

## **DMO FINANCING REMIT 2020-21**

1. The DMO's financing remit for 2020-21 has been published today alongside Budget 2020. The main points, including operational aspects, are summarised below.

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

2. The Net Financing Requirement (NFR) for the DMO in 2020-21 is forecast to be £156.1 billion; this will be financed exclusively by gilt sales.

### **Gilt sales**

3. Planned gross gilt sales of £156.1 billion will be met through a combination of:

a. £124.1 billion of issuance (79.5% of total sales) in 48 auctions, with a planned split as follows<sup>1</sup>:

○ Short conventional	£51.0 billion in 15 auctions
○ Medium conventional	£34.2 billion in 12 auctions
○ Long conventional	£26.3 billion in 12 auctions
○ Index-linked	£12.6 billion in 9 auctions

The implied initial average auction sizes in cash terms for Q1 2020-21 are:

○ Short conventional	£3.40 billion
○ Medium conventional	£2.85 billion
○ Long conventional	£2.19 billion
○ Index-linked	£1.40 billion

b. A current plan for up to approximately £24.0 billion via syndications (15.4% of total sales) to be raised via:

- Up to approximately £16.0 billion of long conventional gilts in four transactions; and
- Up to approximately £8.0 billion of index-linked gilts in two transactions.

c. £8.0 billion (5.1% 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. The unallocated portion of issuance is intended to facilitate remit delivery by permitting gilt supply to be tailored more responsively in-year to developments in the gilt market.

4. The initially planned split of gilt issuance by type, maturity and issuance method is set out in Annex A. However, in order to ensure successful delivery of the

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<sup>1</sup> Figures may not sum due to rounding.

financing programme in 2020-21, both the split of issuance and the mix of distribution methods used to deliver it may vary during the year.

- a. The overall split of issuance by maturity and type of gilt is likely to be affected by the DMO's issuance decisions in-year, taking account of market feedback and the use of the initially unallocated portion of issuance. Consequently, the overall split of issuance by the end of the financial year may depart from the initial plans published in this remit at Budget 2020.
  - b. The DMO may, at any time during the financial year, make alterations to the amounts of financing that it plans to raise through each issuance method. This may include increases in the size of the unallocated portion of issuance during the financial year, for example, as a result of the DMO's decisions on the size(s) of (a) syndicated offering(s).
5. Consequently, gilt sales from either the syndication and/or auction programmes at any maturity sector may vary from a broadly even-flow delivery during the financial year. Proceeds raised following the final transaction of each syndication programme may also vary from the planned total for each programme.
6. Any changes in the breakdown of planned gilt issuance either by type, maturity and/or issuance method will be reported in the normal way, including alongside updates to the financing remit (for example at future fiscal events) and at quarterly intervals (see also paragraphs 8 and 22). However, changes may also be announced at other times, including following individual syndicated offerings.

### **The gilt auction programme**

7. It is currently intended that short and medium conventional gilt auctions in 2020-21 will, on average, be slightly larger than those originally planned in 2019-20. The planned gilt auction calendar in 2020-21 is set out in Annex B.
8. The DMO will publish average auction size assumptions (in cash terms) by maturity and type in its quarterly issuance calendar announcement for April-June 2020. Assumptions for average auction sizes will be updated for July-September and October-December following the final auction of the preceding quarter in each case, and may involve transfers from the unallocated portion of issuance to the auction programme.
9. The DMO may size each individual auction above or below the assumed average (cash) size, taking into account, amongst other things, the maturity of the gilt being sold and prevailing market conditions.

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

10. The DMO's general intention will be to implement the planned auction calendar as published alongside Budget 2020, whilst recognising the importance of allowing, through in-year adjustments to the calendar, scope to respond appropriately to unforeseen or changing circumstances. Hence, the planned gilt auction calendar may be altered, for example, to accommodate the Chancellor's

decisions on the fiscal event timetable, any significant data releases or market sensitive events announced subsequently and/or to accommodate the scheduling of a syndicated offering. The DMO will provide the market with prior notice of any such alteration.

11. The planned gilt auction calendar may also be changed on a quarterly basis following consultation with the market. Any such change(s) to the planned auction calendar for the forthcoming quarter would be set out as part of the quarterly issuance announcement. The reason(s) 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**

12. Any type and maturity of gilt can be sold through syndication and the DMO will announce on a quarterly basis its planned syndication programme, which may include short and medium conventional gilt issuance if judged appropriate by the DMO.

13. Any impact on the mix of distribution methods used to deliver the financing programme will be reported by the DMO.

14. The DMO's initial planning assumption is that it will hold six syndicated offerings (four of long conventional gilts and two of index-linked gilts) in 2020-21. The DMO will announce 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 amount and quality of end-investor demand in the order book.

15. Where the unallocated portion of the gilt issuance programme is used to increase the size of syndicated offerings, the unallocated portion will be reduced accordingly. In any case where the DMO decides to raise, via a syndicated transaction, proceeds that fall below any assumed even-flow amount, the shortfall may be transferred from the syndication programme to increase the size of the unallocated portion (see also paragraph 4).

