DMO Report and Accounts

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Consolidation and expansion

The DMO performed strongly in 2001-02, successfully meeting both its debt and cash management remits from HM Treasury. Most of its objectives, and published targets were also met in full. Again I would like to thank market participants for the constructive relationships that we enjoy with them.

As well as meeting its remits from the Chancellor of the Exchequer, the DMO took forward a number of policy initiatives. Following market consultation, the first index-linked switch auction was held in July 2001. The market was consulted on a possible new design of index-linked gilts, although in the light of the responses, it was decided to make only modest changes to the existing design (which will affect any new issues from July 2002). The net cash position held on the Debt Management Account following the substantial inflows from the 3G mobile phone spectrum licence auctions in 2000 was successfully managed. A substantial increase in Treasury bill issuance in the second half of 2001-02 has been supported by a number of reforms, including the introduction of primary participants. In parallel with these initiatives, the developments in the DMO's governance arrangements, procedures and control framework, introduced with the rapid changes of the previous year, were embedded and consolidated.

The DMO web site www.dmo.gov.uk on which all our publications appear has been substantially expanded to include a growing range of data on gilts and cash market operations.

During 2001-02 the DMO also expanded its range of services. We have worked with National Savings and Investments to reduce the equity market exposure that the Government would otherwise have following the introduction of NS&I's Guaranteed Equity Bond. In February 2002, DTLR announced that the DMO would be introducing a Deposit Facility to allow local authorities to deposit surplus funds with the Debt Management Account. The facility was successfully introduced (as a pilot scheme) in April 2002.

There will be further expansion in 2002-03. On 25 March 2002 the Economic Secretary to the Treasury announced that the National Debt Office (NDO) and the Public Works Loan Board (PWLB) were to be integrated with the DMO and their staff relocated to the DMO's premises from 1 July 2002.The newly enlarged DMO looks forward to providing its new range of public sector clients with robust, flexible and innovative services. From 1 July 2002 the activities of NDO will be carried out under the name of the Commissioners for the Reduction of the National Debt (CRND).

Finally I would like to put on record my gratitude to all those in the DMO who have made the fourth year of our operations such a success and to welcome the new staff from PWLB and CRND to the DMO.

Mike Williams
Chief Executive

Background on the DMO

The DMO was established on 1 April 1998, with the aim '… to carry out the Government's debt management policy of minimising financing costs over the longer term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost effective way'.

In institutional terms, the DMO is legally and constitutionally part of HM Treasury, but, as an executive agency, it operates at arm's length from Ministers. The Chancellor of the Exchequer determines the policy and operational framework within which the DMO operates, but delegates to the Chief Executive operational decisions on debt and cash management, and day-to-day management of the office.

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 web site at www.dmo.gov.uk), 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.

On 1 July 2002 the operations of the Public Loan Works Board (PWLB), and the Commissioners for the Reduction of the National Debt (CRND)[1] (two constituent parts of NILO) were integrated with the DMO, and the relevant PWLB and CRND staff relocated to the DMO's premises. The PWLB lends to local authorities for capital purposes. The CRND's principal function is managing the investment portfolios of certain public funds. PWLB and CRND continue to carry out their longstanding statutory functions within the DMO.

1 The activities of the CRND were previously administered by the National Debt Office (NDO).

Achievements against objectives and highlights of the year

HM Treasury Ministers have set the DMO and published in the Framework Document, a number of strategic objectives. The objectives for 2001-02 and the DMO's performance against them are summarised in the section below.

1. To meet the annual remit set by Treasury Ministers for the sale and purchase of gilts, with high regard to long term cost minimisation taking account of risk.

- This has been successfully achieved.
- Gilt sales targets have been met through the conduct of eight outright auctions (four conventional and four index linked). Outright gilt sales were £13.7 billion (cash) split between £10.1 billion conventional and £3.6 billion index-linked gilts. For the first time since the DMO came into existence the level of planned gilt sales was increased (from £13.5 to £14.0 billion). The final outturn for gilt sales of £13.7 billion was slightly below the revised plan but within the operational tolerances allowed in the remit.
- The DMO met its buy-back target for 2001-02 (which was reduced from £1.0 billion to £0.5 billion in the Pre-Budget Report (PBR) by early December 2001). By the end of the 2001-02 financial year buy-backs totalled £0.6 billion.

2. To offset, through its market operations, the expected outturn cash flow into or out of the NLF, on every business day; and in a cost-effective manner with due regard for credit risk management.

