

## SPRING BUDGET 2017: DMO FINANCING REMIT 2017-18

### DMO FINANCING REMIT 2016-17

1. The net contribution to financing from Treasury bills in 2016-17 is being reduced by £2.1 billion to £3.5 billion. Planned gilt sales remain at £146.5 billion.

### DMO FINANCING REMIT 2017-18

2. The DMO's financing remit for 2017-18 has been published today as part of the Spring Budget 2017 announcements. The main points are summarised below.

#### **DMO's Net Financing Requirement**

3. The Net Financing Requirement (NFR) for the DMO in 2017-18 is forecast to be £105.6 billion. This will be financed by:

- a. outright gilt sales of £115.1 billion; and
- b. a reduction in the net contribution to debt financing from Treasury bills of £9.5 billion.

#### **Gilt sales**

4. Planned gilt sales of £115.1 billion will be met through a combination of:

a. £87.5 billion of issuance (76.0% of total sales) in 40 auctions, with a planned split as follows:

○ Short conventional	£27.4 billion in 10 auctions
○ Medium conventional	£22.2 billion in 9 auctions
○ Long conventional	£23.3 billion in 10 auctions
○ Index-linked gilts	£14.6 billion in 11 auctions

The implied initial average auction sizes in cash terms are:

○ Short conventional	£2.74 billion
○ Medium conventional	£2.47 billion
○ Long conventional	£2.33 billion
○ Index-linked	£1.33 billion

b. a minimum of £21.0 billion via syndications (18.2% of total sales), currently planned to raise:

- £9.0 billion of long conventional gilts in two transactions; and
- £12.0 billion of index-linked gilts in three transactions

c. £6.6 billion (5.7% of total sales) from an initially unallocated portion of issuance, which can be used to issue any type or maturity of gilt via any issuance method. It is expected that the unallocated portion will primarily be used to increase the size of syndicated offerings (where warranted by the size and quality of demand); and/or to increase average sizes of gilt auctions (for example, if they are reduced by the take up of the Post Auction Option Facility (PAOF) (see paragraph 27)). The unallocated portion can also be used to schedule gilt tenders (see paragraphs 20-24).

5. The overall split of issuance by maturity and type of gilt may be affected by the DMO's issuance decisions in-year, taking account of market feedback including on the initially unallocated portion of issuance. Hence, other things equal, the overall split of issuance by the end of the financial year may depart marginally from the amounts published in the remit at Spring Budget 2017.

6. The initial planned split of gilt issuance by method of issue is set out in Annex A. However, total financing achieved through each issuance method will be dependent on market and demand conditions. Therefore, the amount of issuance via each method by the end of the financial year may depart from the amounts published in the remit at Spring Budget 2017.

7. Any change in the breakdown of planned gilt issuance by type, maturity and issuance method will be reported in the normal way alongside any updates to the financing remit and at quarterly issuance calendar announcements (see paragraph 14).

8. From 2017-18 the DMO will set coupons on new conventional gilts in increments of  $\frac{1}{8}\%$ .

### **The gilt auction programme**

9. It is intended that gilt auctions in 2017-18 will be of a similar size to those in 2016-17. The planned calendar of gilt sales by auction in 2017-18 is set out in Annex B.

10. The DMO will publish average auction sizes (in cash terms) by maturity and type in its quarterly issuance calendar announcement for April-June 2017 (at 3.30pm on Friday 24 March 2017) and will re-publish planned average auction sizes after every auction on the DMO website<sup>1</sup>, in its regular auction size press releases and subsequent quarterly issuance calendar announcements. Any change in average auction sizes resulting from an adjustment in the amounts issued via different methods will also be reflected in these announcements.

11. The DMO may size each individual auction above or below the prevailing average (cash) size, taking into account the maturity of the gilt being sold and prevailing market conditions.

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<sup>1</sup> <http://www.dmo.gov.uk/index.aspx?page=Remit/Information>.

## **Changes to the planned gilt auction calendar**

12. The planned gilt auction calendar may be altered to accommodate government decisions at fiscal forecasts and any significant data releases or market sensitive events announced subsequently.

