2
1. The Economy and Financial Markets	3
2. Government Debt Management	13
• Supplementary gilt distribution methods	
• Asset Purchase Facility and debt management	
• Review of the formats used for gilt auctions	
3. Exchequer Cash Management	35
4. Fund management and local authority lending for central government	40
5. The DMO	42
• The DMO's contribution to the Government's activities to support financial markets and the UK banking sector	
• European Union Emission Trading System: DMO involvement	
 Annexes	
• A Gilts in issue at 31 March 2010	48
• B List of GEMMs and Inter Dealer Brokers (IDBs) at 31 March 2010	50
• C Financing remit: the market consultation process	53
• D Debt and cash management performance	54
• E Gilt redemptions and the gilt portfolio	69
• F Treasury bill tender results	74
• G Treasury bill tender performance	77
• H The DMO website	79

## Foreword by the DMO Chief Executive

2009-10 was the DMO's twelfth year of operation and it was a year in which we faced significant challenges, in particular in terms of the size of the financing remit we had to deliver. We raised almost £228 billion through gilt sales and we continued successfully to deliver the exchequer cash management function in a very volatile financial market environment.

Our pre-announced auctions continue to form the core of our financing programme (accounting for over 80% of total gilt sales) but to help deliver the overall quantum effectively, 2009-10 saw the implementation of a supplementary issuance programme of syndicated offerings and mini-tenders, which together raised over £40 billion.

The supplementary issuance methods were also specifically designed to help maximise sales of long-dated conventional and index-linked gilts, and to help target our core investor base more directly. A programme of six syndicated gilt offers with monthly mini-tenders helped successfully to deliver an increase in supply of long-dated conventional and index-linked sales in 2009-10 over the previous year of some £30 billion (60%) to £81 billion. In all, the DMO held 77 gilt sales operations in 2009-10, 11 more than in the previous year.

One other innovation introduced in 2009-10 which also helped deliver higher sales was the Post Auction Option Facility (PAOF) which was available from June 2009. Under the PAOF, successful bidders at auctions can purchase up to an additional 10% of the total of gilts they were allocated at the auction at the average accepted (or strike) price at the auction. £9.8 billion was raised via the PAOF in 2009-10.

The gilt market has absorbed this record amount of new gilts extremely smoothly and it has done so whilst also facilitating an unprecedented level of secondary market gilt purchases by the Bank of England. This is a testament to the depth and liquidity of the gilt market which helps support its efficient functioning.

The Public Works Loan Board continued to operate successfully in 2009-10, advancing £5.08 billion to local authorities and receiving £2.89 billion in interest income. The Commissioners for the Reduction of the National Debt also continued to manage efficiently the public sector funds under their control.

Looking at 2010-11, the DMO's gilt financing requirement has fallen by over £60 billion compared to 2009-10, but planned gilt sales of £165 billion remain the second highest on record and will need to be delivered in a financial market environment which may continue to be volatile and unpredictable. Nevertheless on the basis of the strength of achievement in 2009-10, we look forward to the challenges of 2010-11 with confidence.

Robert Stheeman  
August 2010

## Chapter 1: The Economy and Financial Markets

### Fiscal and macroeconomic developments

The world economy emerged from recession during 2009-10 but activity was significantly below pre-crisis levels throughout the period and the recovery in many regions was judged to remain fragile. In the UK, the financial year had started with the economy in recession. Real Gross Domestic Product (GDP) contracted by 0.7% quarter-on-quarter (q-o-q) in the first three months of the financial year and by 0.2% q-o-q in the July - September, before returning to positive growth of 0.4% q-o-q in the third quarter. Activity remained subdued in the fourth quarter despite previous sterling depreciation providing advantageous conditions for many UK exporters. Downside risks to the global recovery were intensified by volatile financial conditions in a number of currencies and markets.

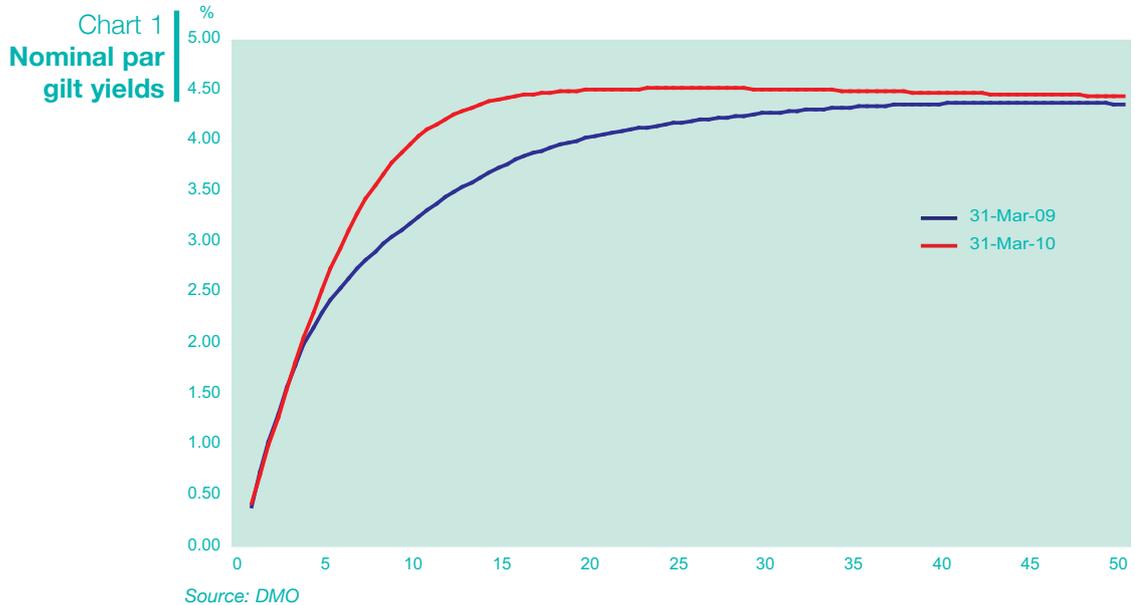
Consumer Prices Index (CPI) inflation was marginally above the Bank of England's target growth rate of 2.0% year-on-year (y-o-y) at the start of the financial year. Base effects from high oil prices in the previous year caused the growth rate to fall throughout the first half of the year, reaching a 5-year low of 1.1% in September. CPI rose above the upper bound of the target range (3.0%) in January 2010, obliging the Governor of the Bank of England to write an explanatory letter to the Chancellor of the Exchequer. Higher petrol prices and the reversion of VAT to 17.5% (from 15.0%) helped to keep CPI inflation elevated for the rest of the year, finishing at 3.4% y-o-y in March. The Retail Prices Index (RPI) measure of inflation, which is used to determine the cash flows on index-linked gilts, began 2009-10 in negative territory (-1.2% y-o-y) largely as result of falling mortgage interest payments. This was the first time prices had fallen on this index since 1960. Following a June low of -1.6% the RPI growth rate trended steadily into positive territory by November 2009 before accelerating sharply to 4.4% by the financial year end.

The Bank of England (BoE) official Bank Rate remained at an historically low level of 0.5% throughout 2009-10 and the BoE continued to conduct asset purchase operations (primarily gilts) on behalf of its Asset Purchase Facility (APF). These assets were financed by the creation of central bank reserves, with the aim of improving liquidity in credit markets and providing a further stimulus to support demand in the wider economy. New APF purchases of £50 billion were announced May 2009, a further £50 billion in August 2009 and £25 billion in November 2009, taking the total planned purchases since programme inception to £200 billion (see page 26).

## Gilt market developments

### Par gilt yields

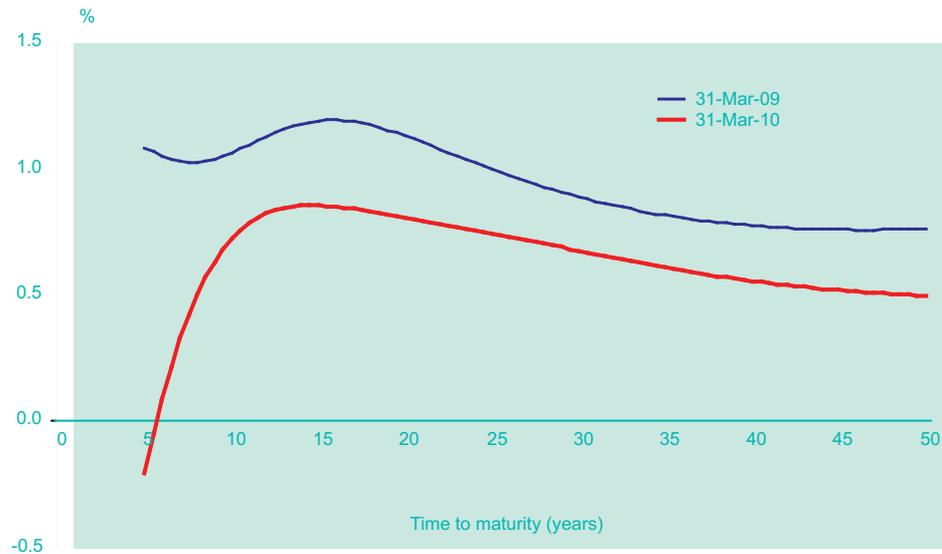
Gilt yields traded in tight ranges at both the ultra-short and ultra-long ends of the nominal par curve in 2009-10. In contrast, yields rose significantly in the medium sector, particularly in the final quarter of the year. The rise in yields at the medium sector was thought to be attributed to a number of factors, including the fiscal outlook and the suspension of BoE asset purchases in February 2010<sup>1</sup>. Moreover, the medium sector also saw the largest increase in issuance in 2009-10 (up from £33.1 billion in 2008-09 to £71.3 billion). 2-year par yields fell by 3bps to 1.25%, 5-year yields rose by 30bps to 2.71%, 10-year yields by 79bps to 4.01%, while 30- and 50-year par yields rose by 23bps to 4.49% and 8bps to 4.42%, respectively. See Chart 1.



In contrast, real yields fell significantly along the curve in 2009-10. The 10-year real par yield fell by 34bps to 0.72% and the 50-year by 26bps to 0.49%. See Chart 2.

<sup>1</sup> The last gilt purchases prior to the MPC's decision to suspend the facility took place on 26 January 2010.

Chart 2  
Real par gilt yield curves



Source: DMO

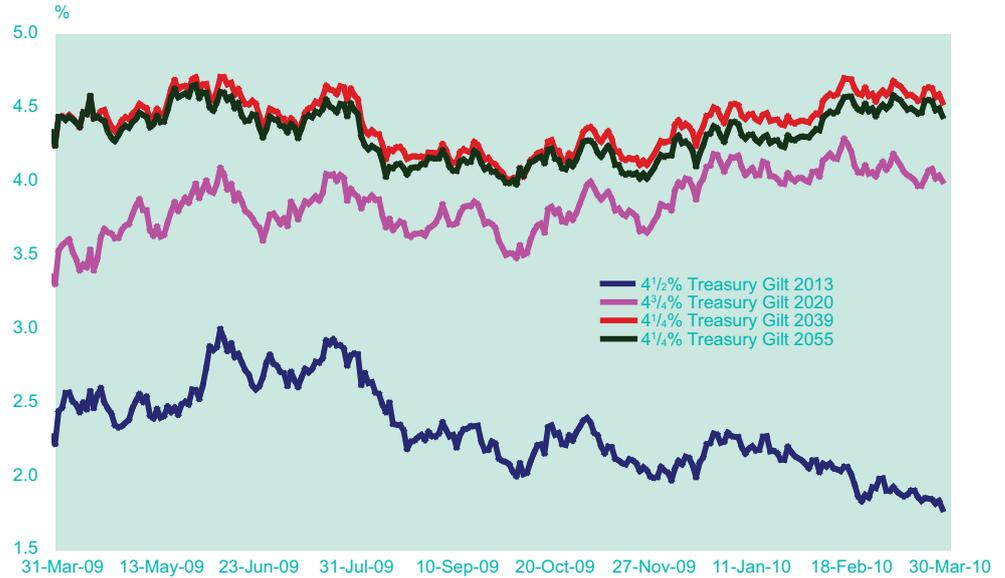
### Conventional benchmark gilts

Government bond markets experienced periods of heightened volatility in 2009-10 reflecting, notably, uncertain domestic and global economic outlooks. Downside risks to growth continued to dominate expectations for the evolution of monetary conditions in the majority of G10 economies, particularly in the first half of the financial year, and government bond markets continued to benefit from flows out of riskier assets. Later in the financial year, the focus of investors in government bonds shifted to the widespread deterioration in fiscal positions in many economies and, in the case of the UK, the prospect of a spring General Election.

Conditions in the gilt market were also influenced by the operation of the Asset Purchase Facility (APF) and the reduced “free float” of the specific gilts bought into the APF portfolio. To address this the BoE and the DMO introduced, on 7 August 2009, a gilt lending facility under which the Bank undertook to make available to the DMO gilts it had bought via the APF, for on-lending to the market through the DMO’s usual repo activities. Following the introduction of this new lending facility, the DMO’s Standing Repo Facility stopped being triggered and this helped contribute to a reduction in volatility along the curve.

The path of benchmark conventional gilt yields over 2009-10 is shown in Chart 3.

**Chart 3**  
Conventional benchmark gilt yields

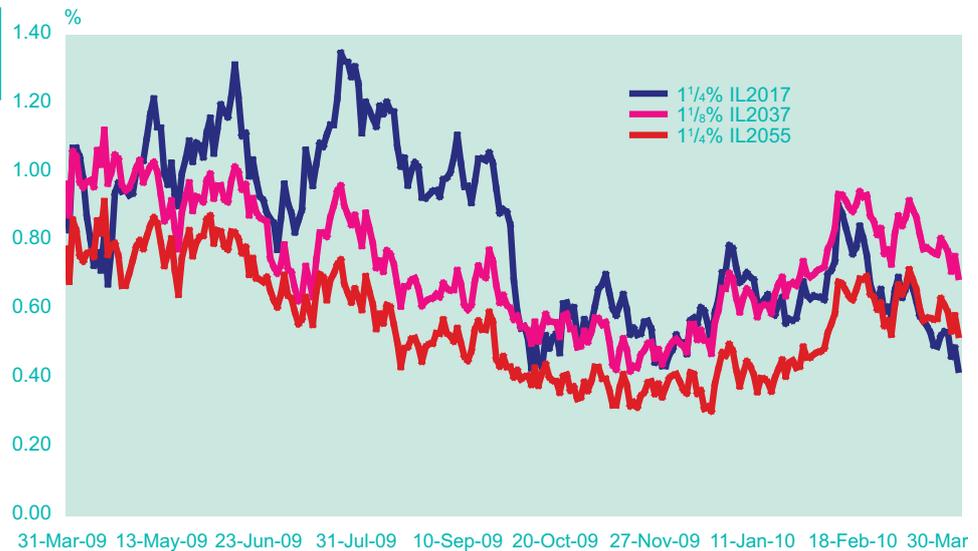


Source: DMO

**Index-linked real yields**

Chart 4 shows the real yields on selected benchmark index-linked gilts in 2009-10. The market yield on 1 1/4% Index-linked Treasury Gilt 2017 fell by 47bps, to 0.42% whilst the yield on 1 1/8% Index-linked Treasury Gilt 2037 fell by 27bps to 0.69% and that on 1 1/4% Index-linked Treasury Gilt 2055 maturity by 25bps to 0.52%.

**Chart 4**  
Index-linked benchmark gilt yields

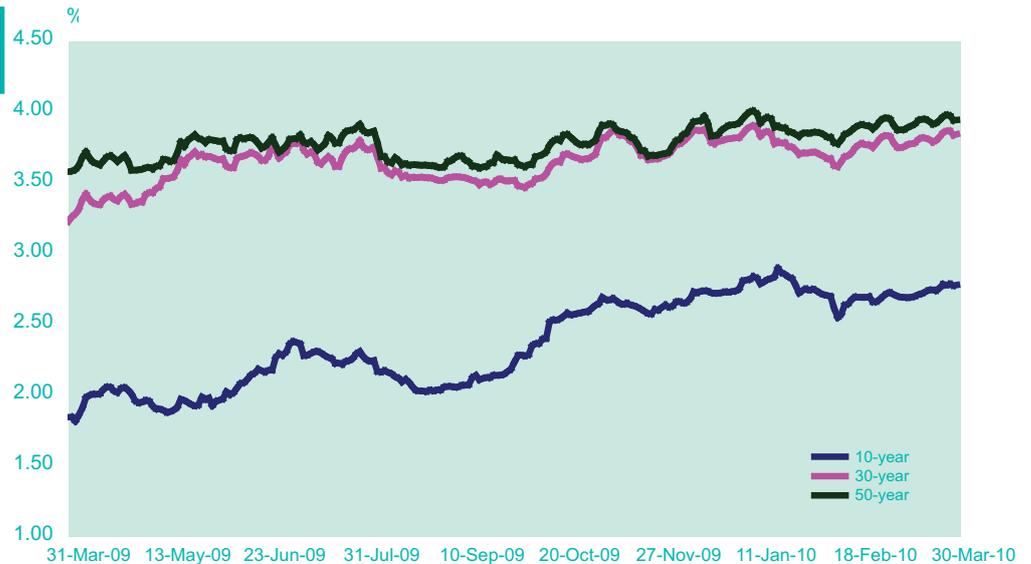


Source: DMO

**Break-even inflation rates**

Measured by break-even inflation rates, index-linked gilts generally outperformed their conventional counterparts in 2009-10. 10-year, 30-year and 50-year break-even inflation rates rose by 93bps (to 2.77%), 62bps (to 3.83%) and 37bps (to 3.93%) respectively (see Chart 5). Perceived upside risks to inflation and ongoing reported buying interest by the UK pension and insurance sectors supported the index-linked market in 2009-10.

Chart 5  
10-year, 30-year and 50-year  
break-even inflation rates

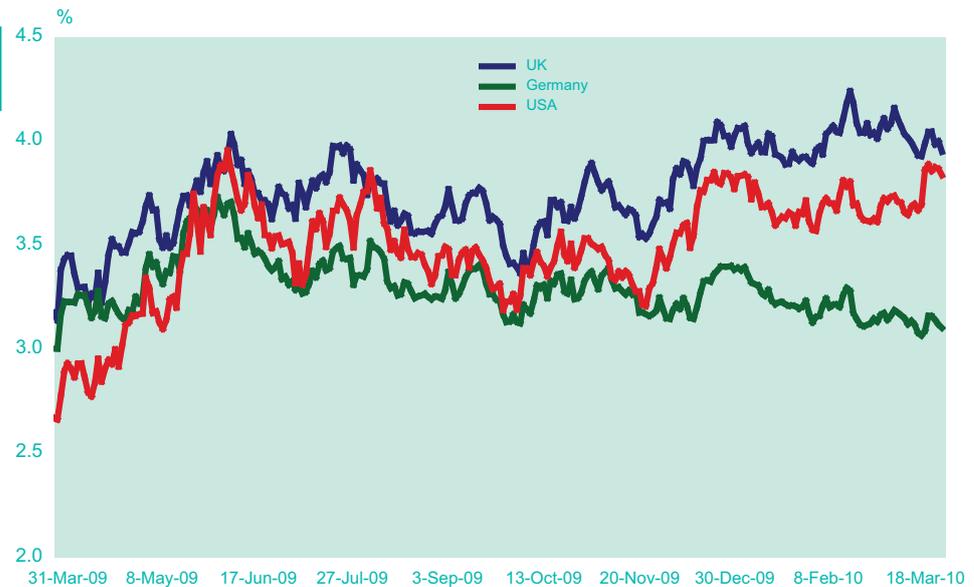


Source: DMO

**International comparisons**

Yields on 10-year UK, US and German bonds finished the year higher than they began, 10-year UK yields rose by 77bps and in the US by 116bps, while in Germany they rose marginally by 10bps. See Chart 6.

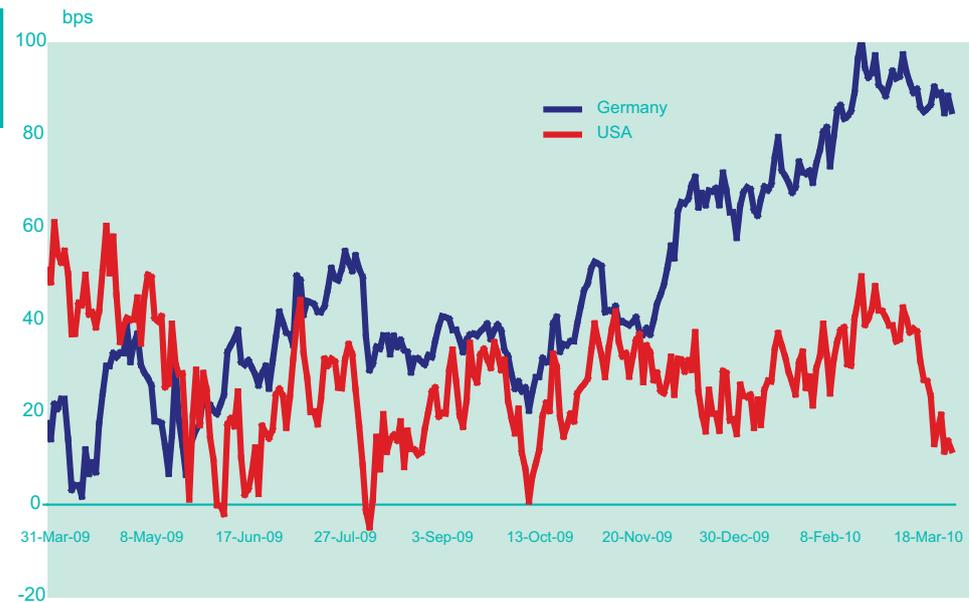
Chart 6  
UK, US and German 10-year  
Government bond yields



Source: Bloomberg

The differential between 10-year UK gilt and US treasury note yields began the financial year at +50bps, then 10-year gilts generally outperformed through the summer and autumn, trading through treasuries on isolated occasions. The end of the financial year saw gilts outperforming again with the 10 year yield spread closing from over 40bps in early March 2010 to end the financial year at +11bps. 10-year gilt yields also began the financial year +17bps above German bunds though this spread widened to reach +100bps on 23 February 2010 before closing the year down from the highs at +85bps. See Chart 7.