16. In order to maintain the operational viability of syndicated offerings at the end of each programme, the overall size of the syndication programmes (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.

### **Gilt tenders**

17. Gilt tenders may be used to assist with delivery of the financing remit. Gilt tenders may also be used for market management reasons.

18. The DMO will aim to announce the date, the choice of gilt to be sold and the maximum size of any gilt tenders at least two business days in advance. Gilt tenders may also be scheduled with shorter notice, as required, for market management reasons.

19. Gilt tenders may be used to issue any type and maturity of gilt and may be scheduled ad hoc or as part of a programme.

20. 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 feedback. Gilt tenders will be sized by the DMO on an operation-by-operation basis, but will generally be smaller than an auction of a gilt with comparable maturity.

### **Post Auction Option Facility (PAOF)**

21. In 2020-21 the DMO will continue to offer successful auction bidders (both primary dealers and end-investors) an option to purchase additional stock via the PAOF. Full details are set out in section 2.6 of the gilt market Operational Notice<sup>2</sup>.

22. Any amounts sold via the PAOF in 2020-21 will, other things being equal, reduce the average sizes of auctions quarter-by-quarter but the DMO may choose to offset some or all of any such reduction by transfers from the unallocated portion of issuance. The impact on average auction sizes of gilt sales via the PAOF and any associated transfer(s) from the unallocated portion of issuance to the auction programme will be taken into account on a quarterly basis, with average sizes of auctions for the next quarter re-stated after the final auction of each of the first three quarters.

23. If exercised consistently, proceeds from the PAOF may allow for the cancellation of auctions later in the financial year. Any such cancellation(s) would be announced well in advance as part of issuance calendar announcements.

### **Treasury bill sales**

- **Debt management**

24. At Spring Statement 2019 it was anticipated that net Treasury bill sales would make a net contribution of £4.0 billion to meeting the NFR in 2019-20; the size of the net contribution was increased to £6.0 billion at the remit adjustment on 7 January 2020, implying a stock of Treasury bills for debt management purposes at end-March 2020 of £62.0 billion.

25. The outturn amount that net Treasury bill issuance has contributed to debt financing in 2019-20 will be reported by the DMO in April 2020.

26. It is currently anticipated that net Treasury bill issuance will not make any contribution to meeting the NFR in 2020-21. Any changes to this plan would be announced as part of any future revision to the 2020-21 remit. The outturn net contribution of Treasury bills to debt financing in 2020-21 will be reported by the DMO in April 2021.

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<sup>2</sup> <https://www.dmo.gov.uk/media/16060/opnot270819.pdf>

- **Exchequer cash management**

27. 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 website alongside information about the outturn stock of Treasury bills for debt financing purposes.

### **Changes to the financing requirement**

28. The Debt Management Report (DMR) 2020-21 includes the Office for Budget Responsibility's revised forecasts for the Central Government Net Cash Requirement (excluding NRAM Ltd (NRAM), Bradford & Bingley (B&B) and Network Rail (NR)) in 2019-20 and 2020-21 of £43.1 billion and £65.3 billion respectively. The new forecast for 2019-20 is £19.4 billion higher than the forecast published at Spring Statement 2019, whilst the forecast for 2020-21 is £18.1 billion higher<sup>3</sup>.

29. The other main changes impacting on financing in 2019-20 since the remit adjustment in January 2020 are:

- a forecast £0.9 billion lower net contribution to financing from NS&I (taking their forecast net contribution to £10.1 billion); and
- an increase of £0.1 billion in planned gilt sales in 2019-20 (to £136.9 billion), reflecting the outturn for index-linked gilt sales in 2019-20<sup>4</sup>.

30. The projected level of the DMO's net cash balance at 31 March 2020 is £1.3 billion, £0.8 billion higher than that projected at Spring Statement 2019. The level will be reduced to £0.5 billion as shown by the financing adjustment carried forward from previous financial years in the financing arithmetic table below, and this will reduce the NFR in 2020-21 accordingly.

### **Supplementary Information**

31. The initially planned split of gilt issuance by type, maturity and issuance method is published at Annex A.

32. The planned gilt auction calendar for 2020-21 is published at Annex B.

33. The financing arithmetic for 2019-20 and 2020-21 is published at Annex C.

34. Illustrative gross financing projections from 2021-22 to 2024-25 are published at Annex D.

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<sup>3</sup> Figures may not sum due to rounding.

<sup>4</sup> The outturn for index-linked gilt sales via auctions was £293 million above plan, while the outturn for sales via syndication was £213 million below plan.