13. In order to facilitate the scheduling of a syndicated offering, the DMO may alter the scheduling of an existing gilt auction. In these circumstances, an auction may be moved to another day in the week in which it was originally scheduled, to the previous week or to the following week. Any such changes may occur after the publication of the relevant quarterly issuance calendar but, if so, with a minimum of at least one week's notice. Any such changes would be announced alongside an announcement about the likely timing of a syndication.

14. The planned gilt auction calendar may also be changed on a quarterly basis following consultation with the market. Any change(s) to the planned auction calendar for the forthcoming quarter would be set out as part of the quarterly issuance announcement. The reasons for any change(s) to the auction calendar may include an alteration to the assumed mix of issuance methods to deliver the planned financing by gilt type and maturity in the forthcoming quarter.

## **The syndication programme**

15. Any type and maturity of gilt can be sold through syndication. However, the DMO's current planning assumption is that the syndication programme in 2017-18 will be used to launch new long conventional and index-linked gilts and/or for re-openings of high duration gilts.

16. The DMO envisages holding five syndicated offerings (two long conventional and three index-linked) in 2017-18. The DMO will publish updates on the progress of the syndication programme in press notices announcing the result of each transaction and in its quarterly issuance calendar announcements. Each syndicated offering will be sized having regard to the size and quality of end-investor demand in the order book.

17. Where the unallocated portion of the gilt issuance programme is used to increase the size of syndicated offerings, the size of the unallocated portion will be reduced accordingly.

18. The DMO will provide updates to the planning assumptions for the size of the syndication programme in each press release announcing the results of a syndicated offering and via the gilt sales versus remit table on the DMO website.

19. In order to maintain the operational viability of syndicated offerings at the end of each programme, the overall size of the syndications (conventional and/or index-linked) may be increased by up to 10% (in cash terms) at the time of the final syndicated offering of each type. Scope to up-size the programmes in this way would only be deployed if, at the time of the final operations for either or both types of gilt, the initially unallocated portion had been exhausted, whether as a consequence of

the allocation of that amount to previous syndications, allocation to other issuance methods or as a part of the sizing decision at the final operation.

### **Gilt tenders**

20. Gilt tenders will continue to be available to provide a degree of responsiveness at the margins in the delivery of the financing remit, to allow the programme to react to evolving market and demand conditions during the year. Gilt tenders may also be used for market management purposes.

21. The DMO will aim to announce the date, the choice of gilt to be sold, and the minimum size of the gilt tender at least two business days in advance<sup>2</sup>. Gilt tenders may also be scheduled with shorter notice as required for market management reasons.

22. Gilt tenders may be used to issue any type and maturity of existing gilt. The DMO will seek market views on demand for issuance via gilt tenders including maturity/maturities and type(s) of gilt(s) for the period ahead at each quarterly consultation meeting. However, market participants may also approach the DMO at any time to advocate the scheduling of a gilt tender in any maturity/type of gilt, in which case the DMO will seek wider views before making a decision.

23. The choice of gilt to be issued at any gilt tender will be determined on a case-by-case basis by the DMO, taking into account market demand. Gilt tenders will be sized by the DMO on an operation-by-operation basis, but will generally be smaller than an auction of a comparable maturity gilt.

24. In scheduling gilt tenders, the DMO will avoid weeks in which a pre-announced auction of the same maturity/type has already been scheduled.

### **Post Auction Option Facility**

25. In 2017-18 the DMO will continue to offer successful bidders (both primary dealers and investors) an option to purchase additional stock via the PAOF. In 2017-18, the option will remain at 15% of the amount allocated to them at the average accepted price at conventional gilt auctions and at the clearing (or strike) price at index-linked auctions. The PAOF will be available from midday to 2.00pm on the day of an auction.

26. Any amounts sold via the PAOF in 2017-18 will count towards auction sales targets in the remit on an auction-by-auction basis and will, other things equal, be used progressively to reduce the average sizes for the remaining auctions of the maturity/type of gilt in question throughout the financial year. Average auction sizes will be re-stated after each auction.