Chart 7  
UK/US and UK/German  
10-year Government bond  
yield spreads



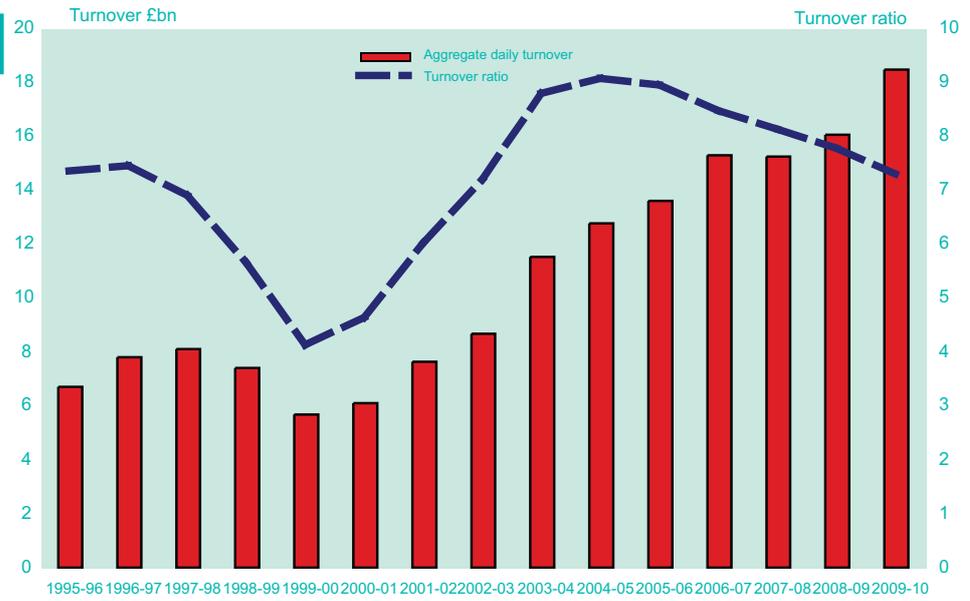
Source: Bloomberg

### Gilt market turnover

Aggregate daily turnover by value in the gilt market increased in 2009-10 by 15% compared with the previous financial year (from £16.05 billion to £18.46 billion). Trading intensity in 2009-10 (as measured by the turnover ratio<sup>2</sup>) fell to 7.28, from to 7.75 in 2008-09. This reflected the significantly larger gilt portfolio against which the ratio is calculated. See Chart 8.

<sup>2</sup> The turnover ratio for a given financial year is the aggregate turnover in that year relative to the market value of the portfolio at the start of that year.

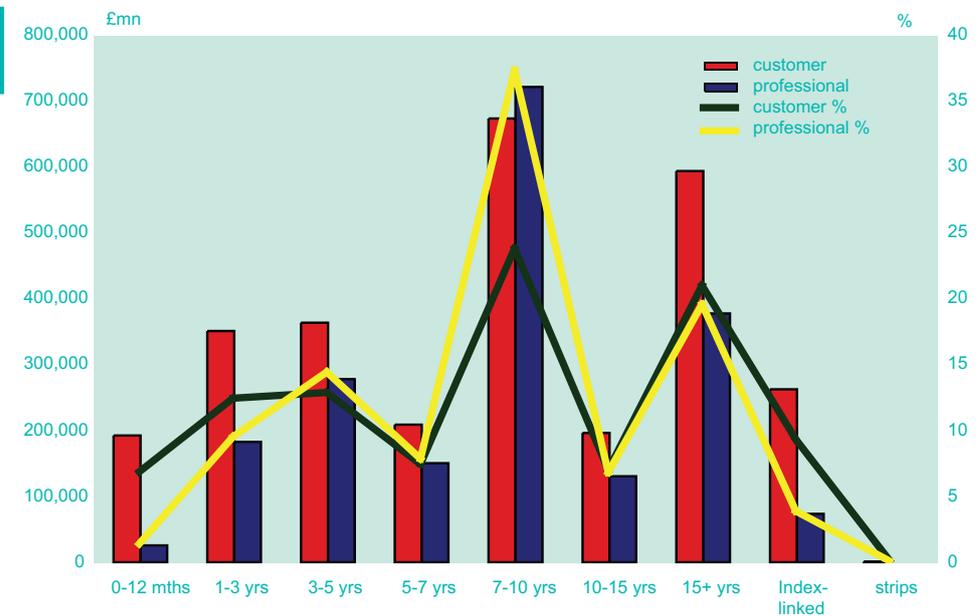
Chart 8  
Gilt market turnover



Source: GEMMs

As in previous years, gilt market turnover was weighted heavily towards the 7-10 year and the over 15-year maturity sectors. See Chart 9.

Chart 9  
Gilt market turnover by maturity and type

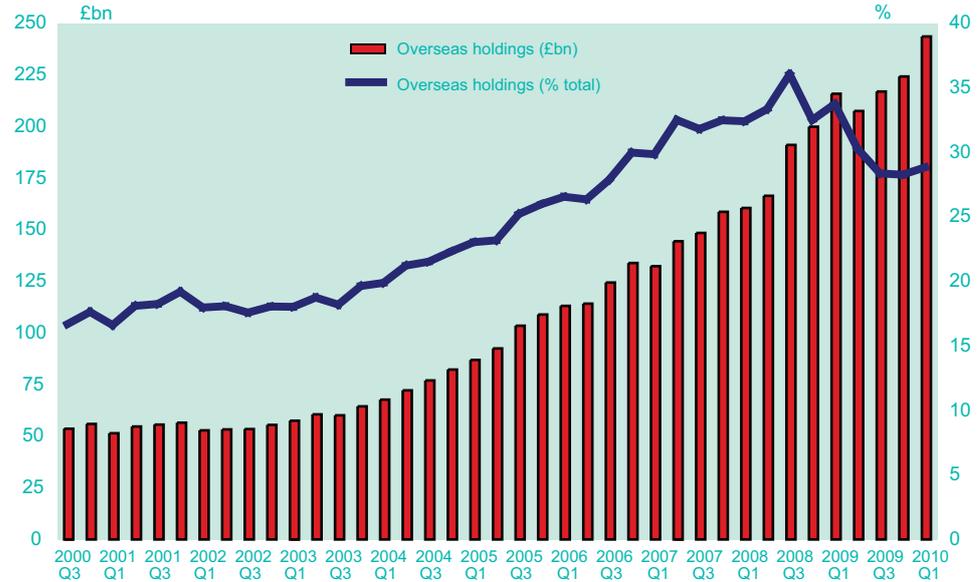


Source: GEMMs

### Overseas holdings of gilts

Chart 10 shows the trend in overseas holdings of gilts in the decade to end-March 2010. According to data published by the Office for National Statistics (ONS) from end-2003 there has been a sustained rise (around £180 billion) in the amount of gilts held by overseas investors. In the year to end-March 2010 the amount rose by 13% to £243.6 billion. The absolute increase in overseas holdings has been attributed to purchases of (mainly short-dated) gilts by Central Bank reserves managers and hedge funds.

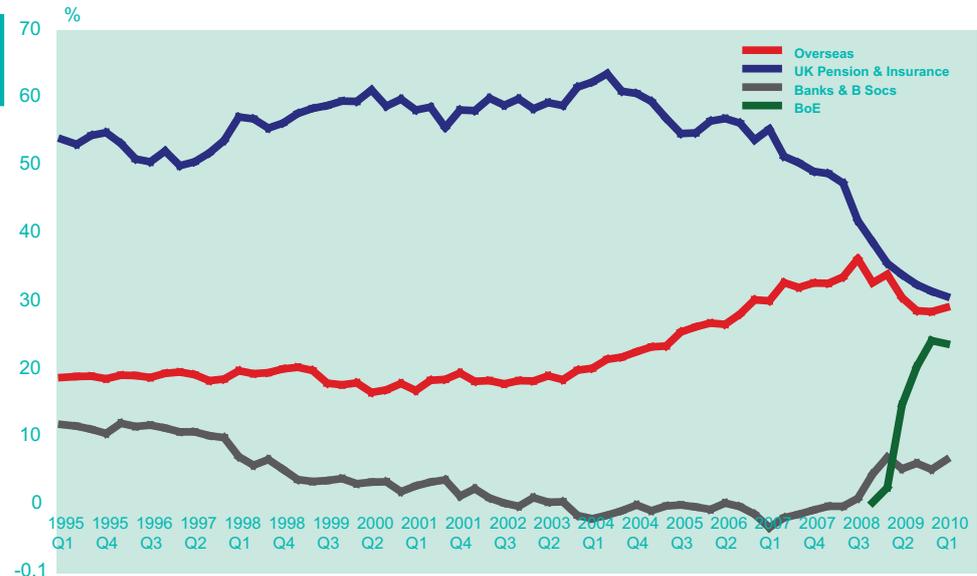
Chart 10  
Overseas holdings of gilts



Source: ONS

As a proportion of the portfolio, overseas holdings have been falling for the past two years. This reflects both the significant increase in the size of the gilt portfolio itself (which almost doubled in the two years between end-March 2008 and end-March 2010) and also significant purchases of gilts in the secondary market by the BoE via the APF. The changing share of the gilt portfolio held by the major sectoral holders (and the emergence of the Bank as a major holder in the past year) is shown in Chart 11.

Chart 11  
Major sectoral holdings of gilts



Source: ONS and Bank of England

**UK money market developments**

Official policy rates in the UK and USA remained stable at 0.50% and 0.25% respectively throughout 2009-10. In the Eurozone, the European Central Bank (ECB) cut its main refinancing rate from 1.50% to 1.25% in April 2009 and to 1.00% in May 2009, remaining at this level for the rest of the financial year.

Chart 12 shows the path of official rates in the UK, USA and the Eurozone in 2009-10. Sluggish growth in the world economy and the uncertainty surrounding the impact of the financial crisis on the supply potential of these economies encouraged Central Banks in the UK, US and the Eurozone to keep rates low and stable throughout the year. A further influence on the path of official rates in the Eurozone was the renewed fragility in financial markets towards the end of the year. This was triggered by heightened concerns about the sustainability of fiscal positions in some parts of the region.

Chart 12 also shows the path of three-month sterling LIBOR<sup>3</sup> rates in 2009-10. In the UK the spread between the three-month LIBOR rate and the Bank Rate narrowed from 115bps at the beginning of the year to 15bps in March 2010. This reflected the general improvement in market sentiment and some return of risk appetite as the economy showed signs of recovery during the year.

Chart 12  
Official interest rates

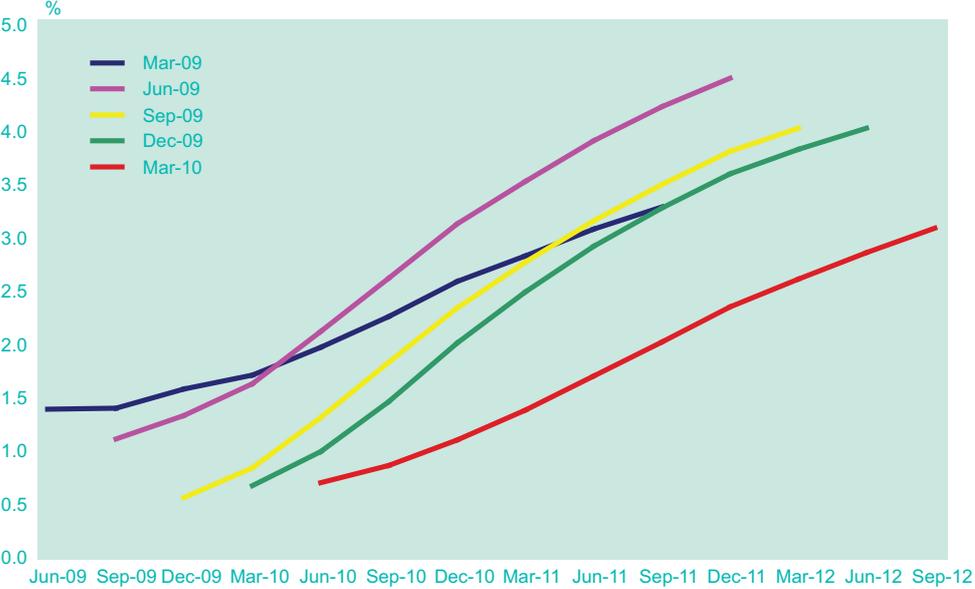


Source: Bloomberg/British Bankers Association (BBA)

<sup>3</sup> London Interbank Offer Rate; the quoted aggregate rate at which banks lend to each other. LIBOR is a key market reference rate.

The changing path of future interest rate expectations over the financial year can be seen in the implied yields of short sterling contracts shown below in Chart 13. Interestingly, all the curves show a steep rise in interest rate expectations over the medium term although the implied rate at which the market expected rates to rise slowed over the course of the year and the start date for the first interest rate rise was progressively extended. Interest rate expectations derived from implied yields on the March 2009 contract peaked at 4.50% compared with 3.00% for the June 2010 contract.

**Chart 13**  
**Implied curves from short sterling contracts**



Source: Bloomberg

## 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:

- pursuing an issuance policy that is open, transparent and predictable;
- 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;
- developing a liquid and efficient gilt market; and
- offering cost-effective savings instruments to the retail sector through National Savings & Investments (NS&I).

#### Maturity and composition of debt issuance

In order to determine the maturity and composition of debt issuance, the Government 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 and the expected effect of issuance policy;
- investors' demand for gilts; and
- changes to the stock of Treasury bills and other short-term debt instruments.

### The DMO's financing remit for 2009-10

#### Provisional financing remit

A provisional financing remit for 2009-10 was published by HM Treasury on 18 March 2009, based on the forecast Central Government Net Cash Requirement (CGNCR) for 2009-10 of £126.0 billion, (as published in the Pre-Budget Report (PBR) 2008)<sup>4</sup>.

Gilt sales of £147.9 billion were planned in the provisional remit – split as follows:

- |                             |                               |
|-----------------------------|-------------------------------|
| ● short-dated conventional  | £ 63.6 billion in 16 auctions |
| ● medium-dated conventional | £ 32.5 billion in 11 auctions |
| ● long-dated conventional   | £ 31.1 billion in 14 auctions |
| ● index-linked              | £ 20.7 billion in 20 auctions |

---

<sup>4</sup> Publication of a provisional remit was necessary as a result of the Chancellor's decision that Budget 2009 would be held in April 2009, and the requirement of the then prevailing Code for Fiscal Stability that a debt management report be published within each financial year.

The proportionate split was the same as that established at PBR 2008, but it was stated that this split would not necessarily be maintained in the remit to be published alongside Budget 2009.

The DMO announced that following the regular consultation meetings to be held on 23 March the gilt auction calendar for April and May 2010 would be published, and that no changes would be made to that calendar as a result of an updated public finances forecast to be published at Budget 2009.

The provisional remit also contained provisions to allow the gilt auction programme to be supplemented by sales of gilts by mini-tenders. These operations had originally been introduced in October 2008 as part of the remit revision announced to finance the bank recapitalisation programme.

### **Supplementary gilt distribution methods – response to consultation**

The sharp rise in the financing requirement in the second half of 2008-09 had motivated the launch, on 17 December 2008, of a market consultation on the introduction of supplementary gilt distribution methods, and, in particular, the use of syndicated gilt offerings and mini-tenders to sell additional amounts of long-dated conventional and index-linked gilts. (See pages 27-29 of the DMO Annual Review 2008-09).

The response to the consultation was published on 18 March 2009 alongside the provisional remit for 2009-10: the main conclusions were as follows:

- Mini-tenders – the DMO said it saw merit in the continued use of mini-tenders in 2009-10, for a small part of the total issuance programme, to support the auction process by allowing it to issue into emerging pockets of demand in year with a reduced period of pre-commitment compared to the auction programme.
- Syndicated offers – the DMO also said it saw merit in the use of syndicated offers in 2009-10, alongside the auction programme, in particular, to issue larger volumes of long-dated conventional and index-linked gilts per operation than would be possible via auctions alone (although a final decision on the use of syndicated offers was to await the publication of the remit alongside the Budget 2009).
- Direct placement – the DMO said it not see merit in issuing gilts via direct placement.

The DMO also announced that it saw merit in introducing a post auction option facility under which successful bidders at each auction would be able to acquire an additional amount of stock up to 10% of that allocated in the auction. The intention was announced to launch a further round of consultation on the practical implementation of any such facility - for clarification by Budget 2009.

### The DMO's financing remit 2009-10

The new financing remit for 2009-10 was published alongside Budget 2009 on 22 April 2009. The new CGNCR forecast for 2009-10 was £220.8 billion, an increase of £94.8 billion compared to the previous forecast published at PBR 2008.

Total debt sales by the DMO of £241.6 billion were planned in 2009-10, split as follows:

Outright gilt sales: £220.0 billion  
Net Treasury bill sales: £21.6 billion

### The gilt financing remit structure

The planned gilt sales programme of £220.0 billion, comprised:

- a core gilt sales programme of £183.0 billion in 58 auctions,
- supplementary gilt sales programmes of £37.0 billion split as follows:
  - £25.0 billion of gilt sales via up to 8 syndicated offerings; and
  - £12.0 billion of gilt sales via mini-tenders, to be held at least monthly.

The planning assumption was that the entire £37.0 billion of the supplementary gilt sales programmes would be directed at long conventional and index-linked gilt sales (although this assumption was subject to revision in the light of developing market and demand conditions in 2009-10, in the event, all supplementary issuance went into these two types of gilts).

Overall planned issuance was split as follows:

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

The remit structure again reflected a number of considerations underpinned by the objective of minimising long-term cost subject to risk. The gilt issuance plans for 2009-10 also continued to take account of the medium term approach to gilt issuance announced in Budget 2007 but the extent of the skew to long-dated and index-linked issuance necessarily took account of the overall size of the financing programme and the ongoing challenging market environment which saw increased demand for short- and medium-dated maturities.

Short-dated issuance remained the largest component of the issuance plans in both absolute terms (rising £11 billion compared to 2008-09 to £74 billion) and also in percentage terms at 34%, (relative to 2009-10, however, the share of short issuance fell by 9%). The other major shift in the structure of the remit was an increase in the

planned amount of medium-maturity issuance compared to 2008-09 which more than doubled in absolute terms, from £33.3 billion to £70.0 billion (an increase from 23% to 32% in relative terms). These developments reflected the need to access the deepest and most liquid parts of the market to raise the required amounts of financing. Increasing the proportion of medium issuance also helped to mitigate refinancing risk in the near term.

Nevertheless, record absolute amounts of issuance of both index-linked and long conventional gilts were also planned rising from £50.3 billion in aggregate to £76.0 billion, with syndicated offers and mini-tenders assumed to raise £37.0 billion of this total.

There were no plans for any switch auctions, reverse auctions, or conversion offers in 2009-10, and none were held.

#### **Post auction option facility**

The 2009-10 remit also provided for the launch, from the auction held on 2 June 2009, of the post-auction option facility (PAOF), under which successful bidders GEMMs and investors at auctions have the option to purchase additional stock up to 10% of the amount allocated to them at the auction. The option window opens at 12.00 noon on the day of the auction and closes 2 hours later at 2.00pm. The additional stock is available to successful bidders at the average accepted price at conventional auctions and at the strike price at index-linked auctions. It was envisaged that proceeds from the PAOF could be used to reduce auction sizes or (if exercised in sufficient size) to reduce the number of auctions at a subsequent re-statement of the financing requirement.

## Pre-Budget Report (PBR) 2009

PBR 2009 on 9 December 2009 included a new forecast of £223.3 billion for the CGNCR in 2009-10, an increase of £2.5 billion compared with Budget 2009.

Other changes from Budget 2009 that were announced at PBR, and which affected the DMO's net financing requirement for 2009-10 (compared with Budget 2009) were:

- an increase of £2.0 billion in financing for the reserves;
- an increase of £0.1 billion in debt buy-backs (purchases of rumps gilts);  
and
- a reduction of £0.5 billion in the forecast contribution to financing by National Savings & Investments.

Together the factors above led to an increase of £5.1 billion (to £242.9 billion) in the DMO's net financing requirement compared to Budget 2009.

To meet the higher net financing requirement planned gilt sales rose by £5.1 billion (to £225.1 billion) split as follows:

- an increase in planned sales at auctions of £1.1 billion (to £184.1 billion);  
and
- a net increase in planned sales via supplementary distribution methods of £4.0 billion (to £41.0 billion), comprising an increase of £5.0 billion in planned sales at syndications (to £30.0 billion) and a reduction of £1.0 billion in planned sales at mini tenders to £11.0 billion.

No additional gilt auctions were scheduled at PBR, with the additional planned sales at auctions split:

- |                             |                                 |
|-----------------------------|---------------------------------|
| ● Short-dated conventional  | £0.2 billion (to £74.2 billion) |
| ● Medium-dated conventional | £0.1 billion (to £70.1 billion) |
| ● Long-dated conventional   | £0.5 billion (to £27.5 billion) |
| ● Index-linked              | £0.3 billion (to £12.3 billion) |

£1.1 billion of the £7.0 billion of proceeds received from the PAOF since its introduction in June 2009 were used to finance the increase in auction sale targets with the remainder used to reduce the required auction sizes for the remainder of the financial year. PAOF proceeds in this period accrued as shown below:

- |                             |              |
|-----------------------------|--------------|
| ● Short-dated conventional  | £3.5 billion |
| ● Medium-dated conventional | £2.7 billion |
| ● Long-dated conventional   | £0.7 billion |
| ● Index-linked              | £0.1 billion |

The impact on average auction sizes pre- and post- PBR 2009 is shown below. The sizes of short and medium auctions were consequently reduced most reflecting the size of PAOF proceeds received.

Average required auction sizes (£billion) after PBR (pre-PBR in brackets)

● Short-dated conventional:	£3.93 (£5.01)
● Medium-dated conventional:	£3.15 (£3.68)
● Long-dated conventional:	£2.06 (£2.13)
● Index-linked:	£0.99 (£0.89)

### Budget March 2010

The Debt and Reserves Management Report 2010-11 published on 24 March 2010 alongside the Budget included a new forecast for the 2009-10 CGNCR of £200.9 billion, a reduction of £22.4 billion since the forecast at PBR 2009. The revised net financing requirement for 2009-10 was £218.5 billion (a reduction of £24.4 billion).