**Annex A. Initially planned split of gilt issuance by type, maturity and issuance method in 2020-21**

	<b>Auction</b>	<b>Syndication</b>	<b>Gilt tender</b>	<b>Unallocated</b>	<b>Total</b>
<b>Short conventional</b> £ billion	<b>51.0</b>				<b>51.0</b> <i>32.7%</i>
<b>Medium conventional</b> £ billion	<b>34.2</b>				<b>34.2</b> <i>21.9%</i>
<b>Long conventional</b> £ billion	<b>26.3</b>	<b>16.0</b>			<b>42.3</b> <i>27.1%</i>
<b>Index-linked</b> £ billion	<b>12.6</b>	<b>8.0</b>			<b>20.6</b> <i>13.2%</i>
<b>Unallocated</b> £ billion				<b>8.0</b>	<b>8.0</b> <i>5.1%</i>
<b>Total £ billion</b>	<b>124.1</b>	<b>24.0</b>	<b>0.0</b>	<b>8.0</b>	<b>156.1</b>
<b>Total per cent</b>	<i>79.5%</i>	<i>15.4%</i>	<i>0.0%</i>	<i>5.1%</i>	
<i>Figures may not sum due to rounding</i>					

## Annex B. Planned gilt auction calendar 2020-21

Date	Type
02 April 2020	Conventional
07 April 2020	Conventional
15 April 2020	Conventional
21 April 2020	Conventional
23 April 2020	Conventional
28 April 2020	Index-linked
05 May 2020	Conventional
14 May 2020	Conventional
27 May 2020	Conventional
02 June 2020	Conventional
09 June 2020	Conventional
16 June 2020	Conventional
23 June 2020	Index-linked
25 June 2020	Conventional
02 July 2020	Conventional
14 July 2020	Conventional
21 July 2020	Conventional
28 July 2020	Conventional
04 August 2020	Conventional
11 August 2020	Conventional
18 August 2020	Conventional
20 August 2020	Conventional
25 August 2020	Index-linked
03 September 2020	Conventional
15 September 2020	Conventional
22 September 2020	Conventional
24 September 2020	Index-linked
06 October 2020	Conventional
08 October 2020	Conventional
22 October 2020	Conventional
27 October 2020	Index-linked
03 November 2020	Conventional
10 November 2020	Conventional
24 November 2020	Index-linked
01 December 2020	Conventional
03 December 2020	Conventional
08 December 2020	Conventional
07 January 2021	Conventional
12 January 2021	Index-linked
14 January 2021	Conventional
19 January 2021	Conventional
02 February 2021	Index-linked
09 February 2021	Conventional
18 February 2021	Conventional
02 March 2021	Conventional
04 March 2021	Conventional
09 March 2021	Conventional
23 March 2021	Index-linked

## Annex C. Financing arithmetic 2019-20 and 2020-21

£ billion (cash)	2019-20	2020-21
CGNCR (ex NRAM, B&B and NR) <sup>1</sup>	43.1	65.3
Gilt redemptions	98.9	97.6
Redemption of the sovereign Sukuk	0.2	N/A
Planned financing for the Official Reserves	6.0	0.0
Financing adjustment carried forward from previous financial years	4.0	-0.8
<b>Gross Financing Requirement</b>	<b>152.2</b>	<b>162.1</b>
<i>Less:</i>		
NS&I net financing	10.1	6.0
Other financing items <sup>2</sup>	0.0	0.0
<b>Net Financing Requirement (NFR) for the DMO</b>	<b>142.1</b>	<b>156.1</b>
DMO's NFR will be financed through:		
<b>Gilt sales, through sales of:</b>		
- Short conventional gilts	42.8	51.0
- Medium conventional gilts	34.0	34.2
- Long conventional gilts	36.9	42.3
- Index-linked gilts	23.1	20.6
- Unallocated amount of gilts	0.0	8.0
<b>Total gilt sales for debt financing</b>	<b>136.9</b>	<b>156.1</b>
<b>Total net contribution of Treasury bills for debt financing</b>	<b>6.0</b>	<b>0.0</b>
<b>Total financing</b>	<b>142.9</b>	<b>156.1</b>
DMO net cash position	1.3	0.5
<i>Figures may not sum due to rounding</i>		
<sup>1</sup> Central Government Net Cash Requirement (excluding NRAM Ltd, Bradford & Bingley (B&B) and Network Rail (NR)).		
<sup>2</sup> Prior to the 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 to 2024-25

£ billion	2021-22	2022-23	2023-24	2024-25
CGNCR (ex NRAM, B&B and NR)	73.0	69.9	64.0	72.6
Gilt redemptions	79.3	73.3	71.8	90.6
Planned financing for the Official Reserves	0.0	0.0	0.0	0.0
<b>Illustrative gross financing requirement (IGFR)</b>	<b>152.4</b>	<b>143.2</b>	<b>135.7</b>	<b>163.2</b>
<i>Figures may not sum due to rounding</i>				

The table above shows annual illustrative gross financing projections from 2021-22 to 2024-25 using updated projections of the CGNCR (ex NRAM, B&B and NR), together with the latest estimate of gilt redemptions in these years. These are not forecasts of future gilt sales. Rather, they are a broad indication of future gilt sales on the assumption that Treasury bills and NS&I both make zero net contributions to financing.