- This has been successfully achieved. The DMO has balanced the cash flows into and out of the NLF, principally by the use of bilateral operations in the secured markets. The DMO kept within the £200 million balance it holds at the Bank of England as a source of operational flexibility to manage unanticipated cash flows which emerge late in the day. (In 2000-01 there were two occasions when the £200 million balance was breached).
- The DMO's cash management task has also been facilitated by the development of the Treasury bill market. The stock of Treasury bills in market hands rose from £3.3 billion to £9.7 billion as issuance was increased, providing an additional means of managing cash flows. This trend was in sharp contrast to 2000-01 when a planned £7.2 billion increase in the Treasury bill stock from £2.8 to £10.0 billion had been progressively reduced during the year (with the stock ending the financial year just £0.5 billion higher at £3.3 billion).
- Treasury bills have also proved a cost-effective means of managing cash flow requirements, insofar as average Treasury bill yields have been slightly below gilt GC rates.
- On 21 September 2001, as part of the preparations for increasing the level of the Treasury bill stock from October 2001 onwards, the DMO announced new arrangements for Treasury bill issuance. The main operational changes which came into effect on 5 October 2001 involved moving the close of bidding time from 12.30 pm to 11.00 am, halving the minimum size of bids at tenders to £500,000 (nominal) and increasing the minimum issuance denomination of Treasury bills to £25,000 (from £5,000).

3. To manage effectively, in accordance with objectives set by Treasury Ministers, any assets held on the Debt Management Account.

- Successfully achieved. The DMO continued to manage a short term, net cash position as an extension of its cash management operations. The cash position ended the financial year at £11.0 billion. Assets managed in line with a separate remit agreed with HM Treasury accounted for a significant part of this. The management of these assets was monitored and reported regularly to HM Treasury with reference to a benchmark. The DMO successfully met the benchmark and there were no breaches of the various risk limits set out in the remit with HM Treasury. The benchmark and risk limits are necessarily commercially confidential.

4. **To advise Ministers on setting the remit to meet the Government's objectives under 1-3 above; and to report to Ministers on the DMO's performance against its remit, objectives and targets.**

- The DMO contributed specific advice in a number of areas of the 2001-02 remit:
  i) The extent to which gilt issuance should be split between conventional and index-liked gilts; the case for a new medium maturity conventional gilt and the split between medium and long conventional issuance (and the maturity of new stock); and the range of contingencies in the event of changes in the Government's financing requirement (which were implemented as a result of the increased financing requirement in the PBR);

  ii) The size and timing of auctions;

  iii) Switch auction and conversion offer candidates;

  iv) The split between an increase in the Treasury bill stock and a run-down in the DMO's net cash position as elements of net short-term debt financing.

- The DMO also contributed substantially to the preparation of the "*Debt and Reserves Management Report 2002-03*", including the DMO's remit for 2002-03. Particular issues that were addressed included:
  i) Planning ahead for the conventional gilt market including the need for new short, medium and possibly long maturity conventional gilts;

  ii) The split of conventional gilt issuance between short, medium and long maturities, the split between conventional and index-linked issuance, and the possible need for a new (longer maturity) index-linked gilt;

  iii) the balance between the volume of planned gilt issuance and the level of net short term debt sales: in particular the size of the desired increase in the stock of Treasury bills; and the rate at which the DMO's net short term cash position should be wound down.

- The DMO reported performance against the remit to the Treasury on a monthly basis, and on developments in the gilt portfolio and compliance against individual published targets on a quarterly basis. The annual summary of performance against these targets is published below and in Annex K of the DMO business plan (available on the DMO web site: www.dmo.gov.uk/publications/busplan02.pdf).

5. **To develop policy on and promote advances in new instruments, issuance techniques and structural changes to the debt and Treasury bill markets that may help to enhance the efficiency and lower the cost of debt and cash management, liaising as appropriate with the relevant bodies; to keep abreast of developments in debt and cash management policy and practice; and to provide policy advice to Treasury Ministers and officials accordingly.**

- On 10 May 2001 the DMO published a response to its consultation document of 12 March 2001 on the conduct of index-linked switch auctions. Reactions had been supportive of the concept of such operations to switch stock out of a gilt as it falls out of a relevant maturity range in a FTSE index (to facilitate index-tracking). Accordingly, the first (and to-date only) index-linked switch auction was held on 19 July 2001 from 2% Index-linked Treasury Stock 2006 into 2½% Index-linked Treasury Stock 2016.