The other main change (since PBR 2009) impacting on financing in 2009-10 was an increase of £2.0 billion in the forecast contribution to financing by NS&I (from -£0.5 billion to +£1.5 billion).

Given that the gilt sales programme had been completed in advance of the publication of the new lower financing forecast, and that, largely as a result of the impact of PAOF proceeds, the gilt sales outturn was £2.5 billion above plan at £227.6 billion, it was forecast at Budget 2010 that the DMO over-financed in 2009-10 by approximately £24.0 billion (which would reduce the financing requirement in 2010-11 accordingly).

### Outturn CGNCR for 2009-10 and the financing outturn

An outturn CGNCR for 2009-10 was published on 22 April 2010 and at £198.8 billion, it was £2.1 billion lower than the forecast at the March Budget. However, this was adjusted to £198.9 billion in a final restatement of the 2009-10 financing arithmetic alongside the Budget on 22 June. As a result of this and a number of other minor adjustments since the March Budget<sup>5</sup> the final outturn net financing requirement fell by £1.7 billion from £218.5 billion to £216.8 billion.

Total outturn financing rose by £0.6 billion compared to the forecast at the March Budget to £243.1 billion, reflecting an increase of £0.6 billion in bilateral Treasury bill sales between the March Budget and end-March 2010.

As a consequence, the DMO's short-term cash position increased by £2.3 billion to £26.3 billion (a sum which is being run-down reducing the financing requirement accordingly in 2010-11).

---

<sup>5</sup> Gilt buybacks were £0.3 billion higher, NS&I's contribution to financing was £0.1 billion higher and financing for phase 1 of the Bank of England's Asset Purchase Facility was £0.1 billion higher.

The developments in the 2009-10 financing arithmetic over the course of the financial year are shown in Table 1.

Table 1  
Financing arithmetic 2009-10

	Provisional remit	Budget Apr 2009	PBR Dec 2009	Budget Mar 2010	Outturn Jun 2010
Central Government Net Cash Requirement	126.0	220.8	223.3	200.9	198.9
Gilt redemptions	18.1	16.6	16.6	16.6	16.6
Financing for phase 1 of the Bank's Asset Purchase Facility		-1.0	-1.0	-1.0	-0.9
Financing for reserves		2.0	4.0	4.0	4.0
Buy-backs		0.0	0.1	0.1	0.4
Planned short-term financing adjustment <sup>1</sup>		-0.6	-0.6	-0.6	-0.6
<b>Gross Financing requirement</b>	<b>144.1</b>	<b>237.8</b>	<b>242.4</b>	<b>220.0</b>	<b>218.4</b>
Less					
Contribution to financing from National Savings & Investments		0.0	-0.5	1.5	1.6
<b>Net Financing requirement</b>	<b>144.1</b>	<b>237.8</b>	<b>242.9</b>	<b>218.5</b>	<b>216.8</b>
Financed by					
<b>1. Debt issuance by the DMO</b>					
<b>a) Treasury bills<sup>2</sup></b>	<b>0.0</b>	<b>21.6</b>	<b>21.6</b>	<b>18.7</b>	<b>19.4</b>
<b>b) Gilt sales</b>	<b>147.9</b>	<b>220.0</b>	<b>225.1</b>	<b>227.6</b>	<b>227.6</b>
Short-dated conventionals	63.6	74.0	74.2	75.4	75.4
Medium-dated conventionals	32.5	70.0	70.1	71.3	71.3
Long-dated conventional	31.1	46.0	50.6	51.6	51.6
Index-linked gilts	20.7	30.0	30.2	29.3	29.3
<b>2. Other planned change in short term debt</b>					
Ways and Means	-3.8	-3.8	-3.8	-3.8	-3.8
<b>3. Change in short term cash position<sup>3</sup></b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>24.0</b>	<b>26.3</b>
<b>Total financing</b>	<b>144.1</b>	<b>237.8</b>	<b>237.8</b>	<b>237.8</b>	<b>243.1</b>
<b>Short-term debt levels at end of financial year</b>					
T bill stock (in market hands)	32.1	65.6	65.6	60.8	63.3
Ways and Means	0.4	0.4	0.4	0.4	0.4
DMO net cash position	0.5	0.5	0.5	24.5	26.8
<p>1. To accommodate changes to the current year's financing requirement resulting from (i) publication of the previous year's outturn CGNCR and/or (ii) carry over of unanticipated changes to the cash position from the previous year.</p>					
<p>2. The stock change shown here is a planning assumption. The DMO may finish the financial year with a higher or lower Treasury bill stock than assumed above, depending on the extent to which the DMO uses other short term cash instruments to raise finance and the extent to which there is a deviation from plan on proceeds from supplementary methods of issuance.</p>					
<p>3. To the extent that the DMO uses alternative short-term cash instruments to raise finance within year, this will be reflected (as a negative number) in this line in the Table above. A negative (positive) number here indicates an increase in (reduction in) the financing requirement for the following financial year.</p>					
<p>Figures may not sum due to rounding</p>					

## DMO gilt financing operations in 2009-10

The DMO issued seven new gilts in 2009-10, four conventional and three index-linked, as detailed in Table 2.

Table 2  
New gilts issued in 2009-10

Gilt	First issued
<b>Conventional</b>	
4½% Treasury Gilt 2034	17-Jun-09
3¾% Treasury Gilt 2019	08-Jul-09
4% Treasury Gilt 2060	22-Oct-09
2¾% Treasury Gilt 2015	04-Nov-09
<b>Index-linked</b>	
0½% Index-linked Treasury Gilt 2042	24-Jul-09
0½% Index-linked Treasury Gilt 2050	25-Sep-09
0½% Index-linked Treasury Gilt 2040	28-Jan-10

## Implementing the 2009-10 remit

### a) Auctions

As usual, the emerging choice of gilts to be sold at auctions throughout the financial year was decided by the DMO following the regular cycle of consultation meetings with representatives of the GEMMs and investors. In 2009-10 these meetings also considered the interaction between gilts to be issued at auctions and at syndicated offerings.

The consultation meetings were held in March 2009 (to discuss issuance in April-June), May 2009 (to discuss issuance in July-September), August 2009 (to discuss issuance in October-December) and November 2009 (to discuss issuance in January-March 2010).

Ahead of the meetings the DMO published on its screens and website an agenda to steer the discussion. The morning after each meeting, summary minutes were published describing the main areas of discussion. The minutes promoted transparency for those unable to attend the meetings and also paved the way for the announcement of the quarterly operations calendars a few days later. DMO website links to the agendas and the minutes can be found at Annex C.

### b) Syndicated Offerings

An outline pattern for the approximate timing of syndications and the scheduling of gilt sales by type in the quarter ahead are covered at the quarterly consultation meetings and planning assumptions were published in the quarterly operation calendar announcements. The announcements included greater precision regarding the type and maturity of the planned sales falling closest to the date of the announcement. Around two weeks in advance of the anticipated operation a series of further DMO announcements began, usually, but not always, beginning with the appointment of the syndicate who would then typically be advised on the maturity of the bond to be sold and then assisted the DMO to refine the timing of the issue.

### c) Mini-tenders

The quarterly operations calendars specified the weeks in which the mini-tenders are to be held, with the choice of bond announced just over a week before the operation date (with the choice aided by an informal market consultation regarding prevailing market preferences for specific gilts). Finally the size of each tender was announced 1-2 days before the operation.

### **Results of gilt operations (auctions and mini-tenders) in 2009-10**

The results of the gilt auctions, syndications and mini-tenders held in 2009-10 are summarised in Table 3. Syndications are shown in bold and mini-tenders in italics.

Table 3  
Gilt operation  
results in 2009-10

Operation Date	Gilt	Nom Issued* £mn	Cover	Ave accepted /strike price	Yield (%)	Tail (bps)	Cash (£mn)
1-Apr-2009	4¾% Treasury Stock 2015	3,500	2.23	112.49	2.626	1.3	3,936.5
2-Apr-2009	4¼% Treasury Gilt 2039	2,250	1.59	99.88	4.257	4.6	2,247.0
7-Apr-2009	4½% Treasury Gilt 2019	3,000	1.82	108.69	3.457	3.3	3,260.5
8-Apr-2009	1¼% I-L Treasury Gilt 2032	1,100	2.08	103.27	1.093	n/a	1,100.9
15-Apr-2009	1 ⅞% I-L Treasury Gilt 2037	500	1.62	102.85	1.010	n/a	535.9
16-Apr-2009	2¼% Treasury Gilt 2014	4,000	2.11	97.33	2.839	1.8	3,892.5
28-Apr-2009	4% Treasury Gilt 2022	3,000	2.25	100.76	3.924	1.0	3,022.2
29-Apr-2009	4¼% Treasury Gilt 2049	187	4.84	98.35	4.337	n/a	183.9
30-Apr-2009	1 ⅞% I-L Treasury Gilt 2022	1,100	2.08	105.80	1.404	n/a	1,196.1
6-May-2009	4½% Treasury Gilt 2019	3,500	2.50	107.57	3.579	0.2	3,764.8
12-May-2009	4¾% Treasury Gilt 2030	2,250	2.24	105.01	4.388	0.4	2,362.3
14-May-2009	0¾% I-L Treasury Gilt 2047	700	2.50	99.02	0.780	n/a	704.9
19-May-2009	4¾% Treasury Stock 2038	1,250	2.02	105.01	4.444	n/a	1,312.5
21-May-2009	2¼% Treasury Gilt 2014	5,000	2.60	97.06	2.911	0.9	4,845.4
28-May-2009	1¼% I-L Treasury Gilt 2032	1,250	2.08	103.52	1.080	n/a	1,259.1
2-Jun-2009	4¼% Treasury Gilt 2049	2,197	2.30	92.48	4.665	0.6	2,031.6
3-Jun-2009	4½% Treasury Gilt 2019	3,850	2.51	105.70	3.795	0.5	4,066.4
9-Jun-2009	5% Treasury Stock 2014	5,490	2.25	110.74	2.783	1.6	6,078.1
11-Jun-2009	0¾% I-L Treasury Gilt 2047	725	2.28	97.51	0.826	n/a	719.1
<b>16-Jun-2009</b>	<b>4½% Treasury Gilt 2034</b>	<b>7,000</b>	<b>n/a</b>	<b>97.85</b>	<b>4.646</b>	<b>n/a</b>	<b>6,835.5</b>
23-Jun-2009	4% Treasury Gilt 2022	4,000	1.69	99.40	4.060	1.1	3,975.8
25-Jun-2009	1 ⅞% I-L Treasury Gilt 2037	500	3.37	107.81	0.816	n/a	563.2
1-Jul-2009	2¼% Treasury Gilt 2014	5,658	2.56	96.22	3.124	0.9	5,443.6
2-Jul-2009	4¼% Treasury Gilt 2039	2,500	1.75	96.52	4.461	2.6	2,412.6
7-Jul-2009	3¾% Treasury Gilt 2019	4,000	1.96	99.34	3.829	1.0	3,973.5
8-Jul-2009	1¼% I-L Treasury Gilt 2027	1,000	1.64	105.60	0.918	n/a	1,152.5
16-Jul-2009	4¼% Treasury Gilt 2032	1,250	1.70	97.05	4.457	n/a	1,213.1
21-Jul-2009	4% Treasury Gilt 2016	4,000	1.70	103.95	3.371	0.8	4,157.0
<b>23-Jul-2009</b>	<b>0 ⅞% I-L Treasury Gilt 2042</b>	<b>5,000</b>	<b>n/a</b>	<b>92.48</b>	<b>0.886</b>	<b>n/a</b>	<b>4,612.9</b>
29-Jul-2009	2¼% Treasury Gilt 2014	5,441	1.97	95.86	3.224	1.4	5,214.6
4-Aug-2009	4¼% Treasury Gilt 2027	2,746	1.88	96.26	4.553	0.9	2,643.0
11-Aug-2009	3¾% Treasury Gilt 2019	3,844	1.89	98.48	3.934	0.5	3,785.8
13-Aug-2009	0¾% I-L Treasury Gilt 2047	450	3.28	103.87	0.636	n/a	479.3
20-Aug-2009	1¼% I-L Treasury Gilt 2032	1,128	1.75	109.33	0.809	n/a	1,211.2
2-Sep-2009	5¼% Treasury Gilt 2012	5,100	2.05	108.81	1.954	0.7	5,547.7
3-Sep-2009	4¼% Treasury Gilt 2039	2,299	1.62	101.34	4.171	0.5	2,329.3
8-Sep-2009	3¾% Treasury Gilt 2019	4,125	2.15	99.76	3.779	0.2	4,110.6
14-Sep-2009	6% Treasury Stock 2028	1,000	2.13	127.55	3.942	n/a	1,274.4
17-Sep-2009	2¼% Treasury Gilt 2014	5,774	1.84	98.30	2.656	0.5	5,674.6
<b>24-Sep-2009</b>	<b>0 ½% I-L Treasury Gilt 2050</b>	<b>5,000</b>	<b>n/a</b>	<b>98.58</b>	<b>0.539</b>	<b>n/a</b>	<b>4,917.9</b>
29-Sep-2009	4% Treasury Gilt 2022	4,047	1.72	101.09	3.888	0.4	4,090.9
1-Oct-2009	4¾% Treasury Gilt 2030	2,475	1.86	109.67	4.064	0.5	2,712.6
6-Oct-2009	4½% Treasury Gilt 2013	5,390	1.99	107.95	2.077	0.9	5,814.9
7-Oct-2009	0 ⅞% I-L Treasury Gilt 2042	818	2.19	104.50	0.478	n/a	859.5
14-Oct-2009	4¾% Treasury Gilt 2020	3,500	1.78	110.26	3.560	0.3	3,857.2
15-Oct-2009	1¼% I-L Treasury Gilt 2017	600	3.31	106.33	0.453	n/a	704.4
<b>21-Oct-2009</b>	<b>4% Treasury Gilt 2060</b>	<b>7,000</b>	<b>n/a</b>	<b>96.26</b>	<b>4.179</b>	<b>n/a</b>	<b>6,722.3</b>
22-Oct-2009	5% Treasury Stock 2014	4,881	1.56	110.00	2.790	0.6	5,363.7
3-Nov-2009	2¾% Treasury Gilt 2015	5,161	2.06	99.08	2.942	0.8	5,111.3
4-Nov-2009	4½% Treasury Gilt 2034	2,000	1.53	102.97	4.304	0.8	2,059.1
10-Nov-2009	3¾% Treasury Gilt 2019	4,125	1.96	98.65	3.916	0.4	4,067.0
12-Nov-2009	1¼% I-L Treasury Gilt 2032	1,000	1.66	114.23	0.588	n/a	1,129.7
19-Nov-2009	1 ⅞% I-L Treasury Gilt 2037	450	1.85	117.11	0.472	n/a	560.2
24-Nov-2009	4% Treasury Gilt 2022	4,091	1.92	100.43	3.955	0.3	4,107.2
1-Dec-2009	2¾% Treasury Gilt 2015	5,500	2.16	99.81	2.790	0.4	5,487.1
2-Dec-2009	4¼% Treasury Gilt 2039	2,475	1.74	101.50	4.161	0.2	2,511.3
8-Dec-2009	3¾% Treasury Gilt 2019	4,119	1.81	99.67	3.790	0.6	4,104.4
16-Dec-2009	4¼% Treasury Gilt 2032	1,000	2.49	97.91	4.397	n/a	978.9
17-Dec-2009	1¼% I-L Treasury Gilt 2027	906	1.59	107.40	0.806	n/a	1,081.5
6-Jan-2010	2¾% Treasury Gilt 2015	4,39	92.68	98.47	3.080	0.2	4,325.2
13-Jan-2010	4¼% Treasury Gilt 2049	2,425	1.81	98.22	4.344	0.4	2,381.7
18-Jan-2010	1¼% I-L Treasury Gilt 2017	600	3.32	105.25	0.564	n/a	705.2
21-Jan-2010	3¾% Treasury Gilt 2019	3,575	2.38	97.30	4.092	0.3	3,476.3
<b>27-Jan-2010</b>	<b>0 ⅞% I-L Treasury Gilt 2040</b>	<b>3,500</b>	<b>n/a</b>	<b>97.72</b>	<b>0.709</b>	<b>n/a</b>	<b>3,413.3</b>
2-Feb-2010	5¼% Treasury Gilt 2012	4,030	3.12	108.20	1.663	0.8	4,351.2
3-Feb-2010	5% Treasury Stock 2018	3,000	1.99	109.06	3.693	0.3	3,271.1
9-Feb-2010	4½% Treasury Gilt 2034	2,159	2.08	100.02	4.498	0.3	2,159.4
11-Feb-2010	1 ⅞% I-L Treasury Gilt 2022	900	2.42	108.05	1.194	na	1,026.7
18-Feb-2010	0¾% I-L Treasury Gilt 2047	400	2.23	102.85	0.665	na	430.7
<b>23-Feb-2010</b>	<b>4% Treasury Gilt 2060</b>	<b>4,500</b>	<b>n/a</b>	<b>88.85</b>	<b>4.569</b>	<b>n/a</b>	<b>3,989.3</b>
24-Feb-2010	3¾% Treasury Gilt 2019	3,300	2.25	97.05	4.590	0.3	3,199.0
2-Mar-2010	4¼% Treasury Gilt 2039	2,000	1.92	94.54	4.590	0.3	2,050.3
3-Mar-2010	2¾% Treasury Gilt 2015	4,321	2.33	99.79	2.796	0.4	4,311.2
9-Mar-2010	4% Treasury Gilt 2022	3,296	2.01	96.91	4.333	0.2	3,194.6
11-Mar-2010	1¼% I-L Treasury Gilt 2032	900	1.83	106.05	0.953	na	958.1
16-Mar-2010	6% Treasury Stock 2028	1,000	1.79	117.96	4.563	na	1,179.6
18-Mar-2010	4¾% Treasury Gilt 2020	3,250	2.13	106.19	3.991	0.2	3,795.7
<b>*Including via PAOF where applicable.</b>		<b>223,757</b>					<b>227,589.5</b>

The outturn for gilt sales versus the different remit targets in 2009-10 is shown in Table 4.

Table 4  
Gilt sales outturn relative to remit targets

Gilt sales v remit outturn at 31 March 2010 (£ millions)					
	Conventional Gilts			Index-linked gilts	Total
	Short	Medium	Long		
Total gilt sales	75,398	71,280	51,590	29,322	227,589
Planned sales at auctions	74,200	70,100	27,500	12,300	184,100
1. Sales at auctions	75,398	71,280	27,900	12,399	186,977
Sales v auction plan	1,198	1,180	400	99	2,877
2. Sales by syndication	0	0	17,547	12,944	30,491
3. Sales by tender	0	0	6,142	3,979	10,121
Total supplementary sales					40,612
Balance of sales to supplementary plan					-388
Total planned sales					225,100
Balance of final sales relative to plan					2,489

Of the final gilt sales total of £227.6 billion, £9.8 billion (4.3%) was accounted for by take-up of the PAOF.

## Supplementary Programme 2009-10

### Syndicated offerings

In 2009-10, the Government used syndicated offerings to complement auctions and facilitate the primary gilt distribution process. For the first time, syndication was used in the form of a programme, which enabled the Government to issue more long-dated conventional and index-linked gilts, in the context of a high borrowing requirement, than would have been possible via the auction process alone.

In total, £30.5 billion was raised through six syndicated offerings in 2009-10 (all of long-dated conventional and index-linked gilts). The first five syndicated gilt sales were of new issues, while the final offering was a reopening of the 50-year conventional benchmark. The details and results of the syndication programme are set out in Table 5.

Table 5  
Syndicated offerings  
in 2009-10

Date	Gilt	Size £mn (nom)	Proceeds (£mn)
16-Jun-2009	4½% Treasury Gilt 2034	7,000	6,835.5
23-Jul-2009	0½% Index-linked Treasury Gilt 2042	5,000	4,612.9
24-Sep-2009	0½% Index-linked Treasury Gilt 2050	5,000	4,917.9
21-Oct-2009	4% Treasury Gilt 2060	7,000	6,722.3
27-Jan-2010	0½% Index-linked Treasury Gilt 2040	3,500	3,413.3
23-Feb-2010	4% Treasury Gilt 2060	4,500	3,989.3
		<b>32,000</b>	<b>30,491.1</b>

Strong domestic order books were a feature throughout the 2009-10 syndication programme, with the domestic investor base for the syndicated offerings taking around 95 per cent of each issue. The domestic investor base has largely comprised fund managers, pension funds and insurance companies, reflecting their structural demand for long-dated fixed income (liability-matching) assets.

The feedback from both investors and the primary dealers on the syndication process has been largely positive, with end investors, in particular, supportive of the use of syndication to allow them to access supply of long-dated conventional and index-linked gilts more directly and in larger size than by auctions.

Syndication has proved to be a useful tool in increasing direct end-investor participation in the primary issuance process, while the flexibility and iterative nature of the syndication method has helped better to align supply with demand.

### Mini-tenders

The DMO has also continued to use mini-tenders of gilts in 2009-10 to augment the regular auction programme with smaller issues of existing gilts, with less pre-announcement of the size and identity of the gilt being sold than at auction. Mini-tenders are designed to access pockets of demand in specific gilts as they emerge. Throughout 2009-10, mini-tenders were used to sell long-dated conventional and index-linked gilts only, consistent with the original planning assumption<sup>6</sup>.

<sup>6</sup> As articulated in the *Debt and Reserves Management Report 2009-10*

In 2009-10, 12 mini-tenders were held, raising proceeds of £9.9 billion. The mini-tender process ran smoothly during the year and the average bid to cover ratio was 2.43. Table 6 below summarises the results of the 2009-10 mini-tender programme.