27. The PAOF might be triggered consistently during the financial year with the effect of significantly reducing average auction sizes in any sector (short, medium,

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<sup>2</sup> Previously the DMO aimed to give at least seven business days' notice for the addition of a gilt tender to the programme.

long or index-linked). In these circumstances, the DMO may decide to transfer financing from the unallocated portion of issuance into the auction programme of the relevant sector, which would have the effect of rebalancing average auction sizes in that sector.

28. If exercised consistently, proceeds from the PAOF may also allow for the cancellation of future auctions. Any such cancellation(s) would be announced well in advance as part of the regular issuance calendar announcements.

## **Treasury bill sales**

### **Debt management**

29. At Autumn Statement (AS) 2016 it was anticipated that net Treasury bill sales would contribute £5.6 billion to financing the NFR in 2016-17. This planned increase is being reduced by £2.1 billion to £3.5 billion, implying a stock of Treasury bills for debt management purposes at end-March 2017 of £69.5 billion.

30. The outturn amount that net Treasury bill issuance has contributed to debt financing in 2016-17 will be reported by the DMO in April 2017.

31. It is currently anticipated that net Treasury bill sales will make a negative contribution of £9.5 billion to debt financing in 2017-18; implying a stock of Treasury bills for debt management purposes at end-March 2018 of £60.0 billion. Any changes to this plan would be announced as part of any future remit revision. The outturn net contribution of Treasury bills to debt financing in 2017-18 will be reported by the DMO in April 2018.

### **Exchequer cash management**

32. Treasury bills issued for cash management purposes will not contribute to the stock of Treasury bills issued to meet the NFR. Outturn information on the total stock of outstanding Treasury bills will continue to be published on the DMO's website alongside information about the outturn stock of Treasury bills for debt financing purposes.

## **Changes to the net financing requirement in 2016-17 and 2017-18**

33. The Debt Management Report (DMR) 2017-18 includes the Office for Budget Responsibility's revised forecasts for the Central Government Net Cash Requirement (excluding Northern Rock (Asset Management) (NRAM), Bradford & Bingley (B&B) and Network Rail (NR)) in 2016-17 and 2017-18 of £72.5 billion and £47.4 billion respectively. The new forecast for 2016-17 is £13.2 billion lower than the forecast published at AS 2016, the forecast for 2017-18 is £0.9 billion lower.

34. The other main change impacting on financing in 2016-17 since AS 2016 is a forecast £12.2 billion net contribution to financing from NS&I, £3.2 billion higher than that forecast at AS 2016.

35. The projected level of the DMO's net cash balance at 31 March 2017 is £14.8 billion, £14.3 billion higher than that projected at AS 2016. The level will be reduced to £0.5 billion as shown by the short term financing adjustment in the financing arithmetic, and this will reduce the NFR in 2017-18 accordingly.

### **Supplementary Information**

36. The initial planned split of issuance by type of gilt and method of issue is published at Annex A.

37. The planned gilt auction calendar for 2017-18 is published at Annex B.

38. The financing arithmetic for 2016-17 and 2017-18 is published at Annex C.

39. Revised illustrative gross financing projections to 2021-22 are published at Annex D.

## Annex A. Initially planned split of gilt issuance by type, maturity and issuance method

	Auction	Syndication	Gilt tenders	Unallocated	Total
<b>Short conventional</b>					
£ billion	27.4	0.0	0.0		27.4
Per cent					23.8%
<b>Medium conventional</b>					
£ billion	22.2	0.0	0.0		22.2
Per cent					19.3%
<b>Long conventional</b>					
£ billion	23.3	9.0	0.0		32.3
Per cent					28.1%
<b>Index-linked</b>					
£ billion	14.6	12.0	0.0		26.6
Per cent					23.1%
<b>Unallocated</b>					
£ billion				6.6	6.6
Per cent					5.7%
<b>Total £ billion</b>	<b>87.5</b>	<b>21.0</b>	<b>0.0</b>	<b>6.6</b>	<b>115.1</b>
<b>Total per cent</b>	<b>76.0%</b>	<b>18.2%</b>	<b>0.0%</b>	<b>5.7%</b>	
<i>Figures may not sum due to rounding</i>					