- The DMO published a consultation document on the possible re-design of index-linked gilts on 7 September 2001 with a deadline for comments to be received by 31 October 2001. The main issue for consultation was whether the UK should move from the current eight-month indexation lag to a three-month lag (in common with most other sovereign issuers). The DMO published its conclusions on 15 January 2002. It decided not to introduce a new design in respect of the main issue but did make three changes to:
  i) the prospectus indexation clause, putting the onus on an independent institution to propose a satisfactory replacement index should the RPI cease to exist;

  ii) calculation of coupon and redemption amounts on new stocks, to be taken over by the DMO (the Bank of England is to retain this function for existing stocks); and

  iii) cash flows on new stocks, which will be calculated to six decimal places per £100 nominal.

- The DMO has continued to work with market participants on the introduction of mandatory quote obligations in the inter-GEMM market in a selected number of stocks. The price equivalent of the yield spreads for the quotes on the designated stocks were agreed in December 2001 and testing of new obligations began on 4 February 2002. Full imposition of the quote obligations started in May 2002.

6. To conduct its market operations, liaising as necessary with the relevant bodies, with a view to maintaining or promoting an orderly, efficient and liquid market for gilts.

- The DMO was able to issue a new medium maturity conventional gilt, 5% Treasury Stock 2012, in the current year. (Plans for such issuance in 2000-01 had been cancelled as a result of the rising cash surplus). £2.5 billion (nominal) of 5% Treasury Stock 2012 was auctioned on 24 May 2001 and this was swiftly built up to benchmark size as a result of a switch auction from 8½% Treasury Stock 2007 on 21 June 2001 and a conversion offer from 9% Treasury Stock 2012 which was completed on 23 July 2001. These took 5% Treasury Stock 2012 up to £11 billion in issue. Other conventional issuance was exclusively of long maturity stock (5% Treasury Stock 2025).

- Until the issuance of 5% Treasury Stock 2012, all strippable stocks had coupon dates of 7 June and 7 December. One consequence has been the very substantial coupon (and redemption) payments now due on those dates each year. Following consultation with the market, the DMO introduced a second pair of coupon dates for strippable stock (7 March and 7 September) with the issuance of 5% Treasury Stock 2012.

- The DMO issued a new gilt market Operational Notice on 22 November 2001. The main changes were the withdrawal of the facility whereby the DMO would bid for short dated index-linked stocks and non-rump double-dated stocks. The DMO later confirmed that it would be prepared to bid for near maturity strips.

- The DMO operated its standing repo facility fifteen times, in response to requests from market participants.

7. To provide, including in liaison with the Bank of England and CRESTCo, a high quality and efficient service to investors in Government debt, and to deal fairly and professionally with market participants in the gilt and money markets, consistent with achieving low cost issuance and an efficient market.

- The DMO held the regular quarterly consultation meetings with GEMMs and gilt market investors to discuss their views on gilt issuance in the succeeding quarter; additional meetings were held in January 2002 chaired by the Economic Secretary to the Treasury to discuss the views of market participants on the shape of the DMO remit for 2002-03.

- On 21 September 2001 the DMO announced that a group of nine banks had agreed to act as primary participants in connection with the issuance of Treasury bills. Primary participants, as well as bidding on behalf of other investors at tenders, also agree to provide secondary dealing levels for Treasury bills for their customers.

8. To contribute to the Treasury's work on the development of the strategy for managing the Government's financial assets and liabilities.

- The first stage of a multi-simulation approach to testing the long-term risk/return trade-off characteristics of different issuance strategies has been undertaken by the DMO and was discussed with the Treasury in the context of the development of the DMO remit for 2002-03.

- This work will be advanced later in the year in light of these discussions.

9. To make information publicly available on the debt and Treasury bill markets and DMO policies where that contributes through openness and predictability to efficient markets and lower costs of issuance.

The DMO has expanded the range of both its publications and its web site (www.dmo.gov.uk). All DMO publications and an increasing amount of data on both the gilts and cash markets are available on the web site. For details of the DMO's provision of information, see Annex L of the DMO Business Plan (available on the DMO web site: www.dmo.gov.uk/publications/busplan02.pdf)

10. **To provide advice and expertise to other Government departments (and other governments) as required, and consistently with meeting the objectives 1-3 above.**

- The DMO has taken forward a number of projects with other Government departments utilising the specialist financial market knowledge it has acquired in carrying out its debt and Exchequer cash management responsibilities;

- On 13 February 2002 the former Department for Transport, Local Government and the Regions (DTLR) announced that the DMO was to provide a facility through the Debt Management Account (DMA), through which Local Authorities can deposit cash. The scheme is known as the DMA Deposit Facility (DMADF). A pilot scheme involving a limited number of Local Authorities started in April 2002, and will run for a number of months, during which time the demand for and feasibility of an expanded scheme will be assessed. The DMO will offer to pay a market related return for deposits as part of its existing cash management operations.