Table 6  
Mini-tenders in  
2009-10

Date	Gilt	Size (£mn)	Proceeds (£mn)
15-Apr-2009	1½% Index-linked Treasury Gilt 2037	500	535.9
19-May-2009	4¾% Treasury Stock 2038	1,250	1,312.5
25-Jun-2009	1½% Index-linked Treasury Gilt 2037	500	563.2
16-Jul-2009	4¼% Treasury Stock 2032	1,250	1,213.1
01-Aug-2009	0¾% Index-linked Treasury Gilt 2047	450	479.3
13-Sep-2009	6% Treasury Stock 2028	1,000	1,274.4
14-Oct-2009	1¼% Index-linked Treasury Gilt 2017	600	704.4
19-Nov-2009	1½% Index-linked Treasury Gilt 2037	450	560.2
16-Dec-2009	4¼% Treasury Stock 2032	1,000	978.9
18-Jan-2010	1¼% Index-linked Treasury Gilt 2017	600	705.2
18-Feb-2010	0¾% Index-linked Treasury Gilt 2047	400	430.7
16-Mar-2010	6% Treasury Stock 2028	1,000	1,179.6
		<b>9,000</b>	<b>9,937</b>

In addition a tender for £187 million (nominal) of 4¼% Treasury Gilt 2049 was held on 29 April 2009; this represented the unsold portion of the earlier auction of that gilt on 25 March 2009. The proceeds from this tender (£183.9 million), were included as part of the overall proceeds from sales by tender in 2009-10 of £10.1 billion.

### Post Auction Option Facility

In 2009-10, the Government introduced the PAOF to help incentivise bidding at auctions and to raise more financing at individual auctions than would otherwise have been the case. See page 16.

The PAOF enabled the Government to raise additional proceeds of £9.8 billion in 2009-10 split by maturity and type as shown in Table 7 below. The PAOF was used 34 times out of 46 eligible auctions in 2009-10 (i.e. from 2 June 2009).

Table 7  
PAOF proceeds in  
2009-10

	(£bn)
Short-dated conventional	4.5
Medium-dated conventional	3.7
Long-dated conventional	1.4
Index-linked	0.2
	<b>9.8</b>

## The Asset Purchase Facility and Debt Management

During 2009-10, the Bank of England continued its programme of asset purchases financed by the issuance of central bank reserves. This programme had commenced on 5 March 2009 with an initial purchase target of £75 billion. Purchases for the Asset Purchase Facility (APF) are made through the Bank of England Purchase Facility Fund Limited (BEAPFF) Limited.

At the meeting of the Monetary Policy Committee (MPC) in May 2009, the Committee decided to increase the total size of asset purchases by £50 billion, taking total purchases to £125 billion. The MPC voted for two additional increases in the total volume of purchases in 2009. In August, the MPC decided on a further £50 billion increase to take total purchases to £175 billion, and the Bank extended the maturity range of gilts eligible for purchase to all gilts with a residual maturity of greater than three years. At its November MPC meeting, the Committee voted to increase total asset purchases to £200 billion.

The programme of purchases was paused at the MPC meeting in February 2010. At that time the MPC announced that it would continue to monitor the appropriate scale of the asset purchase programme and stated that further purchases would be made should the outlook warrant them. The majority of assets purchased have been gilts, although the Bank of England has also purchased small volumes of high-quality private sector assets. The current stock of asset purchases includes £198.3 billion of conventional gilts, with a nominal value of £177.7 billion.

Since 7 August 2009, under an agreement between the Bank of England and the DMO, the Bank has made available a significant amount of the gilts purchased via the APF for on-lending to the market through the DMO's repo market activity. The purpose of this arrangement has been to alleviate any shortage in the secondary market for individual gilts arising from the Bank's purchases.

The amount of each gilt available is at least 10% of the APF's holdings of each gilt, and a larger amount where the APF holds more than 50% of the free float of the gilt. In addition, the Bank has authorised the use of the APF's gilts in the DMO's Standing Repo Facility and in any DMO Special Repo Facility. To ensure that the value of the APF's holdings of gilts are unaffected, the DMO delivers alternative gilts of equivalent value in return. Table 8 below details the average daily aggregate value of gilts lent by the APF to the DMO in 2009-10.

Table 8  
Lending of gilts  
purchased by the  
APF

Quarter to end-	Average daily aggregate lent (£ billion)
Sep-09	4.8
Dec-09	3.3
Mar-10	4.1

## Review of the formats used for gilt auctions

The DMO has previously outlined<sup>7</sup> its intention to keep under review the auction formats used to sell gilts to ensure that best practice is followed. As there has been a great deal of international research into government bond auction formats in recent years, the DMO decided to review the latest literature in order to establish if there was a case for changing the formats currently used.

### DMO practice and rationale

Currently, the DMO uses a multiple-price (“pay-your-bid”) format for conventional gilt auctions and a single-price format for index-linked gilt auctions<sup>8</sup>. “Pay-your-bid” is a simple format that is particularly suited to the auction of conventional gilts as a very liquid secondary market makes price discovery and hedging auction positions relatively straightforward. Bidders are therefore less likely to be significantly deterred from participation by not knowing what the rest of the market’s valuation of the gilts on offer is. Nevertheless, participants still risk the ‘winner’s curse’ - over-valuing the item on offer and paying the amount bid. This can lead less informed participants to bid more cautiously (or not at all), thereby potentially reducing the seller’s revenue.

In the single-price format successful bidders do not pay their own bid, but instead pay a price equal to the lowest accepted bid. Proponents of this format argue that it encourages greater participation and more aggressive bidding as fear of winner’s curse is reduced<sup>9</sup>. This format is often suited to less liquid markets where price discovery and hedging of auction positions may be difficult. These were key considerations when the DMO first auctioned index-linked gilts in 1998.

### Auction formats used by other sovereigns

All major sovereign debt issuers use either a multiple-price format or a single-price format (or both) for government bond auctions (see Table 9). In Spain, a hybrid of single- and multiple-price auctions has been used for the majority of sovereign issuance since January 1987. Successful participants who bid less than the average accepted price pay that price while participants who bid in excess of the average accepted price pay the average accepted price. In addition to these standard formats the DMO’s review covered some lesser known formats that have been developed by renowned auction theorists but are not currently used by major sovereign bond issuers in practice<sup>10</sup>.

---

<sup>7</sup> In the response to the consultation on supplementary gilt issuance methods (March 2009).

<sup>8</sup> A multiple-price format has been used for conventional gilt auctions since 1987, whilst a single-price format has been used by DMO for auction of index-linked gilts since 1998. A multiple-price format is also used for Treasury bill tenders.

<sup>9</sup> Whether or not the more aggressive bidding under the single-price format offsets the revenue lost by the seller in allocating all stock at the lowest accepted price is central to the debate between single- and multiple-price auctions.

<sup>10</sup> To the DMO’s best knowledge such formats have not been used for any government bond auctions.

Table 9  
Auction formats  
used by selected  
sovereign issuers

	Auction Format			Auction Format	
	Single	Multi		Single	Multi
Australia		X	Japan	X	X
Austria		X	Korea	X	
Belgium		X	Mexico	X	X
Canada	X	X	Netherlands	X	X
Czech Rep	X	X	New Zealand	X	X
Denmark	X		Norway	X	
Finland	X		Poland	X	X
France		X	Portugal		X
Germany		X	Slovak Rep	X	X
Greece	X		Spain		X
Hungary		X	Sweden		X
Iceland	X	X	Turkey	X	X
Ireland		X	UK	X	X

Source: OECD & DMO

### Recent literature

The DMO's review of recent literature established that the academic community is divided over whether the multiple-price (pay-your-bid) format or single-price format is best. It appears that there is no one format that 'fits all' and this is supported by the differing choices of sovereigns. The lack of a counterfactual is the obvious obstacle to assessing different formats. Cross-country comparisons are of very limited value due to a variety of differences such as timing, market conditions, economic events and strategies of auction participants. Some (or all) of these factors are still likely to apply in the event of an issuer switching between formats thus limiting the value of comparison in this scenario. In addition, bidding at auctions may be temporarily affected following a change in format as participants come to terms with the new format.

### Alternative formats

The alternative formats explored were designed to increase participation and promote aggressive bidding by reducing fear of the winner's curse. Formats developed by renowned auction theorists William Vickrey and Lawrence Ausubel<sup>11</sup> attempt to achieve this by disconnecting the price bidders pay from the price that they bid. However, as such formats are clearly more complex than the two mainstream formats this may lead to cautious bidding or even non-participation and an increased risk of an 'unsuccessful' auction. This discourages the use of these formats.

### Market feedback

In the past, participants in the gilt market have also been divided over the preferred auction format. Some participants have suggested that the DMO should consider using the single-price format for conventional as well as index-linked gilt auctions on the basis that this would reduce fear of the winners' curse and encourage greater

<sup>11</sup> Vickrey, William (1961), "Counterspeculation, Auctions, and Competitive Sealed Tenders," *Journal of Finance*, Ausubel, Lawrence M., "An Efficient Ascending-Bid Auction for Multiple Objects", *American Economic Review* (December 2004)

participation. But concerns have been expressed that the introduction of a single-price format could increase the level of volatility as it would be possible for a small volume of bids to affect the clearing price for the whole auction. Other participants have called for the multiple-price format to be adopted for index-linked auctions as well as conventional auctions but there has also been support for maintaining the current formats as they have worked successfully to date.

### **Conclusion**

The DMO believes that the current auction process works well. Whilst it recognises the possible benefits in changing formats, it is also aware of potential downsides. Given that there are risks (costs) to changing formats there does not seem to be a case for the DMO to change existing arrangements but this will be kept under review.

## The DMO remit 2010-11 and future financing projections

### DMO remit 2010-11 (March 2010 Budget)

The DMO remit for 2010-11 was published in the Debt and Reserves Management Report 2010-11 on 24 March 2010 alongside the Budget.

Total debt sales by the DMO of £185.4 billion were planned in 2010-11, split as follows:

Outright gilt sales	£187.3 billion
Net Treasury bill sales	-£1.9 billion

### The gilt financing remit structure

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

- £148.1 billion sales in 52 outright auctions; and
- £39.2 billion sales via supplementary distribution methods split as follows:
  - £29.2 billion in a programme of up to 10 syndicated offerings; and
  - £10.0 billion in a programme of sales by mini-tender (to be held approximately monthly).

The planning assumption is that the entire £39.2 billion of the supplementary gilts sales programmes would be directed at long conventional and index-linked gilt sales (although this assumption can be subject to revision in the light of developing market and demand conditions in 2010-11).

The overall planned split of issuance is as follows:

- £59.0 billion of short-dated conventional gilt sales in 13 auctions;
- £45.0 billion of medium-dated conventional gilt sales in 12 auctions;
- £26.7 billion of long-dated conventional gilt sales in 12 auctions;
- £18.6 billion of long-dated conventional gilt sales in a combination of syndicated offerings and mini-tenders (total planned sales of long conventionals: £45.3 billion);
- £17.4 billion of index-linked gilt sales in 15 auctions; and
- £20.6 billion of index-linked gilt sales in a combination of syndicated offerings and mini-tenders (total planned sales of index-linked gilts: £38.0 billion).

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

### Post auction option facility

The remit also provided for the continued application of the PAOF in 2010-11.

### Other operations

The remit specified that the DMO has no current plans to hold any switch auctions, reverse auctions or conversion offers in 2010-11.

### New gilt instruments/issuance techniques

The remit also specified that the DMO has no plans to introduce new types of gilt instrument or issuance techniques, and that before doing so it would consult market participants and seek HM Treasury's approval prior to their introduction.

### Treasury bill financing

The stock of Treasury bills in market hands is scheduled to fall by £1.9 billion in 2010-11, implying a projected stock of Treasury bills at end-March 2011 of £60.8 billion.

### CGNCR outturn 2009-10 revision to the 2010-11 financing remit

A CGNCR outturn for 2009-10 was published on 22 April 2010 (see page 18).

The effect was a reduction in the DMO's net financing requirement for 2010-11 of £2.7 billion, which was accommodated as follows:

- a reduction of £2.1 billion in planned gilt sales, taking them to £185.2 billion. All the reduction was achieved by cutting planned sales of medium-dated conventional sales taking them to £42.9 billion. No gilt auctions were cancelled;
- a reduction of £0.6 billion in planned Treasury bill sales, taking them to -£2.5 billion, thereby unwinding the increase in bilateral Treasury bill sales which took place between the March Budget forecast and the end of the 2009-10 financial year.

### June 2010 Budget revision to the 2010-11 financing remit

At the Budget on 22 June 2010 revised forecasts for the public finances were published. The new forecast for the CGNCR in 2010-11 was £146.1 billion, a reduction of £20.3 billion compared with the forecast published in the Budget in March 2010. Offsetting this reduction was an increase in purchases of rump gilts by the DMO of £0.1 billion, resulting in a reduction in the DMO's net financing requirement of £20.2 billion.

The entire £20.2 billion reduction was taken off planned gilt sales, reducing them to a total of £165.0 billion. The reductions were implemented in a way that maintained the pre-existing proportionate split of issuance between maturities and types of gilt. See Table 10.

Table 10  
**Planned reduction in total gilt sales by type and maturity of gilt and the revised planned total issuance by type and maturity**

Split by maturity and type	Reduction (£bn)	New Plan (£bn)
Short	-6.4	52.6
Medium	-4.7	38.2
Long	-4.9	40.4
Index-linked	-4.2	33.8
	<b>-20.2</b>	<b>165.0</b>

Planned sales by auctions fell by £14.0 billion to £132.0 billion. Three conventional auctions were cancelled (one of each maturity). The auctions cancelled were those previously scheduled for 13 October 2010, 2 December 2010 and 20 January 2011.

#### **Gilt operation calendar 2010-11**

The gilt operation calendar for 2010-11 is set out in Table 11. It includes the decisions about individual gilts sold in April-June 2010 which were announced on 31 March 2010 and the period July-September 2010 which were announced on 28 May 2010.

In addition to auctions, it includes details of mini-tenders marked '(t)' and syndicated offers marked '(S)'

Table 11  
Gilt operations calendar 2010-11

Date	Gilt
<b>2010</b>	
Wed 07 Apr	4¾% Treasury Stock 2015
Tue 13 Apr	4¼% Treasury Gilt 2039
Thu 15 Apr	0⅝% Index-linked Treasury Gilt 2042
Wed 21 Apr	1¼% Index-linked Treasury Gilt 2017 (t)
Thu 22 Apr	4¾% Treasury Stock 2020
Fri 23 Apr	1¼% Index-linked Treasury Gilt 2032
Wed 28 Apr	4½% Treasury Gilt 2013
Tue 11 May	4¼% Treasury Gilt 2027
Thu 13 May	1⅞% Index-linked Treasury Gilt 2022
Mon 17 May	4¼% Treasury Gilt 2032 (t)
Thu 20 May	4¾% Treasury Stock 2020
Wed 26 May	0⅝% Index-linked Treasury Gilt 2050 (S)
Wed 02 Jun	2¾% Treasury Gilt 2015
Thu 03 Jun	4½% Treasury Gilt 2034
Tue 08 Jun	1¼% Index-linked Treasury Gilt 2027
Wed 09 Jun	3¾% Treasury Gilt 2020
Wed 16 Jun	1¼% Index-linked Treasury Gilt 2017 (t)
Thu 17 Jun	5% Treasury Stock 2014
Tue 29 Jun	4¼% Treasury Gilt 2040 (S)
Thu 01 Jul	0¾% index-linked Treasury Gilt 2047
Tue 06 Jul	3¾% Treasury Gilt 2020
Wed 14 Jul	4¼% Treasury Gilt 2046
Thu 15 Jul	1⅞% Index-linked Treasury Gilt 2022
Tue 20 Jul	4% Treasury Gilt 2016
Tue 27 Jul	0⅝% Index-linked Treasury Gilt 2040 (S)
Tue 03 Aug	2¾% Treasury Gilt 2015
Tue 10 Aug	4½% Treasury Gilt 2034
Thu 12 Aug	4% Treasury Gilt 2022
Thu 19 Aug	1¼% Index-linked Treasury Gilt 2027
Thu 02 Sep	4% Treasury Stock 2014
Tue 07 Sep	0¾% index-linked Treasury Gilt 2047
Wed 15 Sep	4¾% Treasury Gilt 2030
Thu 16 Sep	3¾% Treasury Gilt 2020
Tue 05 Oct	Index-linked
Thu 14 Oct	Conventional
Tue 19 Oct	Index-linked
Thu 21 Oct	Conventional
Tue 02 Nov	Conventional
Tue 09 Nov	Index-linked
Thu 11 Nov	Conventional
Thu 18 Nov	Conventional
Tue-07-Dec	Conventional
Wed-15-Dec	Conventional
Thu-16-Dec	Index-linked
<b>2011</b>	
Thu-06-Jan	Conventional
Tue-11-Jan	Index-linked
Wed-19-Jan	Conventional
Tue-01-Feb	Conventional
Thu-03-Feb	Conventional
Tue-08-Feb	Index-linked
Thu-17-Feb	Conventional
Tue-01-Mar	Conventional
Thu-03-Mar	Conventional
Tue-08-Mar	Index-linked
Thu-17-Mar	Conventional

(S) = Syndicated offer. (t) = mini-tender.

### Revisions to the supplementary issuance programme

Planned sales via supplementary distribution methods were reduced by £6.2 billion to £33.0 billion – with planned sales via syndication falling by £3.2 billion to £26.0 billion and sales via mini-tenders falling by £3.0 billion to £7.0 billion. The DMO envisaged holding up to eight syndicated offerings in 2010-11 (including syndications already held/announced). The DMO also envisaged that up to three mini-tenders may be cancelled. The mini-tender previously planned for the week commencing 5 July was cancelled.<sup>12</sup>

### Future remit revisions

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

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

### Future financing projections

The Budget in June 2010 also included projections for the CGNCR as a percentage of GDP out to 2014-15. Table 12 sets out the resulting CGNCR projections in cash terms together with current redemption totals to produce illustrative financing projections. Note that these are not gilt sales forecasts - they take no account of possible contributions to financing by NS&I or Treasury bill sales.

Table 12  
Budget 2010 – updated  
illustrative financing projections

Illustrative financing projections				
£bn	2011-12	2012-13	2013-14	2014-15
CGNCR projections	121	90	65	35
Gilt redemptions	49	53	47	52
<b>Gross financing requirement**</b>	<b>170</b>	<b>143</b>	<b>112</b>	<b>87</b>
CGNCR change since March 2010 Budget	-17	-21	-29	-39
Redemption change since March 2010 Budget	0	4	0	9
<i>Figures may not sum due to rounding</i>				

<sup>12</sup> Subsequently on 23 July, the mini-tender planned for the week commencing 2 August was also cancelled.

## Chapter 3: Exchequer Cash Management

### Cash remit 2009-10

The DMO's cash management remit for 2009-10, published alongside the Budget on 22 April 2009, 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 2009-10 the DMO carried out its cash management objective primarily through a combination of:

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

The results of the Treasury bill tenders held in 2009-10 are reported in Annex F and the average yields achieved compared with prevailing General Collateral (GC) repo rates are reported in Annex G.

Variations in the stock of Treasury bills in market hands serve as a financing instrument within short-term debt sales. In 2009-10, Treasury bill sales contributed £19.4 billion to financing. Treasury bill tender sizes are determined with a view to meeting the end financial year target stock. Table 13 shows the split of issuance in Treasury bills by maturity at tenders over the course of the financial year.

### 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, bills sold through the facility can contribute to smoothing cumulative cash positions). Monthly issuance of bilateral bills is shown in the "Other issuance" category in Table 13. At end-March 2010, £1.335 billion of bilateral bills were in issue and these formed part of the £63.335 billion stock in market hands on that date.

Table 13  
Treasury bill issuance 2009-10

Month End	One Month (£ million)	Three Month (£ million)	Six Month (£ million)	Other Issuance (£ million)	Total Issuance (£ million)	Total Stock Outstanding (£ million)
Apr-09	4,000	6,000	4,000	4,115	18,115	48,585
May-09	4,000	6,000	4,000	4,376	18,376	52,894
Jun-09	5,000	7,500	5,000	3,496	20,996	53,952
Jul-09	4,000	6,000	4,000	4,902	18,902	56,511
Aug-09	4,000	6,000	4,000	2,418	16,418	55,360
Sep-09	5,000	7,500	5,000	955	18,455	52,293
Oct-09	4,000	6,000	4,000	1,503	15,503	52,121
Nov-09	5,000	7,500	5,000	870	18,370	51,607
Dec-09	3,000	4,500	3,000	675	11,175	47,617
Jan-10	4,000	7,500	5,500	782	17,782	51,446
Feb-10	4,000	8,000	6,000	609	18,609	55,099
Mar-10	6,500	10,000	7,500	1,188	25,188	63,335

The breakdown of the Treasury bill portfolio (including amounts issued bilaterally) at end-March 2010 is shown in Table 14.

Table 14  
**Treasury bills outstanding at  
 31 March 2010**

Bill maturity date	Amount in issue (£mn)
06-Apr-10	4,412
12-Apr-10	4,504
19-Apr-10	4,551
26-Apr-10	4,768
04-May-10	3,000
10-May-10	3,040
17-May-10	3,032
24-May-10	3,000
01-Jun-10	3,004
07-Jun-10	3,002
14-Jun-10	3,005
21-Jun-10	3,006
28-Jun-10	2,000
05-Jul-10	1,000
12-Jul-10	1,500
19-Jul-10	1,510
26-Jul-10	1,500
02-Aug-10	1,500
09-Aug-10	1,500
16-Aug-10	1,502
23-Aug-10	1,500
31-Aug-10	1,500
06-Sep-10	1,500
13-Sep-10	1,500
20-Sep-10	1,500
27-Sep-10	1,500
<b>TOTAL</b>	<b>63,335</b>

### Bilateral cash management operations

In practice, a large majority of cash management operations in 2009-10, 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.