## Annex B. Planned gilt auction calendar 2017-18

	Type
04-Apr-2017	Conventional
12-Apr-2017	Conventional
20-Apr-2017	Conventional
26-Apr-2017	Index-linked
04-May-2017	Conventional
18-May-2017	Conventional
23-May-2017	Index-linked
01-Jun-2017	Conventional
06-Jun-2017	Conventional
22-Jun-2017	Conventional
27-Jun-2017	Index-linked
06-Jul-2017	Conventional
19-Jul-2017	Conventional
25-Jul-2017	Index-linked
01-Aug-2017	Conventional
08-Aug-2017	Conventional
23-Aug-2017	Conventional
13-Sep-2017	Conventional
19-Sep-2017	Conventional
27-Sep-2017	Index-linked
05-Oct-2017	Conventional
10-Oct-2017	Conventional
19-Oct-2017	Conventional
24-Oct-2017	Index-linked
09-Nov-2017	Conventional
16-Nov-2017	Conventional
21-Nov-2017	Index-linked
05-Dec-2017	Conventional
07-Dec-2017	Conventional
13-Dec-2017	Index-linked
09-Jan-2018	Conventional
11-Jan-2018	Conventional
18-Jan-2018	Conventional
23-Jan-2018	Index-linked
15-Feb-2018	Conventional
22-Feb-2018	Index-linked
01-Mar-2018	Conventional
06-Mar-2018	Conventional
15-Mar-2018	Conventional
27-Mar-2018	Index-linked

## Annex C. Financing arithmetic 2016-17 and 2017-18

£ billion	2016-17	2017-18
CGNCR (ex NRAM, B&B and NR) <sup>1</sup>	72.5	47.4
Gilt redemptions	69.9	79.5
Planned financing for the reserves	6.0	6.0
Financing adjustment carried forward from previous financial years	-0.4	-14.3
<b>Gross Financing Requirement</b>	<b>148.1</b>	<b>118.6</b>
<i>Less:</i>		
NS&I net financing	12.2	13.0
Other financing <sup>2</sup>	0.2	0.0
<b>Net Financing Requirement (NFR) for the DMO</b>	<b>135.7</b>	<b>105.6</b>
The DMO's NFR will be financed through:		
<b>Gilt sales, through sales of:</b>		
- Short conventional gilts	38.0	27.4
- Medium conventional gilts	29.2	22.2
- Long conventional gilts	43.3	32.3
- Index-linked gilts	36.0	26.6
- Unallocated amount of gilts	0.0	6.6
<b>Total gilt sales for debt financing</b>	<b>146.5</b>	<b>115.1</b>
<b>Total net contribution of Treasury bills for debt financing</b>	<b>3.5</b>	<b>-9.5</b>
<b>Total financing</b>	<b>150.0</b>	<b>105.6</b>
DMO net cash position	14.8	0.5
<i>Figures may not sum due to rounding.</i>		
<sup>1</sup> Central Government Net Cash Requirement (excluding NRAM plc, Bradford and Bingley and Network Rail).		
<sup>2</sup> Prior to publication of the end-year outturn in April each year, this financing item will mainly comprise estimated revenue from coinage.		

## Annex D: Illustrative gross financing projections

£ billion	2018-19	2019-20	2020-21	2021-22
CGNCR (ex NRAM, B&B and NR)	49.7	28.8	38.6	37.1
Gilt redemptions	67.3	96.2	97.6	79.3
Planned financing for the reserves	6.0	6.0	0.0	0.0
<b>Total illustrative gross financing requirement</b>	<b>123.0</b>	<b>130.9</b>	<b>136.3</b>	<b>116.4</b>
<i>Figures may not sum due to rounding</i>				

The table above shows annual illustrative gross financing projections from 2018-19 to 2021-22 using updated projections of the CGNCR (ex NRAM, B&B and NR) plus the latest estimate of gilt redemptions in these years. The projections are not forecasts of future gilt sales. Rather, they are a broad indication of future financing requirements without taking into account policy decisions on gilt and Treasury bill sales and NS&I's net contribution to financing.