- On 7 March 2002 National Savings & Investments (NS&I) announced the launch of a new retail investment product, aimed at allowing its holders to receive a return on an equity index over a particular period – the Guaranteed Equity Bond (GEB). The GEB requires NS&I to pay a return on an equity index. This commitment needs to be hedged by means of an equity index swap. NS&I does not have the vires to execute such transactions but the DMO does, using the DMA.

- The DMO acted as an advisor on corporate bond markets to DTLR during the selection process of Lead Managers for the second stage of funding for the Channel Tunnel Rail Link, an appointment made jointly by DTLR and London & Continental Railways (LCR).

11. **To resource, staff and manage the Office to deliver its objectives effectively and efficiently and to ensure value for money in its administrative expenditure.**

- The DMO has continued to grow, reflecting the expansion of its responsibilities and employed 53 people by the end of the 2001-02 financial year. Also reflecting the expansion, the DMO moved to new premises on 30 July 2001.

- The DMO's annual report and audited accounts for 2000-01 were published on 18 July 2001.

- The first audited accounts of the Debt Management Account for the period 15 November 1999 to 31 March 2001 were published on 19 December 2001.

12. **To develop appropriate management, information and control systems with high regard to risk minimisation; and to ensure full and accurate presentation of accounting and other information.**

- Internal reporting arrangements exist and have continued to be developed to help the Chief Executive to meet his internal control responsibilities as required under the Turnbull Guidelines.

- The DMO's internal audit function has completed operational audits and provided controls related advice in accordance with the annual audit programme.

- A peer review confirmed the DMO's internal audit function was compliant with the standards defined in the Government Internal Audit Manual.

- An Electronic Records Management Systems (ERMS) Project group is reviewing and suggesting improvements to the Records Management Programme. This is designed to help enable the DMO to meet the requirements of the Freedom of Information Act, Data Protection Act, the ERM target of 2004 as well as bring the DMO into line with currently accepted best practice – the International Standard in Records Management (ISO15489), and the British Standard BS-ISO15489.

Performance against targets

In addition to the strategic objectives covered in the previous Chapter, the DMO is set a number of specific targets against which to further measure performance

Summary

The DMO had a successful fourth year meeting all its published targets with the exception of the tenth, relating to web site accuracy, but arrangements have been put in place to correct this. One treasury bill tender result was also delayed as a result of a fire alarm.

1. To ensure full compliance with the Government's remit for the DMO as set out in the Debt and Reserves Management Report 2001-02, within the tolerances and subject to the review triggers notified separately to the Office and consistently with the objectives of monetary policy.

The DMO has complied fully with the gilts remit. Eight outright auctions were held:

- £400 million (nominal) of 2½% Index-linked Treasury Stock 2011 on 25 April 2001
- £2,500 million (nominal) of a new stock 5% Treasury Stock 2012 on 24 May 2001
- £500 million (nominal) of 2½% Index-linked Treasury Stock 2024 on 25 July 2001
- £2,500 million (nominal) of a new stock 5% Treasury Stock 2025 on 26 September 2001
- £425 million (nominal) of 2½% Index-linked Treasury Stock 2016 on 24 October 2001
- £2,750 million (nominal) of 5% Treasury Stock 2025 on 6 December 2001
- £500 million (nominal) of 4⅛% Index-linked Treasury Stock 2030 on 24 January 2002
- £2,250 million (nominal) of 5% Treasury Stock 2012 on 27 March 2002

Together, these raised £13.66 billion (cash) toward the £14.0 billion (cash) annual target. (This target was increased from £13.5 billion in the PBR on 27 November 2001).

In addition, a switch auction of £1,400 million (nominal) of 8½% Treasury Stock 2007 into 5% Treasury Stock 2012 was held on 21 June 2001 – increasing the size of the new stock by £1,694 million (nominal). To build up further the size of the new 2012 stock a conversion offer into it from 9% Treasury Stock 2012 was held in July.