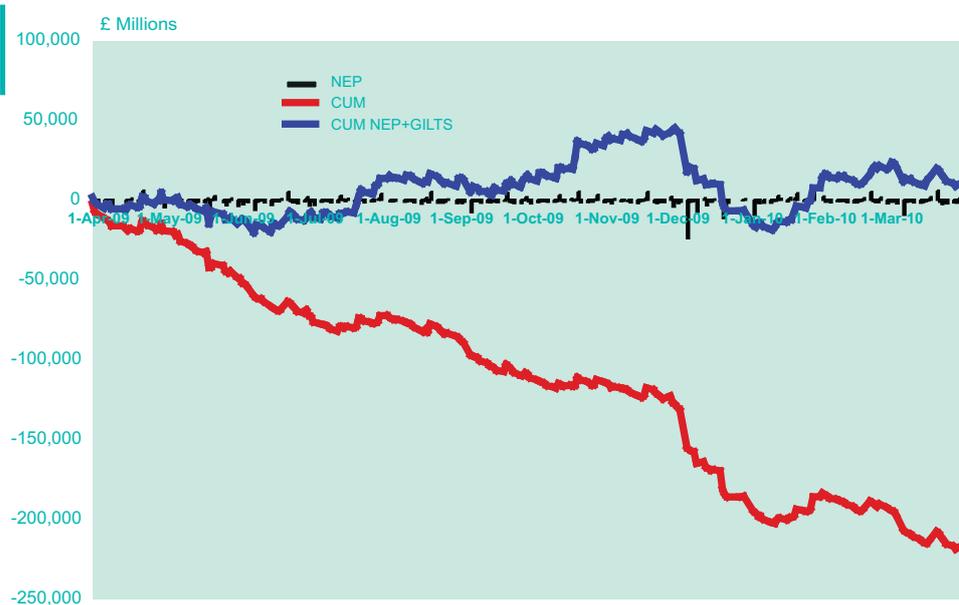
Cash management is conducted through a diversified set of money market instruments, in order to minimise cost whilst operating within agreed risk limits. Sterling-denominated repo and reverse repo instruments play a particularly important role, though short-dated cash bonds, Certificates of Deposit, Commercial Paper, reverse repo of foreign currency bonds swapped into sterling, and unsecured loans and deposits are also 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 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. There were, however, some exceptions to this pattern in 2009-10 associated with the Government's ongoing activities to support financial markets and the UK banking sector. Outflows associated with gilt coupons and redemptions are also known in advance.

Chart 14 shows the scale of daily cash flows measured in terms of the Net Exchequer Position (NEP) in 2009-10. It excludes the effects of Treasury bill issuance and NS&I's overall net contribution to Government financing, but highlights the major contribution of gilt sales to reducing the cumulative deficit in year.

Chart 14  
Exchequer cash flows  
2009-10



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 the 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<sup>13</sup> 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. For reference, a consistent set of returns for 2006-07 have also been calculated. These are presented in Annex D 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 report on performance in 2009-10 appears in Annex D.

---

<sup>13</sup> See Chapter 5 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) can be traced 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 the responsibility for the investment of major Government funds. This now constitutes the main function of CRND, which has around £53 billion under its control, representing the assets of the various investment accounts.

The investment powers differ to some extent from fund to fund, depending upon the provisions of the relevant Acts of Parliament, but essentially investments are restricted to cash deposits or government and government guaranteed securities. Currently, the largest funds are the National Insurance Fund Investment Account, the Court Funds Investment Account and the National Lottery Distribution Fund Investment Account. The full list of funds under management at end-March 2010 is as follows:

- Court Funds Investment Account
- Insolvency Services Investment Account
- National Endowment for Science, Technology and the Arts
- National Insurance Fund Investment Account
- National Lottery Distribution Fund Investment Account
- Northern Ireland Court Service Investment Account
- Northern Ireland National Insurance Fund Investment Account
- 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, which dates back to 1793. Since 2002, the Board has operated as a unit of the DMO, sharing common services while retaining its statutory identity. The Board's Secretary and staff are employees of the DMO.

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

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

### PWLB operations in 2009-10

New loans of £5.080 billion were made to local authorities during 2009-10. After taking account of loan repayments, the PWLB's portfolio of loans grew by £0.365 billion so that by end-March 2010, the outstanding balance of principal was £51.218 billion, with a market value of £58.099 billion.

## Chapter 5: The DMO

The DMO was established on 1 April 1998. In institutional terms, the DMO is legally and constitutionally part of HM Treasury, but, as an Executive Agency, it operates at arms length from Ministers. The Chancellor of the Exchequer determines the policy and operational framework within which the DMO operates, but delegates to the Chief Executive operational decisions on debt and cash management, and day-to-day management of the office.

The separate responsibilities of the Chancellor and other Treasury Ministers, the Permanent Secretary to the Treasury and the DMO's Chief Executive are set out in a published Framework Document (available on the DMO website) which also sets out the DMO's objectives and its Chief Executive's lines of accountability. The Chief Executive is accountable to Parliament for the DMO's performance and operations, both in respect of its administrative expenditure and the Debt Management Account.

### Business planning

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

### Organisation and resources

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

The DMO's Managing Board (MB) considers all major strategic decisions and comprises the Chief Executive, the Joint Heads of Policy and Markets (one of whom is the Deputy Chief Executive) and the Chief Operating Officer. The other members in 2009-10 were Colin Price and Brian Larkman (non-executive directors) and Samantha Beckett from HM Treasury (non-executive director). Colin Price retired in 2009-10 and was succeeded from 1 January 2010 by Brian Duffin.

Within the DMO most business issues are considered by internal committees: in particular those on debt management, cash management and fund management; they are supported by a credit and market risk committee, an operational risk committee and a business delivery committee.

**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 this year was 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 DMO is financed through HM Treasury and operates under net cost arrangements, meaning that the control total for the DMO's annual expenditure is agreed by Parliament and comprises an aggregate of target expenditure and income.

**Operating costs**

The DMO's net operating cost for 2009-10 was £15.7 million, an increase of £3.6 million from 2008-09. The increase largely related to a rise in average staff numbers as the DMO's operational capacity grew in order to manage its increased workload, and higher trade settlement, custodial and brokerage costs due to an increase in trading activity over the course of the financial year. 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**

In 2009-10 the DMO continued a range of activities at the request of HM Treasury to help stabilise financial markets and support the UK banking sector. This involved participation in a number of schemes (as listed below) with HM Treasury and the Bank of England.

### **i) Special Liquidity Scheme**

On 21 April 2008 the Bank of England launched a Special Liquidity Scheme (SLS) to allow banks to swap temporarily their high quality mortgaged-backed and other securities for UK Treasury bills. The DMO facilitates this scheme by lending Treasury bills to the Bank (for a fee) when required.

The DMO established, and subsequently refreshed on a monthly basis, the stock of bills available for this scheme by purchasing specially created Treasury bills from the NLF in quantities informed by the Bank of England's estimates of future demand. The Treasury bills are held by the Debt Management Account (DMA) and earn interest from the NLF.

The initial purchase of Treasury bills had a nominal value of £50.0 billion and further purchases were made. At 31 March 2010, the nominal value of Treasury bills created by the DMA under the SLS was £176.4 billion. This was not necessarily the amount lent to the Bank.

The drawdown window to access the SLS closed on 30 January 2009, but existing swaps may be extended up to 30 January 2012. Until then, participant banks may replace existing stock swaps under the scheme with new ones under the same terms but maturing before the scheme closes. Therefore, under current arrangements, the DMA's stock of Treasury bills held for the SLS will not increase (other than temporary increases for operational reasons).

### **ii) Credit Guarantee Scheme (CGS)**

In October 2008, the Treasury announced a financial intervention package, which included the Credit Guarantee Scheme. The purpose of the Scheme is to help restore confidence by making available, to eligible institutions, for a fee, a government guarantee of senior unsecured debt of up to three years' maturity.

The Scheme is administered by the DMO acting as an agent for HM Treasury. The DMO's role involves assessing applications to the Scheme, issuing guarantees for eligible instruments and collecting the fees payable from institutions participating in the scheme.

The Scheme closed to new applicants and new issuances on 28 February 2010. However, after 9 April 2012, and subject to the agreement of HM Treasury, guaranteed liabilities may be rolled over for an additional two years up to the Scheme end date of 9 April 2014. Guaranteed liabilities rolled over in this way shall not exceed one third of the total liabilities guaranteed under the Scheme.

Further information about the CGS is available from a dedicated part of the DMO website at:

[http://www.dmo.gov.uk/index.aspx?page=CGS/CGS\\_about](http://www.dmo.gov.uk/index.aspx?page=CGS/CGS_about)

### **European Union Emissions Trading Scheme: DMO involvement**

The DMO, on behalf of the Department of Energy and Climate Change (DECC), continued to conduct auctions of EU Allowances in the UK for Phase II of the EU Emissions Trading System (EU ETS).

In 2009-10 the Government auctioned a total of 34.8 million allowances across eight auctions. All auctions were successfully covered with an average bid to cover ratio of almost six times the amount offered. In January 2010 the Government offered a non-competitive facility for the first time providing direct access to the auction process to smaller compliance buyers. This facility is administered by Computershare Investor Services PLC on behalf of DECC. The DMO will continue to run the UK's EU ETS auctions in Phase III and has a further eight auctions scheduled for 2010-11.

All EU ETS auction results and a report by the Independent Observer from each auction are published on the DMO's website at:

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



## **Annexes:**

- A) Gilts in issue at 31 March 2010**
- B) List of GEMMs and Inter Dealer Brokers (IDBs) at 31 March 2010**
- C) Financing remit: the market consultation process**
- D) Debt and cash management performance**
- E) Gilt redemptions and the gilt portfolio**
- F) Treasury bill tender results**
- G) Treasury bill tender performance**
- H) The DMO website**

## A: Gilts in issue at 31 March 2010

**Total amount in issue (including uplift on index-linked gilts): £913.47 billion (nominal) (£786.68 billion excluding Government holdings)**

### Conventional gilts

Conventional gilts	Redemption date	Dividend dates	First issue date	Amount in issue (£mn nom)	Central Govt holdings (DMO & CRND) (£mn nom)
<b>Shorts: (maturity up to 7 years)</b>					
4¼% Treasury Stock 2010	7-Jun-2010	7 Jun/Dec	19-Nov-2004	21,285	5,668
6¼% Treasury Stock 2010	25-Nov-2010	25 May/Nov	27-Jan-1994	6,720	2,240
4¼% Treasury Gilt 2011	7-Mar-2011	7 Mar/Sep	9-Nov-2005	23,651	5,162
9% Conversion Loan 2011	12-Jul-2011	12 Jan/Jul	12-Jul-1987	7,312	2,122
3¼% Treasury Gilt 2011	7-Dec-2011	7 Jun/Dec	14-Nov-2008	15,747	754
5% Treasury Stock 2012	7-Mar-2012	7 Mar/Sep	25-May-2001	26,867	6,261
5¼% Treasury Gilt 2012	7-Jun-2012	7 Jun/Dec	16-Mar-2007	25,612	2,996
4½% Treasury Gilt 2013	7-Mar-2013	7 Mar/Sep	5-Mar-2008	29,287	3,658
8% Treasury Stock 2013	27-Sep-2013	27 Mar/Sep	1-Apr-1993	8,378	2,584
2¼% Treasury Gilt 2014	7-Mar-2014	7 Mar/Sep	20-Mar-2009	29,123	12
5% Treasury Stock 2014	7-Sep-2014	7 Mar/Sep	25-Jul-2002	28,057	4,701
2¾% Treasury Gilt 2015	22-Jan-2015	22 Jan/Jul	4-Nov-2009	19,381	12
4¼% Treasury Stock 2015	7-Sep-2015	7 Mar/Sep	26-Sep-2003	24,968	4,976
8% Treasury Stock 2015	7-Dec-2015	7 Jun/Dec	26-Jan-1995	9,998	2,793
4% Treasury Gilt 2016	7-Sep-2016	7 Mar/Sep	2-Mar-2006	25,827	4,338
<b>Mediums: (maturity 7 to 15 years)</b>					
8¾% Treasury Stock 2017	25-Aug-2017	25 Feb/Aug	30-Apr-1992	10,502	3,131
5% Treasury Gilt 2018	7-Mar-2018	7 Mar/Sep	25-May-2007	25,388	4,404
4½% Treasury Gilt 2019	7-Mar-2019	7 Mar/Sep	26-Sep-2008	26,303	1,212
3¾% Treasury Gilt 2019	7-Sep-2019	7 Mar/Sep	8-Jul-2009	27,087	13
4¼% Treasury Stock 2020	7-Mar-2020	7 Mar/Sep	29-Mar-2005	23,693	3,376
8% Treasury Stock 2021	7-Jun-2021	7 Jun/Dec	29-Feb-1996	22,686	6,291
4% Treasury Gilt 2022	7-Mar-2022	7 Mar/Sep	27-Feb-2009	21,184	3
5% Treasury Stock 2025	7-Mar-2025	7 Mar/Sep	27-Sep-2001	22,099	5,656
<b>Longs: (maturity over 15 years)</b>					
4¼% Treasury Gilt 2027	7-Dec-2027	7 Jun/Dec	6-Sep-2006	21,425	3,932
6% Treasury Stock 2028	7-Dec-2028	7 Jun/Dec	29-Jan-1998	17,932	4,486
4¼% Treasury Gilt 2030	7-Dec-2030	7 Jun/Dec	3-Oct-2007	21,265	3,393
4¼% Treasury Stock 2032	7-Jun-2032	7 Jun/Dec	25-May-2000	24,618	6,040
4½% Treasury Gilt 2034	7-Sep-2034	7 Mar/Sep	17-Jun-2009	11,159	1
4¼% Treasury Stock 2036	7-Mar-2036	7 Mar/Sep	27-Feb-2003	20,227	5,230
4¼% Treasury Stock 2038	7-Dec-2038	7 Jun/Dec	23-Apr-2004	22,759	5,266
4¼% Treasury Gilt 2039	7-Sep-2039	7 Mar/Sep	5-Mar-2009	13,943	3
4½% Treasury Gilt 2042	7-Dec-2042	7 Jun/Dec	6-Jun-2007	19,120	4,123
4¼% Treasury Gilt 2046	7-Dec-2046	7 Jun/Dec	12-May-2006	17,751	4,003
4¼% Treasury Gilt 2049	7-Dec-2049	7 Jun/Dec	3-Sep-2008	16,436	1,321
4¼% Treasury Gilt 2055	7-Dec-2055	7 Jun/Dec	27-May-2005	20,147	4,152
4% Treasury Gilt 2060	22-Jan-2060	22 Jan/Jul	22-Oct-2009	11,500	0
<b>Undated (non-"Rump")</b>					
3½% War Loan Undated	Undated	1 Jun/Dec	1-Dec-1932	1,939	31

## Index-linked gilts

Index-linked gilts	Redemption date	Dividend dates	First issue date	Base RPI*	Amount in issue (£mn nom)	Nominal including inflation uplift (£mn nom)	Central Govt holdings (DMO & CRND) (£mn nom)
<b>3-month lag</b>							
1¼% I-L Treasury Gilt 2017	22-Nov-2017	22 May/Nov	8-Feb-2006	193.72500	10,834	12,186	338
1⅞% I-L Treasury Gilt 2022	22-Nov-2022	22 May/Nov	11-Jul-2007	205.65806	10,004	10,600	157
1¼% I-L Treasury Gilt 2027	22-Nov-2027	22 May/Nov	26-Apr-2006	194.06667	11,228	12,607	249
1¼% I-L Treasury Gilt 2032	22-Nov-2032	22 May/Nov	29-Oct-2008	217.13226	9,728	9,763	2
1⅞% I-L Treasury Gilt 2037	22-Nov-2037	22 May/Nov	21-Feb-2007	202.24286	10,927	11,773	204
0⅞% I-L Treasury Gilt 2040	22-Mar-2040	22 Mar/Sep	28-Jan-2010	216.52258	3,500	3,522	0
0⅞% I-L Treasury Gilt 2042	22-Nov-2042	22 May/Nov	24-Jul-2009	212.46452	5,818	5,967	0
0¾% I-L Treasury Gilt 2047	22-Nov-2047	22 May/Nov	21-Nov-2007	207.76667	6,573	6,894	50
0½% I-L Treasury Gilt 2050	22-Mar-2050	22 Mar/Sep	25-Sep-2009	213.40000	5,000	5,105	0
1¼% I-L Treasury Gilt 2055	22-Nov-2055	22 May/Nov	23-Sep-2005	192.20000	6,434	7,294	235
<b>8-month lag</b>							
2½% I-L Treasury Stock 2011	23-Aug-2011	23 Feb/Aug	28-Jan-1982	74.55006	4,803	13,749	532
2½% I-L Treasury Stock 2013	16-Aug-2013	16 Feb/Aug	21-Feb-1985	89.20152	7,620	18,230	803
2½% I-L Treasury Stock 2016	26-Jul-2016	26 Jan/Jul	19-Jan-1983	81.62231	7,982	20,870	922
2½% I-L Treasury Stock 2020	16-Apr-2020	16 Apr/Oct	12-Oct-1983	82.96578	6,585	16,938	685
2½% I-L Treasury Stock 2024	17-Jul-2024	17 Jan/Jul	30-Dec-1986	97.66793	6,827	14,917	737
4⅞% I-L Treasury Stock 2030	22-Jul-2030	22 Jan/Jul	12-Jun-1992	135.10000	5,207	8,225	533
2% I-L Treasury Stock 2035	26-Jan-2035	26 Jan/Jul	11-Jul-2002	173.60000	9,738	11,971	815

\* For 8-month lag gilts, these should be used unrounded

## “Rump” gilts (these are not available for purchase from the DMO)

Rump gilts	Redemption date	Dividend dates	First Issue date	Amount in issue (£mn nom)	Central Govt Holdings (DMO & CRND) (£mn nom)
7¾% Treasury Loan 2012-2015	26-Jan-12	26 Jan/Jul	26-Jan-1972	388	1
9% Treasury Stock 2012	6-Aug-12	6 Feb/Aug	7-Feb-1992	197	0
12% Exchequer Stock 2013-2017	12-Dec-13	12 Jun/Dec	15-Jun-1978	16	0
2½% Treasury Stock	Undated	1 Apr/Oct	28-Oct-1946	390	0
4% Consolidated Loan	Undated	1 Feb/Aug	16-Mar-1932	257	0
2½% Consolidated Stock	Undated	5 Jan/Apr/Jul/Oct	05 Apr 1888	177	1
3% Treasury Stock	Undated	5 Apr/Oct	1-Mar-1946	39	2
3½% Conversion Loan	Undated	1 Apr/Oct	1-Apr-1921	17	5
2¾% Annuities	Undated	5 Jan/Apr/Jul/Oct	17-Oct-1884	1	0
2½% Annuities	Undated	5 Jan/Apr/Jul/Oct	13-Jun-1853	1	0

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

Central government holdings include holdings by the DMO and the Commissioners for the Reduction of the National Debt (CRND) but exclude holdings by local authorities, public corporations and the Bank of England.

## **B: List of GEMMs and IDBs at 31 March 2010\*** (All are market-makers in both conventional and index-linked gilts)

<b>GEMM</b>	<b>Website</b>
<b>Barclays Capital</b> 5 The North Colonnade Canary Wharf London E14 4BB	<a href="http://www.barcap.com">www.barcap.com</a>
<b>BNP Paribas (London Branch)</b> 10 Harewood Avenue London NW1 6AA	<a href="http://www.bnpparibas.com">www.bnpparibas.com</a>
<b>Citigroup Global Markets Limited</b> Citigroup Centre 33 Canada Square London E14 5LB	<a href="http://www.citigroup.com">www.citigroup.com</a>
<b>Credit Suisse Securities</b> One Cabot Square London E14 4QJ	<a href="http://www.credit-suisse.com">www.credit-suisse.com</a>
<b>Deutsche Bank AG (London Branch)</b> Winchester House 1 Great Winchester Street London EC2N 2DB	<a href="https://gm-secure.db.com">https://gm-secure.db.com</a>
<b>Goldman Sachs International Limited</b> Peterborough Court 133 Fleet Street London EC4A 2BB	<a href="http://www.gs.com">www.gs.com</a>
<b>HSBC Bank PLC</b> 8 Canada Square London E14 5HQ	<a href="http://www.hsbcgroup.com">www.hsbcgroup.com</a>
<b>Jefferies International Limited</b> Vintners Place 68 Upper Thames Street London EC4V 3BJ	<a href="http://www.jefferies.com">www.jefferies.com</a>
<b>JP Morgan Securities Limited</b> 125 London Wall London EC2Y 5AJ	<a href="http://www.jpmorgan.com">www.jpmorgan.com</a>

**Merrill Lynch International**[www.ml.com](http://www.ml.com)

Merrill Lynch Financial Centre  
2 King Edward Street  
London  
EC1A 1HQ

**Morgan Stanley & Co. International Limited**[www.morganstanley.com](http://www.morganstanley.com)

20 Cabot Square  
Canary Wharf  
London  
E14 4QW

**Nomura International plc**[www.nomura.com](http://www.nomura.com)

One Angel Lane  
London  
EC4R 3AB

**Royal Bank of Canada Europe Limited**[www.rbccm.com](http://www.rbccm.com)

Thames Court  
One Queenhithe  
London  
EC4V 4DE

**Royal Bank of Scotland PLC**[www.rbsmarkets.com](http://www.rbsmarkets.com)

135 Bishopsgate  
London  
EC2M 3UR

**UBS Limited**[www.ubs.com/investmentbank/](http://www.ubs.com/investmentbank/)

1 Finsbury Avenue  
London  
EC2M 2PP

**Winterflood Securities Limited \*\***[www.wins.co.uk](http://www.wins.co.uk)

The Atrium Building  
Cannon Bridge  
25 Dowgate Hill  
London EC4R 2GA

\*Toronto Dominion Bank became a retail GEMM on 12 April 2010.

\*\* Retail GEMM

## Inter Dealer Brokers

### **BGC International**

One Churchill Place  
Canary Wharf  
London  
E14 5RD

[www.bgcpartners.com](http://www.bgcpartners.com)

### **Dowgate**

6th Floor  
Candlewick House  
120 Cannon Street  
London  
EC4N 6AS

[www.ksbb.com](http://www.ksbb.com)

### **ICAP Electronic Broking Limited**

2 Broadgate  
London  
EC2M 7UR

[www.icap.com](http://www.icap.com)

### **ICAP WCLK Limited**

2 Broadgate  
London  
EC2M 7UR

[www.icap.com](http://www.icap.com)

### **Tullet Prebon Gilts**

155 Bishopsgate  
London  
EC2N 3DA

[www.tulletprebon.com](http://www.tulletprebon.com)

## C: Financing remit: the market consultation process

As part of the annual remit setting process, representatives of the gilt market are invited to give their views on the shape of the financing programme for the forthcoming financial year at annual meetings chaired by the Treasury Minister responsible for Government debt management and including officials from HM Treasury and the DMO. The meeting ahead of the publication of the 2009-10 remit was held in London on 12 January 2009.

A comparable meeting (but usually involving the DMO only) is subsequently held with representatives of gilt market investors based in Scotland. The meeting ahead of the publication of the 2009-10 remit was held in Edinburgh on 16 January 2009. Minutes of these meetings are published afterwards and these are available on the DMO website via the links below:

London

<http://www.dmo.gov.uk/documentview.aspx?docName=/gilts/press/sa130109.pdf>

Edinburgh

<http://www.dmo.gov.uk/documentview.aspx?docName=/gilts/press/pr190109c.pdf>

As usual, throughout the financial year the DMO held separate quarterly meetings with the GEMMs and representatives of gilt investors to discuss specific gilts to be issued in the following quarter. In 2009-10 the following meetings were held.

Meeting	Covering period
23 March 2009	April-June 2009
18 May 2009	July-September 2009
17 August 2009	October-December 2009
14 December 2009	January-March 2010

Minutes of the meetings are published by the DMO at 9.00am on the morning after the meetings and these are available on the DMO website via the links below:

March

<http://www.dmo.gov.uk/documentview.aspx?docName=/gilts/press/sa240309.pdf>

May

<http://www.dmo.gov.uk/documentview.aspx?docName=/gilts/press/sa190509.pdf>

August

<http://www.dmo.gov.uk/documentview.aspx?docName=/gilts/press/sa180809.pdf>

December

<http://www.dmo.gov.uk/documentview.aspx?docName=/gilts/press/sa151209.pdf>

## D: Debt and cash management performance

### Gilt issuance counterfactuals

The DMO has published the results of its measurement of relative performance of outright issuance against counterfactuals in its 'Annual Reviews' since 2001. The intention in doing so is to illustrate whether different non-discretionary issuance patterns during the year would have resulted in higher or lower costs of financing (as represented by the cash weighted average yield of issuance). 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).

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 split of maturities/types of gilt sold. 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 counterfactuals should not be interpreted as a complete or authoritative means by which to test achievement against the debt management objective.

It is also important to recognise the limitations of the analysis. In particular, a major assumption that is unlikely to hold in practice 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-dated issuance needs to be refinanced much more frequently than long-dated) 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 is too simplistic to say that in any one year one issuance pattern has, or could have, outperformed another.

Another relevant assumption is that the counterfactual issuance patterns would not have had any impact on yields. This again 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.

For these reasons, caution is required when interpreting the cost of counterfactual issuance patterns set out in this annex in comparison with actual issuance. Nevertheless, the DMO considers it worthwhile to present the analysis below because it provides one possible analytical framework within which to consider the cost effectiveness of the chosen debt issuance pattern.

The cash weighted average yield of actual issuance at the gilt auctions, syndicated offerings and mini-tenders in 2009-10 was 3.568%. See Table D1. (Index-linked real yields have been converted to nominal equivalents, assuming 3% RPI inflation).

Table D1

Cash weighted average yield of  
gilt issuance in 2009-10

Date	Gilt	Real yield (%)	Nominal yield (%)	Cash £mn
01-Apr-2009	4¾% 2015		2.626	3,936.5
02-Apr-2009	4¼% 2039		4.257	2,247.0
07-Apr-2009	4½% 2019		3.457	3,260.5
08-Apr-2009	1¼% IL 2032	1.093	4.087	1,100.9
15-Apr-2009	1½% IL 2037(t)	1.010	4.003	535.9
16-Apr-2009	2¼% 2014		2.839	3,892.5
28-Apr-2009	4% 2022		3.924	3,022.2
29-Apr-2009	4¼% 2049 (t)		4.337	183.9
30-Apr-2009	1⅞% IL 2022	1.404	4.403	1,196.1
06-May-2009	4½% 2019		3.579	3,764.8
12-May-2009	4¾% 2030		4.388	2,362.3
14-May-2009	0¾% IL 2047	0.780	3.769	704.9
19-May-2009	4¾% 2038 (t)		4.444	1,312.5
21-May-2009	2¼% 2014		2.911	4,845.4
28-May-2009	1¼% IL 2032	1.080	4.074	1,259.1
02-Jun-2009	4¼% 2049		4.665	2,031.6
03-Jun-2009	4½% 2019		3.795	4,066.4
09-Jun-2009	5% 2014		2.783	6,078.1
11-Jun-2009	0¾% IL 2047	0.826	3.816	719.1
16-Jun-2009	4½% 2034 (S)		4.464	6,835.5
23-Jun-2009	4% 2022		4.060	3,975.8
25-Jun-2009	1½% IL 2037(t)	0.816	3.806	563.2
01-Jul-2009	2¼% 2014		3.124	5,443.6
02-Jul-2009	4¼% 2039		4.461	2,412.6
07-Jul-2009	3¾% 2019		3.829	3,973.5
08-Jul-2009	1¼% IL 2027	0.918	3.909	1,152.5
16-Jul-2009	4¼% 2032 (t)		4.457	1,213.1
21-Jul-2009	4% 2016		3.371	4,157.0
23-Jul-2009	0⅝% IL 2042(S)	0.886	3.877	4,612.9
29-Jul-2009	2¼% 2014		3.224	5,214.6
04-Aug-2009	4¼% 2027		4.553	2,643.0
11-Aug-2009	3¾% 2019		3.934	3,785.8
13-Aug-2009	0¾% IL 2047(t)	0.636	3.623	479.3
20-Aug-2009	1¼% IL 2032	0.809	3.799	1,211.2
02-Sep-2009	5¼% 2012		1.954	5,547.7
03-Sep-2009	4¼% 2039		4.171	2,329.3
08-Sep-2009	3¾% 2019		3.779	4,110.6
14-Sep-2009	6% 2028		3.942	1,274.4
17-Sep-2009	2¼% 2014		2.656	5,674.6
24-Sep-2009	0½% IL 2050 (S)	0.539	3.525	4,917.9
29-Sep-2009	4% 2022		3.888	4,090.9
01-Oct-2009	4¾% 2030		4.064	2,712.6
06-Oct-2009	4½% 2013		2.077	5,814.9
07-Oct-2009	0⅝% IL 2042	0.478	3.463	859.5
14-Oct-2009	4¾% 2020		3.560	3,857.2
15-Oct-2009	1¼% IL 2017(t)	0.453	3.438	704.4
21-Oct-2009	4% 2060 (S)		4.179	6,722.3
22-Oct-2009	5% 2014		2.790	5,363.7
03-Nov-2009	2¾% 2015		2.942	5,111.3
04-Nov-2009	4½% 2034		4.304	2,059.1
10-Nov-2009	3¾% 2019		3.916	4,067.0
12-Nov-2009	1¼% IL 2032	0.588	3.575	1,129.7
19-Nov-2009	1½% IL 2037(t)	0.472	3.457	560.2
24-Nov-2009	4% 2022		3.955	4,107.2
01-Dec-2009	2¾% 2015		2.790	5,487.1
02-Dec-2009	4¼% 2039		4.161	2,511.3
08-Dec-2009	3¾% 2019		3.790	4,104.4
16-Dec-2009	4¼% 2032 (t)		4.397	978.9
17-Dec-2009	1¼% IL 2027	0.806	3.796	1,081.5
06-Jan-2010	2¾% 2015		3.080	4,325.2
13-Jan-2010	4¼% 2049		4.344	2,381.7
18-Jan-2010	1¼% IL 2017 (t)	0.564	3.550	705.2
21-Jan-2010	3¾% 2019		4.092	3,476.3
27-Jan-2010	0⅝% IL 2040(S)	0.709	3.697	3,413.3
02-Feb-2010	5¼% 2012		1.663	4,351.2
03-Feb-2010	5% 2018		3.693	3,271.1
09-Feb-2010	4½% 2034		4.498	2,159.4
11-Feb-2010	1⅞% IL 2022	1.194	4.190	1,026.7
18-Feb-2010	0¾% IL 2047 (t)	0.665	3.653	430.7
23-Feb-2010	4% 2060 (S)		4.569	3,989.3
24-Feb-2010	3¾% 2019		4.128	3,199.0
02-Mar-2010	4¼% 2039		4.590	2,050.3
03-Mar-2010	2¾% 2015		2.796	4,311.2
09-Mar-2010	4% 2022		4.333	3,194.6
11-Mar-2010	1¼% IL 2032	0.953	3.945	958.1
16-Mar-2010	6% 2028 (t)		4.563	1,179.6
18-Mar-2010	4¾% 2020		3.991	3,795.7
<b>Cash weighted average yield</b>			<b>3.568</b>	<b>227,589.5</b>

(S)= syndicated offer. (t) = mini-tender

The cash weighted average yield of issuance by type of gilt and maturity is shown in Table D2 below.

Table D2  
Average issuance yield  
by type and maturity of gilt  
2009-10

Average yield of gilt issuance in 2008-09		
	Cash	%
<b>All issuance</b>	<b>227,589</b>	<b>3.568</b>
<b>By maturity</b>		
Short (conventional)	75,398	2.681
Medium (conventional and index-linked)	74,912	3.840
Long (conventional and index-linked)	77,279	4.163
<b>Conventional</b>		
Short	75,398	2.681
Medium	71,280	3.840
Long	51,590	4.367
<b>Total conventional</b>	<b>198,267</b>	<b>3.536</b>
<b>Index-linked</b>		
Medium	3,632	3.990
Long	25,690	3.753
<b>Total Index-linked</b>	<b>29,322</b>	<b>3.782</b>

The actual average yield of all outright issuance in 2009-10 of 3.568% 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 D3 contrasts the actual average issuance yield of the 2009-10 remit with three counterfactuals assuming:

- an even-distribution approach to financing;
- a significantly greater skew towards long-dated issuance; and
- a significantly greater skew towards short-dated issuance.

Table D3  
Illustrative yields assuming  
different issuance patterns

Conventional		Remit	Even-flow	Greater skew long	Greater skew short
	%	(£bn)	(£bn)	(£bn)	(£bn)
Short	2.681	75.4	66.1	45.0	108.3
Medium	3.840	71.3	66.1	45.0	45.0
Long	4.367	51.6	66.1	108.3	45.0
		<b>198.3</b>	<b>198.3</b>	<b>198.3</b>	<b>198.3</b>
<b>Index linked</b>					
Medium	3.990	3.6	14.7	0.0	29.3
Long	3.753	25.7	14.7	29.3	0.0
		<b>29.3</b>	<b>29.3</b>	<b>29.3</b>	<b>29.30</b>
<b>Total gilt sales</b>		<b>227.6</b>	<b>227.6</b>	<b>227.6</b>	<b>227.6</b>
<b>Average yield %</b>		<b>3.568</b>	<b>3.660</b>	<b>3.850</b>	<b>3.412</b>
<b>Difference (basis points)</b>			<b>9.2</b>	<b>28.2</b>	<b>-15.6</b>

An even-split approach to financing by maturity produces a marginally higher average yield of issuance (up 9.2bps) whereas the skews much longer and shorter produce significantly larger under- and over-performances respectively compared to the actual remit (the skew to long-dated issuance is 28.2bps higher and the skew to short-dated issuance is 15.6bps lower).

The outcomes 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 account of a number of factors including:

- the Government's own appetite for risk, both nominal and real;
- the shape of both the nominal and real yield curves and the expected effect of issuance policy; and
- investors' demand for gilts.

## Auction concession analysis

### a) Price movements/impact on proceeds

There are a number of ways to measure auction concessions. The first presented here in Table D4 uses the same methodology as in 2008-09 and shows the extent of any concession/premium in the immediate run ups 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.

In 29 (of the 58) auctions in 2009-10 prices at the auctions were lower than at close the previous day and the average concession across all auctions was £0.4 million, an aggregate concession of £23.9 million. On average, small premia were evident at short- and medium-dated auctions (£1.4 million and £0.5 million respectively). In contrast, average concessions of £4.5 million and £1.0 million were seen at long-conventional and long-index-linked auctions respectively.

### b) Butterfly strategy

A more sophisticated measure of performance is produced by the model referred to here as the “butterfly strategy”. In this case the performance indicator is a function of the value of the butterfly trade as monitored within a specific time period before and after the auction. The butterfly level essentially represents a measure of the absolute return from the trade.

A butterfly trade assumes that investors buy the bond (body) against selling two other bonds (wings) with similar maturity and characteristics and the trade is duration neutral at inception. Everything else being equal, therefore, the value of this strategy should not change (except for the time effect i.e. the cost of carry), but in practice bonds can have stock specific behaviour, which affects their value. This becomes apparent when the value of the butterfly deviates from zero.

Investors buy the bond with an expectation of achieving a positive return over a short horizon when the value of the butterfly is positive (the bond is “cheap relative to the wings”) as this suggests that the bond is likely to rise in value. The reverse is also true and investors will typically sell the bond if the Butterfly is negative (the bond is rich) as this suggests that the value of the bond is likely to fall.

Some bonds might stay rich or cheap for a long period due to supply/demand effects<sup>14</sup> and the butterfly can give an insight into the tendency for particular bonds to richen or cheapen. For example, in Q1 2009-10, 2¼% Treasury Gilt 2014 was persistently priced cheap on this basis while 5% Treasury Stock 2014 was persistently rich. The auctions of these two gilts recorded the largest variation of basis point concession/premium over the whole financial year. The May auction of 2¼% Treasury Gilt 2014 cleared with an eight bps yield premium, whilst the June auction of 5% Treasury Stock 2014 had a nine bps yield concession.

Index-linked gilts behaved more consistently at auctions, scoring between +5 bps (premium) and -4 bps (concession). On average, therefore, index-linked gilts were sold at fair value according to this analysis.

Charts D1 and D2 below shows the absolute butterfly levels of 2¼% Treasury Gilt 2014 and 5% Treasury Stock 2014 before and after the auctions mentioned above.

---

<sup>14</sup> A specific factor during 2009 was the impact that the Bank of England's Asset Purchase Facility had on the prices of certain gilts.

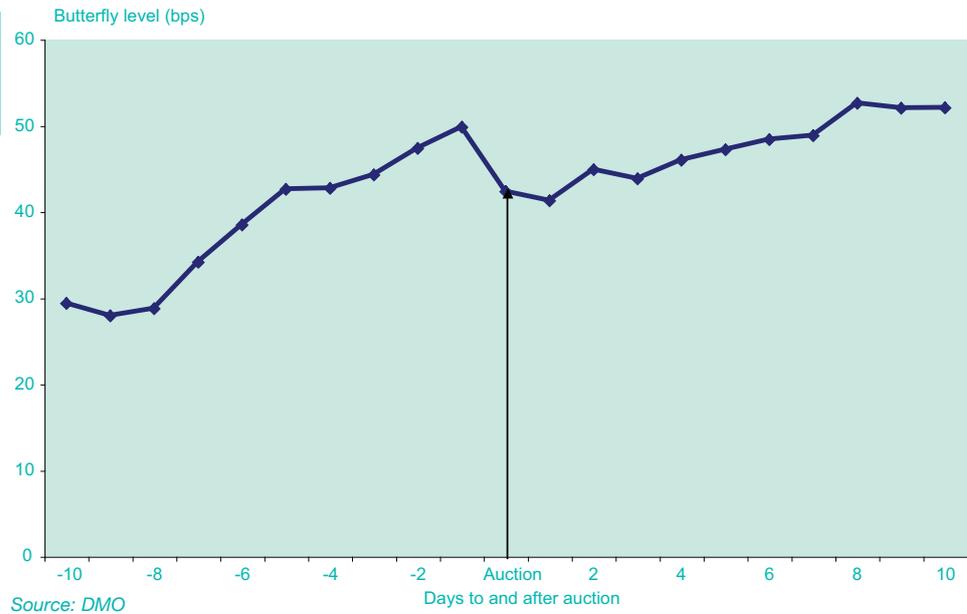
Table D4  
Auction concession (-) and  
premia ahead of gilt auctions in  
2009-10

Date	Gilt	concession (-)/ premium (£mn)
01-Apr-09	4¾% Treasury Stock 2015	5.3
02-Apr-09	4¼% Treasury Gilt 2039	-5.9
07-Apr-09	4½% Treasury Gilt 2019	-5.4
08-Apr-09	1¼% Index-linked Treasury Gilt 2032	25.0
16-Apr-09	2¼% Treasury Gilt 2014	-17.2
28-Apr-09	4% Treasury Gilt 2022	11.4
30-Apr-09	2¼% Treasury Gilt 2014	-27.2
06-May-09	4% Treasury Gilt 2022	-10.5
12-May-09	2¼% Treasury Gilt 2014	0.5
14-May-09	4% Treasury Gilt 2022	-2.2
21-May-09	2¼% Treasury Gilt 2014	-13.5
28-May-09	1¼% Index-linked Treasury Gilt 2032	-11.8
02-Jun-09	4¼% Treasury Gilt 2049	2.6
03-Jun-09	4½% Treasury Gilt 2019	26.0
09-Jun-09	5% Treasury Stock 2014	41.0
11-Jun-09	0¾% Index-linked Treasury Gilt 2047	11.6
23-Jun-09	4% Treasury Gilt 2022	-4.0
01-Jul-09	2¼% Treasury Gilt 2014	6.3
02-Jul-09	4¼% Treasury Gilt 2039	7.3
07-Jul-09	3¾% Treasury Gilt 2019	-9.6
08-Jul-09	1¼% Index-linked Treasury Gilt 2027	2.0
21-Jul-09	4% Treasury Gilt 2016	2.0
29-Jul-09	2¼% Treasury Gilt 2014	1.0
04-Aug-09	4¼% Treasury Gilt 2027	-1.3
11-Aug-09	3¾% Treasury Gilt 2019	-0.7
20-Aug-09	1¼% Index-linked Treasury Gilt 2032	-6.1
02-Sep-09	5¼% Treasury Gilt 2012	5.5
03-Sep-09	4¼% Treasury Gilt 2039	-13.0
08-Sep-09	3¾% Treasury Gilt 2019	-4.9
17-Sep-09	2¼% Treasury Gilt 2014	-2.3
29-Sep-09	4% Treasury Gilt 2022	-9.8
01-Oct-09	4¾% Treasury Gilt 2030	-14.0
06-Oct-09	4½% Treasury Gilt 2013	0.5
07-Oct-09	0½% Index-linked Treasury Gilt 2042	-1.7
14-Oct-09	4¾% Treasury Gilt 2020	-18.6
22-Oct-09	5% Treasury Stock 2014	-8.6
03-Nov-09	2¾% Treasury Gilt 2015	5.2
04-Nov-09	4½% Treasury Gilt 2034	-9.8
10-Nov-09	3¾% Treasury Gilt 2019	8.6
12-Nov-09	1¼% Index-linked Treasury Gilt 2032	2.8
24-Nov-09	4% Treasury Gilt 2022	2.6
01-Dec-09	2¾% Treasury Gilt 2015	-3.0
02-Dec-09	4¼% Treasury Gilt 2039	-10.6
08-Dec-09	3¾% Treasury Gilt 2019	2.3
17-Dec-09	1¼% Index-linked Treasury Gilt 2027	2.2
06-Jan-10	2¾% Treasury Gilt 2015	2.8
13-Jan-10	4¼% Treasury Gilt 2049	-12.6
21-Jan-10	3¾% Treasury Gilt 2019	5.8
02-Feb-10	5¼% Treasury Gilt 2012	2.6
03-Feb-10	5% Treasury Stock 2018	-1.5
09-Feb-10	4½% Treasury Gilt 2034	-7.4
11-Feb-10	1⅞% Index-linked Treasury Gilt 2022	-8.3
24-Feb-10	3¾% Treasury Gilt 2019	10.8
02-Mar-10	4¼% Treasury Gilt 2039	9.8
03-Mar-10	2¾% Treasury Gilt 2015	-4.4
09-Mar-10	4% Treasury Gilt 2022	5.7
11-Mar-10	1¼% Index-linked Treasury Gilt 2032	1.6
18-Mar-10	4¾% Treasury Gilt 2020	10.7
		<b>-23.9</b>
<b>Averages</b>	<b>Short-dated conventional</b>	1.4
	<b>Medium-dated conventional</b>	0.5
	<b>Long-dated conventional</b>	-4.5
	<b>Index-linked Gilts</b>	-1.0
	<b>All auctions</b>	<b>-0.4</b>

\*Premium = positive number, concession = negative number

The average butterfly level in the 10 trading days before and on the auction day of 2¼% 2015 on 21 May 2009 was 38.9bps while the average for the 10 trading days on and after the auction was 47.2bps. On this measure, therefore, the value of the butterfly trade cheapened up by 8.3bps after the auction, indicating that the DMO as issuer extracted a premium for it at the auction – albeit that the gilt traded consistently cheap.

Chart D1  
Butterfly levels of 2¼% Treasury Gilt 2014 around the auction on 21 May 2009



In contrast, 5% 2014 traded consistently dear. The average butterfly level in the ten trading days before and on the auction day was -28.8bps while the average for the 10 trading days on and after the auction day was -37.8bps, so, on this basis the value of the butterfly trade richened by 9.0bps after the auction, indicating that investors benefited as the bond outperformed after the auction, which can be interpreted as a concession.

Chart D2  
Butterfly levels of 5% Treasury Stock 2014 around the auction on 9 June 2009

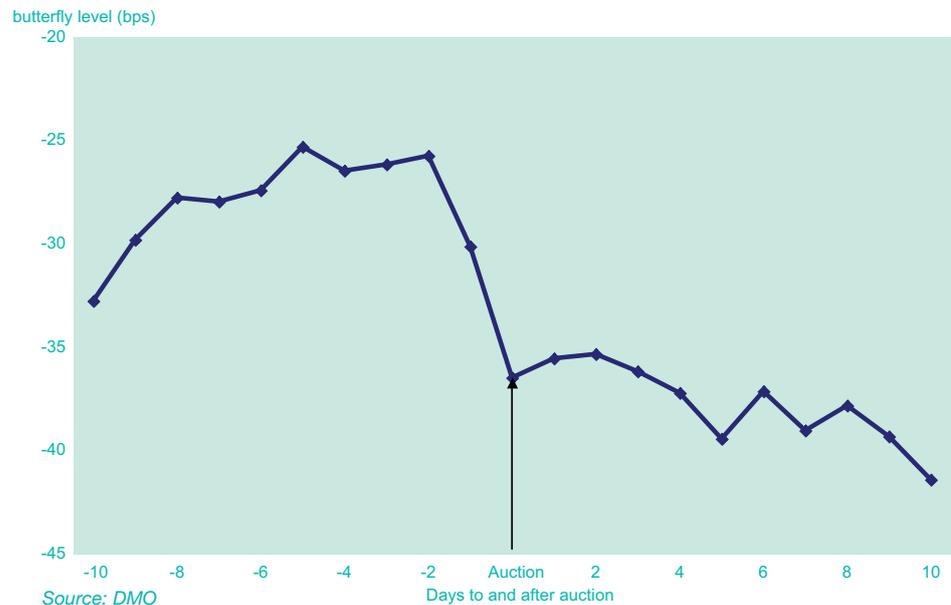


Table D5 shows the auction concession or premium for all conventional auctions held in 2009-10 as measured by the above butterfly analysis.

**Table D5**  
**Concession and premium in**  
**basis point terms at**  
**conventional gilt auctions**

Date	Gilt	Concession (bps) (negative)/premium (positive)
01-Apr-09	4¾% 2015	2
02-Apr-09	4¼% 2039	-2
07-Apr-09	4½% 2019	1
16-Apr-09	2¼% 2014	-1
28-Apr-09	4% 2022	0
06-May-09	4½% 2019	3
12-May-09	4¾% 2030	0
21-May-09	2¼% 2014	8
02-Jun-09	4¼% 2049	-1
03-Jun-09	4½% 2019	4
09-Jun-09	5% 2014	-9
23-Jun-09	4% 2022	2
01-Jul-09	2¼% 2014	-7
02-Jul-09	4¼% 2039	-1
07-Jul-09	3¾% 2019	-3
21-Jul-09	4% 2016	2
29-Jul-09	2¼% 2014	0
04-Aug-09	4¼% 2027	-2
11-Aug-09	3¾% 2019	-2
03-Sep-09	4¼% 2039	-1
08-Sep-09	3¾% 2019	-4
17-Sep-09	2¼% 2014	-2
29-Sep-09	4% 2022	-1
01-Oct-09	4¾% 2030	0
06-Oct-09	4½% 2013	-3
14-Oct-09	4¾% 2020	-1
22-Oct-09	5% 2014	2
03-Nov-09	2¾% 2015	2
04-Nov-09	4½% 2034	-1
10-Nov-09	3¾% 2019	-1
24-Nov-09	4% 2022	-1
01-Dec-09	2¾% 2015	-2
02-Dec-09	4¼% 2039	0
08-Dec-09	3¾% 2019	1
06-Jan-10	2¾% 2015	-4
13-Jan-10	4¼% 2049	-1
21-Jan-10	3¾% 2019	0
03-Feb-10	5% 2018	0
09-Feb-10	4½% 2034	0
24-Feb-10	3¾% 2019	-1
02-Mar-10	4¼% 2039	0
03-Mar-10	2¾% 2015	1
09-Mar-10	4% 2022	1
18-Mar-10	4¾% 2020	1

Table D6 shows the auction concession or premium for all index-linked gilt auctions held in 2009-10 as measured by the above butterfly analysis

Table D6  
**Concession and premium in  
 basis point terms at index-  
 linked gilt auctions**

<b>Date</b>	<b>Gilt</b>	<b>Concession in bps (negative)/premium (positive)</b>
08-Apr-09	1¼% IL 2032	-7
30-Apr-09	1⅞% IL 2022	-1
14-May-09	0¾% IL 2047	-3
28-May-09	1¼% IL 2032	4
11-Jun-09	0¾% IL 2047	-4
08-Jul-09	1¼% IL 2027	0
20-Aug-09	1¼% IL 2032	-1
07-Oct-09	0⅝% IL 2042	1
12-Nov-09	1¼% IL 2032	-4
17-Dec-09	1¼% IL 2027	0
11-Feb-10	1⅞% IL 2022	2
11-Mar-10	1¼% IL 2032	-3

## The DMO's cash management objective: performance report

The DMO's high level cash management objective as set out in Chapter 4 has been subdivided into a series of objectives, to each of which has been attached a Key Performance Indicator (KPI). See table D7 below. The following section explains how performance has been delivered against these objectives in 2009-10.

*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 D7

CASH MANAGEMENT OBJECTIVE	KEY PERFORMANCE INDICATORS & CONTROLS
<p>The Debt Management Office (DMO) must supply sufficient cash each day to enable government to meet its payment obligations. This is fundamental and unconditional.</p>	<p>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).</p>
<p>Cash management operations and arrangements should be conducted in a way that does not interfere with monetary policy operations.</p>	<p>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.</p>
<p>Cash management operations and arrangements should be conducted without impeding the efficient working of the Sterling money markets</p>	<p>The DMO will seek to avoid holding weekly or ad hoc Treasury bill tenders when the Bank conducts its weekly open market operations.</p>
<p>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.</p>	<p>The DMO will advise HM Treasury as appropriate on the impact of Exchequer cash flows on liquidity conditions in the sterling money markets.</p> <p>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.</p>
<p>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.</p>	<p>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.</p> <p>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.</p>

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 the Government's Ways and Means (II) account<sup>15</sup> 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: Way 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 for the vast majority of 2009-10. The DMO went overdrawn, however, on 9 July and 13 November 2009 and on 3 February 2010 (as a result of exceptional circumstances) thereby requiring temporary Ways and Means (II) transfers from the Bank of England.

*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 target cumulative weekly 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's cumulative balance for the DMA was within +/-2% of its weekly cumulative target at the BoE for 39 out of 52 weeks in 2009-10. In all cases, balances outside this range related to events beyond the DMO's control, largely unexpected late cash flows on the final day of the week or over long weekends. Average absolute deviation from target of weekly balances was 2.37% in 2009-10. All significant known daily and forecast cumulative weekly variations from target were notified to the Bank of England in a

---

<sup>15</sup> This account deals with overnight balances and is distinct from the Ways and Means facility referred to in Chapter 2.

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 to clash 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.

*KPI 1.3: The DMO will advise HM Treasury as appropriate on the impact of Exchequer cash flows on liquidity conditions in the sterling money markets.*

- Throughout 2009-10 the DMO has undertaken 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 has also maintained frequent and regular dialogue to update HM Treasury on market liquidity and, working with HM Treasury, has 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 preference 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 2009-10 compared with £23.4 million for 2008-09. The DMO's estimated transaction and management costs during the year were £9.1 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 below the prevailing Bank of England Bank Rate and from investing surpluses at market rates that were on average above the Bank Rate.
- There were no breaches of credit, interest rate, foreign exchange or liquidity risk limits recorded in 2009-10.

*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 2009-10 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), announcement of Treasury bill tender results (30 minutes) or maximum permitted breaches of cash management operational notices (5).

## E: Gilt redemptions and the gilt portfolio

### Gilt redemptions

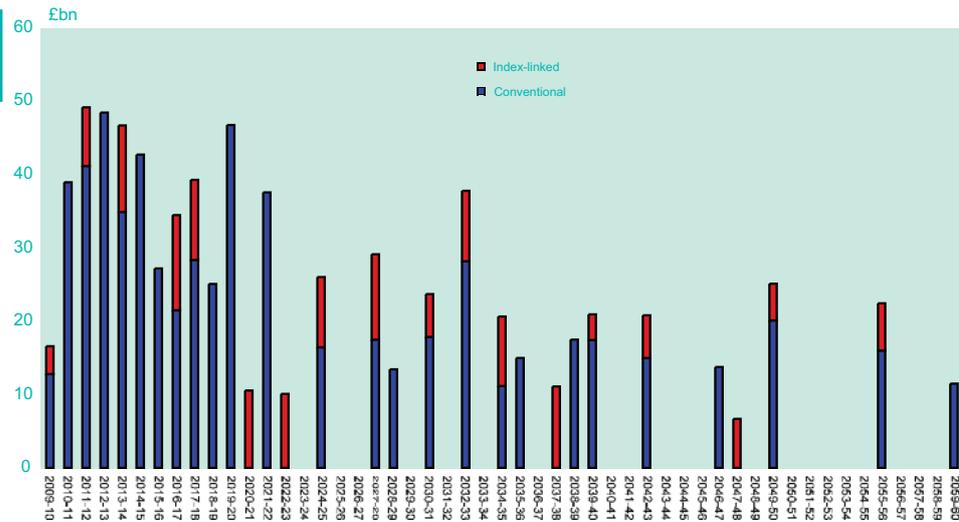
Three gilts with an aggregate value of £16.59 billion in market hands redeemed in 2009-10, as detailed in Table E1.

Table E1  
Gilt redemptions in 2009-10 (£mn)

Gilt	Maturity date	Amount in issue	Government holdings	ILG adjustment	Net Redemptions
2½% I-L Treasury 2009	20-May-09	3,427	1,248	2,546	692
8% Treasury 2009	25-Sep-09	208	0		208
5¾% Treasury 2009	07-Dec-09	15,596	3,011		12,585
					<b>16,591</b>

The future profile of gilt redemptions at end-March 2010 is shown in Chart E1.

Chart E1  
Gilt redemption profile at end-March 2010



Source: DMO

## The Gilt portfolio

The key statistics of the gilt portfolio at end-March 2010 compared with the position at the end of the previous financial year are shown in Table E2 below. Figures in brackets next to the nominal and market values of the gilt portfolio are the corresponding totals excluding central government holdings.

Table E2  
Key gilt portfolio statistics

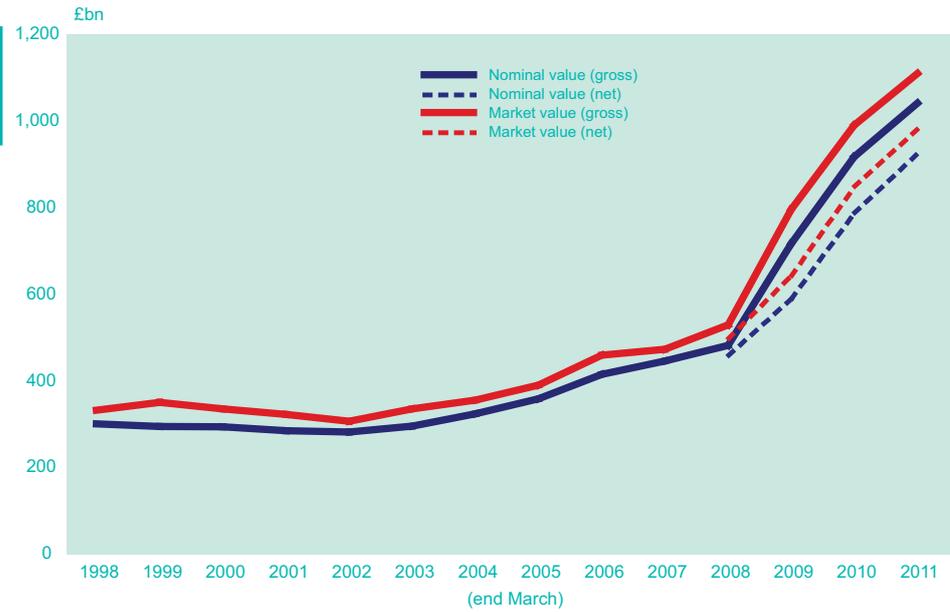
<b>Gilt Portfolio Summary Statistics</b>	<b>End-March 2009</b> (excluding central gov holdings)	<b>End-March 2010</b> (excluding central gov holdings)
Nominal value of the gilt portfolio (£):	713.20bn (580.12bn)	913.47bn (786.68bn)
- conventional gilts:	543.21bn (426.11bn)	722.86bn (608.51bn)
- index-linked gilts:	169.99bn (154.01bn)	190.61bn (178.17bn)
Market value of the gilt portfolio (£)	791.74bn (641.80bn)	986.88bn (847.59bn)
- conventional gilts:	606.65bn (474.04bn)	765.45bn (641.12bn)
- index-linked gilts:	185.10bn (167.75bn)	221.42bn (206.47bn)
Weighted average market yields		
- conventional gilts:	2.92%	3.22%
- index-linked gilts:	1.07%	0.32%
Portfolio average maturity:	14.13yrs	13.98yrs
- conventional gilts:	13.90yrs	13.21yrs
- index-linked gilts:	14.87yrs	16.64yrs
Average modified duration		
- conventional gilts:	8.57yrs	8.24yrs
- index-linked gilts:	13.17yrs	14.33yrs

The nominal value of the gilt portfolio rose by 28% to £913.5 billion as gross gilt issuance greatly exceeded gilt redemptions (see above). The market value of the portfolio rose 25% to £986.9 billion reflecting the impact of a rise in gilt prices over the year (evidenced by the sharp fall in market yields).

The numbers are, however, significantly inflated by the creation (in 2008-09) of some £115 billion (cash) gilt collateral for the DMO's Exchequer cash management operations and the Bank of England's Discount Window Facility.

Chart E2 shows the nominal and market values of the gilt portfolio at end-March in each year since 1998 and projected to end-March 2011 based on the DMO financing remit 2010-11 (as revised at the Budget on 22 June 2010). From March 2008 onwards the nominal and market values are also shown net of government holdings.

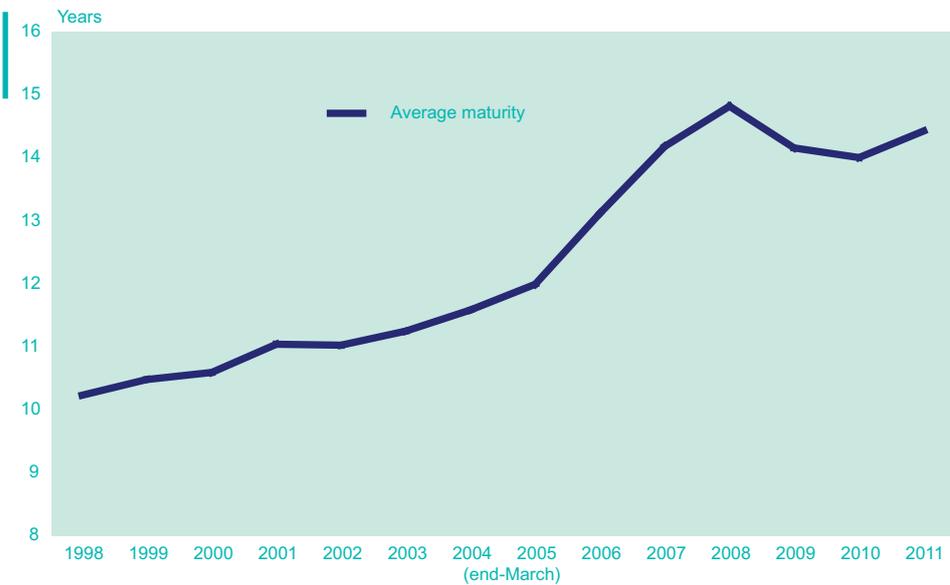
**Chart E2**  
Uplifted Nominal and market values of the gilt portfolio (to end-March 2011)



Source: DMO

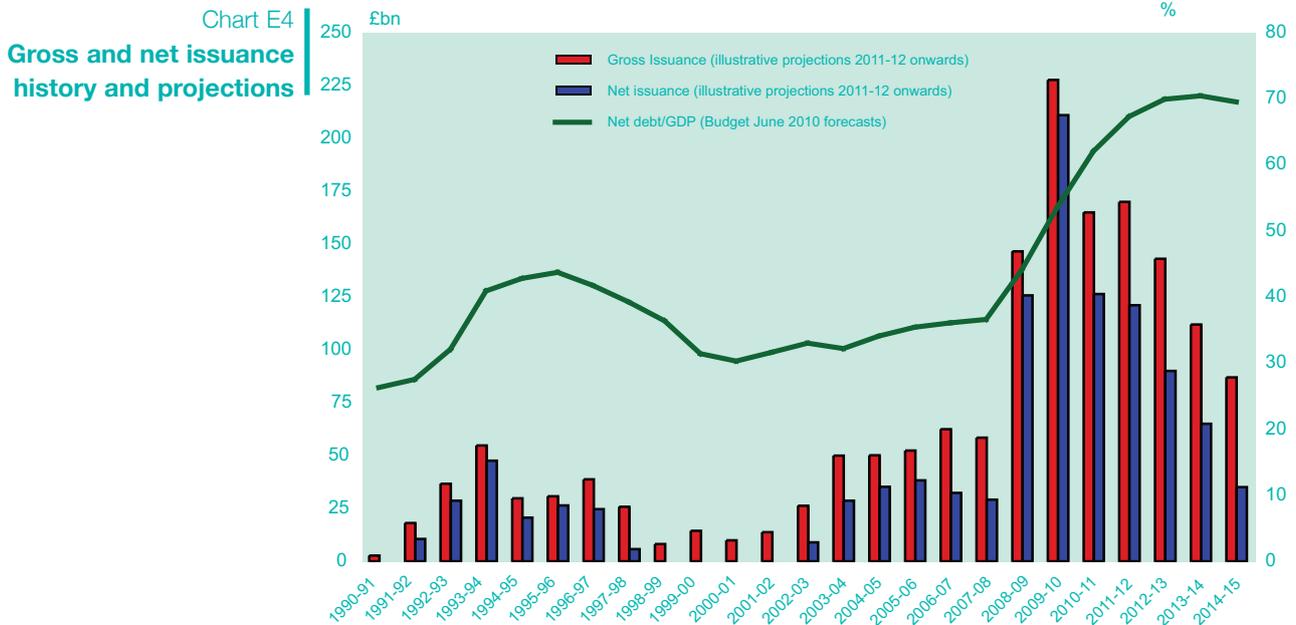
Chart E3 shows the maturity of the gilt portfolio at end-March each year since 1998 and projected to end-March 2011 on the basis of the remit published in June 2010; on this basis the gradually falling trend of the past two financial years is expected to be reversed in 2010-11 with the average maturity rising from 14.0 to 14.4 years.

**Chart E3**  
Average maturity of the gilt portfolio



Source: DMO

Chart E4 shows past and projected gross and net gilt issuance levels (and net debt/GDP data) as published at the Budget on 22 June 2010.



Source: HM Treasury/DMO

### Breakdown of the gilt portfolio by type and maturity

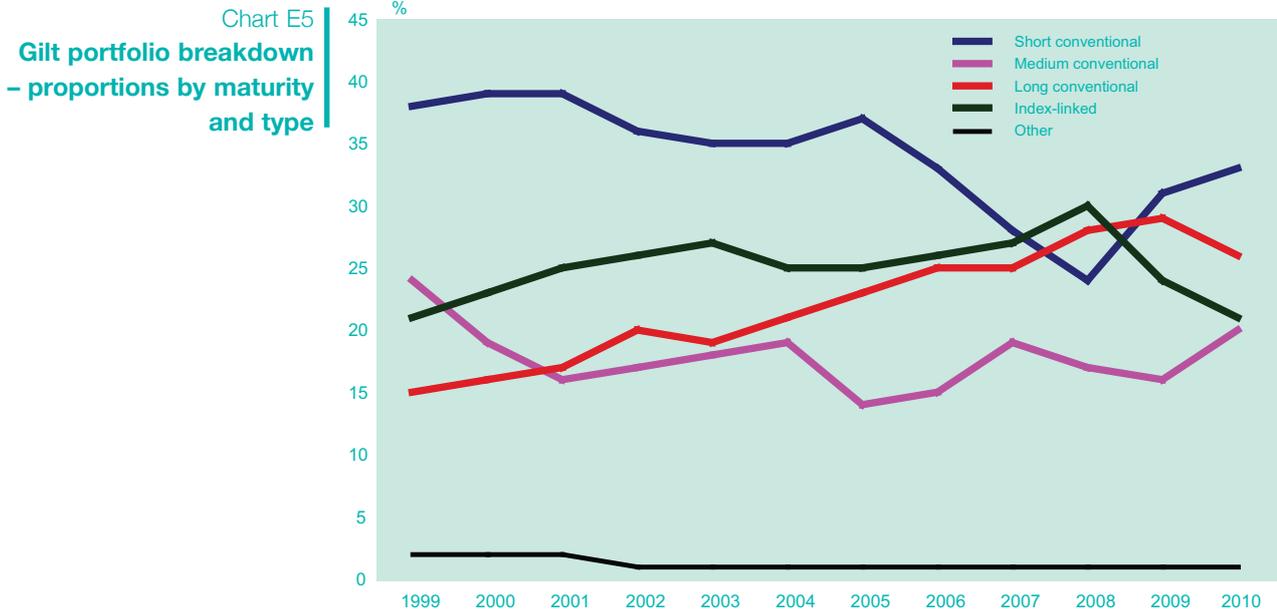
Table E3 and Chart E5 below show the evolution of the gilt portfolio by type and maturity since March 1999. They show the steadily rising proportion of long conventional gilts (from 15% to 26% of the portfolio) over the 11 year period, and of index-linked gilts (from 21% to a peak of 30% at end-March 2008 – although this has fallen back in the past two years in the wake of record gilt issuance levels which necessitated significant increases in short- and medium-dated conventional gilts issuance).

Table E3  
Portfolio composition  
1999-2010

At end-March (%)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Conventional</b>												
0-3 years	16	17	17	18	16	16	20	19	14	13	17	17
3-7 years	22	22	22	18	19	18	17	14	14	11	14	16
7-15 years	24	19	16	17	18	19	14	15	19	17	16	20
Over 15 years	15	16	17	20	19	21	23	25	25	28	29	26
<b>Total Conventional</b>	<b>76</b>	<b>75</b>	<b>72</b>	<b>73</b>	<b>72</b>	<b>74</b>	<b>74</b>	<b>73</b>	<b>72</b>	<b>70</b>	<b>76</b>	<b>79</b>
<b>Index-linked*</b>	<b>21</b>	<b>23</b>	<b>25</b>	<b>26</b>	<b>27</b>	<b>25</b>	<b>25</b>	<b>26</b>	<b>27</b>	<b>30</b>	<b>24</b>	<b>21</b>
Undated	1	1	1	1	1	1	1	1	1	1	0**	0***
Floating rate	1	1	1	0	0	0	0	0	0	0	0	0

\*including index-linked uplift \*\* 0.4 \*\*\*0.3  
(Figures may not sum due to rounding)

Chart E5 includes both the 0-3 years and 3-7 years data within the “short conventional” category and undated and floating rate gilts in the “other” category.



Source: DMO

Chart E6 compares the change in the balance of the portfolio accounted for by: (i) short- and medium-dated conventional gilts; with (ii) long-dated and index-linked gilts at the end of March each year since 1999. This shows clearly the impact of the much larger quanta of short and medium issuance in the past two financial years (notwithstanding record absolute amounts of long and index-linked supply).



Source: DMO

## F: Treasury bill tender results 2009-10

Table F1  
One-month tender results

Tender date	Issue Date	Redemption Date	Size £mn	Cover	Ave Yield (%)	Ave Price (£)	Tail (bps)
03-Apr-2009	06-Apr-2009	05-May-2009	1,000	2.64	0.521	99.959	3
09-Apr-2009	14-Apr-2009	11-May-2009	1,000	3.06	0.432	99.968	4
17-Apr-2009	20-Apr-2009	18-May-2009	1,000	2.59	0.441	99.966	1
24-Apr-2009	27-Apr-2009	26-May-2009	1,000	3.58	0.440	99.965	7
01-May-2009	05-May-2009	01-Jun-2009	1,000	2.90	0.425	99.969	2
08-May-2009	11-May-2009	08-Jun-2009	1,000	3.06	0.455	99.965	5
15-May-2009	18-May-2009	15-Jun-2009	1,000	3.53	0.438	99.966	1
22-May-2009	26-May-2009	22-Jun-2009	1,000	3.65	0.424	99.969	2
29-May-2009	01-Jun-2009	29-Jun-2009	1,000	2.19	0.422	99.968	2
05-Jun-2009	08-Jun-2009	06-Jul-2009	1,000	1.95	0.424	99.967	3
12-Jun-2009	15-Jun-2009	13-Jul-2009	1,000	1.65	0.437	99.967	2
19-Jun-2009	22-Jun-2009	20-Jul-2009	1,000	2.42	0.433	99.967	2
26-Jun-2009	29-Jun-2009	27-Jul-2009	1,000	3.18	0.438	99.966	0
03-Jul-2009	06-Jul-2009	03-Aug-2009	1,000	2.80	0.418	99.968	1
10-Jul-2009	13-Jul-2009	10-Aug-2009	1,000	3.67	0.405	99.969	2
17-Jul-2009	20-Jul-2009	17-Aug-2009	1,000	3.01	0.397	99.970	1
24-Jul-2009	27-Jul-2009	24-Aug-2009	1,000	1.60	0.410	99.969	3
31-Jul-2009	03-Aug-2009	01-Sep-2009	1,000	3.85	0.398	99.968	2
07-Aug-2009	10-Aug-2009	07-Sep-2009	1,000	2.68	0.430	99.967	3
14-Aug-2009	17-Aug-2009	14-Sep-2009	1,000	4.60	0.371	99.972	2
21-Aug-2009	24-Aug-2009	21-Sep-2009	1,000	1.83	0.371	99.972	1
28-Aug-2009	01-Sep-2009	28-Sep-2009	1,000	2.37	0.335	99.975	3
04-Sep-2009	07-Sep-2009	05-Oct-2009	1,000	1.87	0.342	99.974	2
11-Sep-2009	14-Sep-2009	12-Oct-2009	1,000	3.58	0.365	99.972	3
18-Sep-2009	21-Sep-2009	19-Oct-2009	1,000	2.87	0.364	99.972	2
25-Sep-2009	28-Sep-2009	26-Oct-2009	1,000	3.43	0.361	99.972	1
02-Oct-2009	05-Oct-2009	02-Nov-2009	1,000	2.78	0.372	99.971	2
09-Oct-2009	12-Oct-2009	09-Nov-2009	1,000	2.54	0.391	99.970	2
16-Oct-2009	19-Oct-2009	16-Nov-2009	1,000	1.42	0.409	99.969	3
23-Oct-2009	26-Oct-2009	23-Nov-2009	1,000	1.66	0.418	99.968	3
30-Oct-2009	02-Nov-2009	30-Nov-2009	1,000	4.19	0.402	99.969	1
06-Nov-2009	09-Nov-2009	07-Dec-2009	1,000	3.23	0.413	99.968	2
13-Nov-2009	16-Nov-2009	14-Dec-2009	1,000	2.65	0.423	99.968	3
20-Nov-2009	23-Nov-2009	21-Dec-2009	1,000	1.75	0.429	99.967	2
27-Nov-2009	30-Nov-2009	29-Dec-2009	1,000	1.03	0.448	99.964	5
04-Dec-2009	07-Dec-2009	04-Jan-2010	1,000	3.75	0.440	99.966	1
11-Dec-2009	14-Dec-2009	11-Jan-2010	1,000	3.27	0.430	99.967	1
18-Dec-2009	21-Dec-2009	18-Jan-2010	1,000	3.01	0.431	99.967	1
31-Dec-2009	04-Jan-2010	01-Feb-2010	1,000	2.51	0.443	99.966	2
08-Jan-2010	11-Jan-2010	08-Feb-2010	1,000	3.96	0.441	99.966	1
15-Jan-2010	18-Jan-2010	15-Feb-2010	1,000	2.69	0.438	99.966	2
22-Jan-2010	25-Jan-2010	22-Feb-2010	1,000	1.40	0.450	99.965	2
29-Jan-2010	01-Feb-2010	01-Mar-2010	1,000	1.99	0.453	99.965	2
05-Feb-2010	08-Feb-2010	08-Mar-2010	1,000	3.69	0.441	99.966	2
12-Feb-2010	15-Feb-2010	15-Mar-2010	1,000	1.32	0.449	99.966	2
19-Feb-2010	22-Feb-2010	22-Mar-2010	1,000	3.62	0.458	99.965	1
26-Feb-2010	01-Mar-2010	29-Mar-2010	1,000	2.73	0.464	99.964	2
05-Mar-2010	08-Mar-2010	06-Apr-2010	1,000	3.26	0.469	99.963	2
12-Mar-2010	15-Mar-2010	12-Apr-2010	1,500	2.32	0.473	99.964	2
19-Mar-2010	22-Mar-2010	19-Apr-2010	1,500	2.61	0.489	99.962	1
26-Mar-2010	29-Mar-2010	26-Apr-2010	1,500	1.71	0.490	99.962	2

Table F2 Three-month tender results		Tender date	Issue Date	Redemption Date	Size £mn	Cover	Ave Yield (%)	Ave Price (£)	Tail (bps)
		03-Apr-2009	06-Apr-2009	06-Jul-2009	1,500	2.35	0.673	99.833	6
		09-Apr-2009	14-Apr-2009	13-Jul-2009	1,500	2.55	0.679	99.833	2
		17-Apr-2009	20-Apr-2009	20-Jul-2009	1,500	4.09	0.630	99.843	2
		24-Apr-2009	27-Apr-2009	27-Jul-2009	1,500	5.49	0.580	99.856	1
		01-May-2009	05-May-2009	03-Aug-2009	1,500	4.43	0.569	99.860	3
		08-May-2009	11-May-2009	10-Aug-2009	1,500	5.01	0.545	99.864	2
		15-May-2009	18-May-2009	17-Aug-2009	1,500	3.58	0.527	99.869	2
		22-May-2009	26-May-2009	24-Aug-2009	1,500	3.84	0.522	99.871	1
		29-May-2009	01-Jun-2009	01-Sep-2009	1,500	4.27	0.517	99.870	1
		05-Jun-2009	08-Jun-2009	07-Sep-2009	1,500	2.78	0.511	99.873	1
		12-Jun-2009	15-Jun-2009	14-Sep-2009	1,500	2.03	0.506	99.874	1
		19-Jun-2009	22-Jun-2009	21-Sep-2009	1,500	1.56	0.505	99.874	2
		26-Jun-2009	29-Jun-2009	28-Sep-2009	1,500	4.19	0.495	99.877	2
		03-Jul-2009	06-Jul-2009	05-Oct-2009	1,500	3.62	0.468	99.884	2
		10-Jul-2009	13-Jul-2009	12-Oct-2009	1,500	3.50	0.447	99.889	0
		17-Jul-2009	20-Jul-2009	19-Oct-2009	1,500	2.26	0.428	99.893	2
		24-Jul-2009	27-Jul-2009	26-Oct-2009	1,500	2.65	0.424	99.894	3
		31-Jul-2009	03-Aug-2009	02-Nov-2009	1,500	2.68	0.434	99.892	1
		07-Aug-2009	10-Aug-2009	09-Nov-2009	1,500	2.46	0.448	99.888	2
		14-Aug-2009	17-Aug-2009	16-Nov-2009	1,500	1.95	0.402	99.900	1
		21-Aug-2009	24-Aug-2009	23-Nov-2009	1,500	2.61	0.382	99.905	2
		28-Aug-2009	01-Sep-2009	30-Nov-2009	1,500	2.29	0.375	99.908	3
		04-Sep-2009	07-Sep-2009	07-Dec-2009	1,500	1.56	0.365	99.909	2
		11-Sep-2009	14-Sep-2009	14-Dec-2009	1,500	2.89	0.386	99.904	1
		18-Sep-2009	21-Sep-2009	21-Dec-2009	1,500	2.24	0.367	99.908	3
		25-Sep-2009	28-Sep-2009	29-Dec-2009	1,500	3.57	0.388	99.902	0
		02-Oct-2009	05-Oct-2009	04-Jan-2010	1,500	2.77	0.398	99.901	2
		09-Oct-2009	12-Oct-2009	11-Jan-2010	1,500	2.59	0.416	99.896	1
		16-Oct-2009	19-Oct-2009	18-Jan-2010	1,500	2.03	0.432	99.892	5
		23-Oct-2009	26-Oct-2009	25-Jan-2010	1,500	3.49	0.459	99.886	1
		30-Oct-2009	02-Nov-2009	01-Feb-2010	1,500	3.74	0.456	99.887	1
		06-Nov-2009	09-Nov-2009	08-Feb-2010	1,500	2.28	0.453	99.887	2
		13-Nov-2009	16-Nov-2009	15-Feb-2010	1,500	3.54	0.460	99.886	1
		20-Nov-2009	23-Nov-2009	22-Feb-2010	1,500	2.00	0.452	99.887	3
		27-Nov-2009	30-Nov-2009	01-Mar-2010	1,500	2.09	0.457	99.886	1
		04-Dec-2009	07-Dec-2009	08-Mar-2010	1,500	2.47	0.452	99.887	1
		11-Dec-2009	14-Dec-2009	15-Mar-2010	1,500	1.90	0.453	99.887	2
		18-Dec-2009	21-Dec-2009	22-Mar-2010	1,500	3.20	0.465	99.884	1
		31-Dec-2009	04-Jan-2010	06-Apr-2010	1,500	2.32	0.492	99.876	2
		08-Jan-2010	11-Jan-2010	12-Apr-2010	2,000	2.35	0.487	99.879	1
		15-Jan-2010	18-Jan-2010	19-Apr-2010	2,000	3.47	0.485	99.879	1
		22-Jan-2010	25-Jan-2010	26-Apr-2010	2,000	1.99	0.489	99.878	1
		29-Jan-2010	01-Feb-2010	04-May-2010	2,000	2.16	0.488	99.877	1
		05-Feb-2010	08-Feb-2010	10-May-2010	2,000	3.94	0.486	99.879	1
		12-Feb-2010	15-Feb-2010	17-May-2010	2,000	3.01	0.486	99.879	1
		19-Feb-2010	22-Feb-2010	24-May-2010	2,000	3.06	0.489	99.878	1
		26-Feb-2010	01-Mar-2010	01-Jun-2010	2,000	2.61	0.492	99.876	3
		05-Mar-2010	08-Mar-2010	07-Jun-2010	2,000	3.29	0.508	99.874	1
		12-Mar-2010	15-Mar-2010	14-Jun-2010	2,000	3.53	0.512	99.873	1
		19-Mar-2010	22-Mar-2010	21-Jun-2010	2,000	3.23	0.513	99.872	0
		26-Mar-2010	29-Mar-2010	28-Jun-2010	2,000	2.03	0.514	99.872	1

Table F3  
Six-month tender results

Tender date	Issue Date	Redemption Date	Size £mn	Cover	Ave Yield (%)	Ave Price (£)	Tail (bps)
03-Apr-2009	06-Apr-2009	05-Oct-2009	1,000	2.78	0.666	99.669	5
09-Apr-2009	14-Apr-2009	12-Oct-2009	1,000	2.55	0.676	99.666	4
17-Apr-2009	20-Apr-2009	19-Oct-2009	1,000	3.84	0.672	99.666	2
24-Apr-2009	27-Apr-2009	26-Oct-2009	1,000	3.05	0.623	99.690	3
01-May-2009	05-May-2009	02-Nov-2009	1,000	3.36	0.626	99.690	2
08-May-2009	11-May-2009	09-Nov-2009	1,000	5.13	0.604	99.700	1
15-May-2009	18-May-2009	16-Nov-2009	1,000	5.21	0.576	99.714	1
22-May-2009	26-May-2009	23-Nov-2009	1,000	4.70	0.570	99.718	1
29-May-2009	01-Jun-2009	30-Nov-2009	1,000	4.91	0.558	99.722	1
05-Jun-2009	08-Jun-2009	07-Dec-2009	1,000	3.55	0.547	99.728	1
12-Jun-2009	15-Jun-2009	14-Dec-2009	1,000	3.34	0.552	99.726	1
19-Jun-2009	22-Jun-2009	21-Dec-2009	1,000	2.68	0.551	99.726	1
26-Jun-2009	29-Jun-2009	29-Dec-2009	1,000	3.76	0.542	99.729	1
03-Jul-2009	06-Jul-2009	04-Jan-2010	1,000	2.09	0.525	99.739	2
10-Jul-2009	13-Jul-2009	11-Jan-2010	1,000	5.06	0.504	99.750	2
17-Jul-2009	20-Jul-2009	18-Jan-2010	1,000	4.64	0.478	99.762	0
24-Jul-2009	27-Jul-2009	25-Jan-2010	1,000	3.24	0.470	99.766	1
31-Jul-2009	03-Aug-2009	01-Feb-2010	1,000	1.80	0.462	99.770	1
07-Aug-2009	10-Aug-2009	08-Feb-2010	1,000	2.74	0.495	99.754	2
14-Aug-2009	17-Aug-2009	15-Feb-2010	1,000	2.72	0.433	99.784	2
21-Aug-2009	24-Aug-2009	22-Feb-2010	1,000	4.24	0.419	99.792	1
28-Aug-2009	01-Sep-2009	01-Mar-2010	1,000	4.43	0.390	99.807	0
04-Sep-2009	07-Sep-2009	08-Mar-2010	1,000	3.17	0.376	99.813	1
11-Sep-2009	14-Sep-2009	15-Mar-2010	1,000	3.04	0.378	99.812	1
18-Sep-2009	21-Sep-2009	22-Mar-2010	1,000	3.11	0.354	99.824	3
25-Sep-2009	28-Sep-2009	29-Mar-2010	1,000	2.49	0.376	99.813	0
02-Oct-2009	05-Oct-2009	06-Apr-2010	1,000	3.79	0.396	99.802	0
09-Oct-2009	12-Oct-2009	12-Apr-2010	1,000	2.72	0.426	99.788	1
16-Oct-2009	19-Oct-2009	19-Apr-2010	1,000	2.87	0.446	99.778	3
23-Oct-2009	26-Oct-2009	26-Apr-2010	1,000	3.58	0.482	99.760	2
30-Oct-2009	02-Nov-2009	04-May-2010	1,000	3.20	0.477	99.761	1
06-Nov-2009	09-Nov-2009	10-May-2010	1,000	4.65	0.490	99.756	1
13-Nov-2009	16-Nov-2009	17-May-2010	1,000	2.46	0.493	99.755	1
20-Nov-2009	23-Nov-2009	24-May-2010	1,000	3.88	0.466	99.768	1
27-Nov-2009	30-Nov-2009	01-Jun-2010	1,000	2.95	0.468	99.766	1
04-Dec-2009	07-Dec-2009	07-Jun-2010	1,000	1.96	0.475	99.764	1
11-Dec-2009	14-Dec-2009	14-Jun-2010	1,000	2.61	0.480	99.761	1
18-Dec-2009	21-Dec-2009	21-Jun-2010	1,000	1.82	0.491	99.756	2
31-Dec-2009	04-Jan-2010	05-Jul-2010	1,000	2.66	0.529	99.737	2
08-Jan-2010	11-Jan-2010	12-Jul-2010	1,500	3.15	0.517	99.743	0
15-Jan-2010	18-Jan-2010	19-Jul-2010	1,500	3.01	0.515	99.744	0
22-Jan-2010	25-Jan-2010	26-Jul-2010	1,500	2.70	0.510	99.747	1
29-Jan-2010	01-Feb-2010	02-Aug-2010	1,500	3.34	0.513	99.745	1
05-Feb-2010	08-Feb-2010	09-Aug-2010	1,500	4.39	0.513	99.745	1
12-Feb-2010	15-Feb-2010	16-Aug-2010	1,500	2.83	0.528	99.737	1
19-Feb-2010	22-Feb-2010	23-Aug-2010	1,500	3.25	0.520	99.741	1
26-Feb-2010	01-Mar-2010	31-Aug-2010	1,500	3.14	0.520	99.740	1
05-Mar-2010	08-Mar-2010	06-Sep-2010	1,500	2.36	0.528	99.737	2
12-Mar-2010	15-Mar-2010	13-Sep-2010	1,500	2.62	0.539	99.732	1
19-Mar-2010	22-Mar-2010	20-Sep-2010	1,500	2.51	0.544	99.729	1
26-Mar-2010	29-Mar-2010	27-Sep-2010	1,500	2.39	0.544	99.729	0

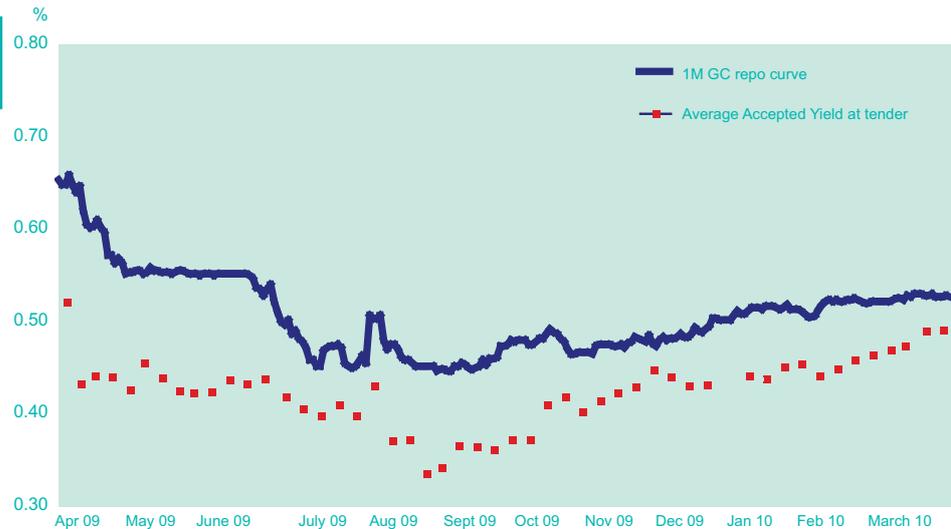
## G: Treasury bill tender performance

Table G1 and Charts G1-3 compare the results (in terms of the average yield) of all Treasury bill tenders in 2009-10 with the average fixing of the relevant GC repo rate on the day of the settlement of the tenders. On average over the financial year the yields at tenders of bills at all maturities out-performed the average of GC repo fixings by 3.9 to 8.3bps.

**Table G1**  
**Comparison of average tender yields with GC repo fixings in 2009-10**

Average Treasury bill tender yields compared to average GC fixings on settlement of tenders in 2009-10			
Maturity	Average tender yield	Average GC fixing	Tender relative performance (bps)
One-month	0.425	0.478	-8.3
Three-month	0.478	0.518	-4.0
Six-month	0.507	0.546	-3.9

**Chart G1**  
**One-month tender yields v GC repo fixings in 2009-10**



Source: DMO/BBA\*

\*British Bankers Association

Chart G2  
**Three-month tender yields v GC fixings in 2009-10**



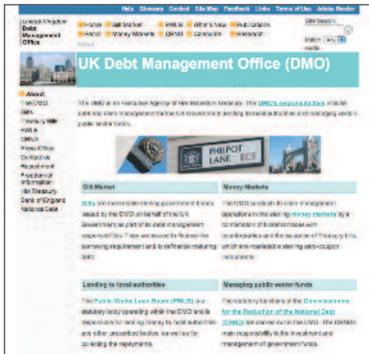
Source: DMO/BBA

Chart G3  
**Six-month tender yields v GC fixings in 2009-10**



Source: DMO/BBA

## H: The DMO website: [www.dmo.gov.uk](http://www.dmo.gov.uk)



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

- the DMO Annual Review, which covers the main developments across the range of the DMO's activities each financial year;
- the Quarterly Review, which highlights more recent developments in the DMO's gilt and cash market activities;
- the DMO's annual Report and Accounts for its administrative expenditure and also for the operation of the Debt Management Account;
- press releases, gilt and cash market announcements; and
- market notices; and
- market consultation documents.

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

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

Many of the website reports give users the option for automatic downloads of data. The website also provides users with analytical tools and calculators, enabling them to estimate the redemption payment on an index-linked gilt or the repayment cost of a fixed interest loan from the PWLB.

In 2008-09 new sections of the DMO website were launched covering the DMO's activities in administering the Government's Credit Guarantee schemes and as auctioneer of allowances in the EU Emission Trading System (EU ETS).





*United Kingdom*  
**Debt  
Management  
Office**

*Eastcheap Court  
11 Philpot Lane  
London EC3M 8UD*