92% of 9% Treasury Stock 2012 was converted reducing that stock to rump status[2] and increasing 5% Treasury Stock 2012 to £10,979 million within two months of it being issued.

The first index-linked switch auction of £500 million (nominal) from 2½% Index-linked Treasury Stock 2006 into 2½% Index-linked Treasury Stock 2016 was held on 19 July 2001 – to coincide with the 2006 stock falling out of the FTSE over 5-year index. £561 million (nominal) of the 2016 stock was created.

The DMO complied fully with the cash management remit. The stock of Treasury bills increased from £3.3 billion to a peak of £11.5 billion in mid-January 2002. The end financial year target for Treasury bill stocks was increased in the PBR from £8.3 billion to £9.7 billion and was successfully met.

The DMO also continued to manage its net cash position in line with the agreed remit. The DMO's overall net cash position fell by £2.2 billion to £11 billion by end-March 2002.

[2] A rump stock is one that is too small for a liquid two-way market to be expected to exist. GEMMs are not required to quote two-way prices on rump stocks.

2. To ensure that the maximum time taken to issue the results of gilt auctions does not exceed 40 minutes, that for structured Treasury bill tenders does not exceed 30 minutes, and that for ad hoc Treasury bill or other tenders does not exceed 15 minutes, whilst achieving complete accuracy.

Achieved. The gilt auction result release times during the financial year were:

• 25 April, 2½% IL Treasury Stock 2011	22 minutes
• 24 May, 5% Treasury Stock 2012	34 minutes
• 21 June, switch auction into 5% Treasury Stock 2012	24 minutes
• 19 July, switch auction out of 2% IL Treasury Stock 2006	33 minutes
• 25 July, 2½% IL Treasury Stock 2024	28 minutes
• 26 September, 5% Treasury Stock 2025	34 minutes
• 24 October, 2½% IL Treasury Stock 2016	21 minutes
• 6 December, 5% Treasury Stock 2025	36 minutes
• 24 January, 4⅛% IL Treasury Stock 2030	28 minutes
• 27 March, 5% Treasury Stock 2012	34 minutes

The release times for the results of the 52 weekly Treasury bill tenders held during the financial year ranged from 6 to 35 minutes and averaged 11 minutes. There were no ad hoc tenders. The result of the tender for 4⅛% Index-linked Treasury Stock 2030 on 19 June was announced after 13 minutes.

The one tender to exceed the 30 minute target – the announcement of the 14 September tender after 35 minutes – was delayed due to circumstances beyond the DMO's control (a fire alarm necessitating evacuation of the DMO's offices as the tender was closing). Excluding the 14 September tender the average announcement time for tenders in the financial year was 10 minutes.

3. To achieve complete accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the Debt Management Account and in delivering money (and reconciling payments) to the NLF.

Achieved. All transactions going through the DMA have met the required standards. NLF balances are checked and agreed with them on a daily basis.

4. To acknowledge all letters and e-mail inquiries from the public within 5 working days and for at least 95 per cent to be sent a substantive reply within 2 weeks.

Achieved. 209 inquiries were received from the public by letter and e-mail in the financial year (of which 180 were e-mails). The average response time was 1.4 business days.

5. To achieve less than 8 breaches of operational market notices (excluding any breaches which the Treasury accept were beyond the control of the Office).

Achieved. There were no breaches of the operational market notices in the financial year to date.

6. To ensure that the qualifications that the National Audit office (NAO) have made in respect of the Gilt-Edged Official Operations Account are satisfactorily addressed in the running and presentation of the DMA; and that the 1999-2001 DMA accounts are presented to the NAO by the statutory deadline.

See response to target 3 above. The first account for the DMA for the period November 1999 to March 2001 was audited by the NAO and published on 19 December 2001.

7. To ensure that the statutory constraint on DMO market borrowing (not to exceed its deposits with the National Loans Fund (NLF) and Bank of England) is always met.

Achieved. The DMO's outstanding borrowing with the market was always below its deposits with the NLF and the Bank of England.

8. To ensure that, where there is a late change in the forecast, any necessary use of end of day borrowing or lending facilities is notified by the due time.

Achieved. Deadlines for late lending and borrowing were met.

9. To ensure that instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through settlement is effective, so that the DMO achieves at least 99% by value successful settlement of agreed trades on the due date.

Achieved. Total settlements turnover in the financial year 2001-02 was £576 billion. No trades failed as a result of circumstances within the DMO's control.

If trades which failed as a result of circumstances outside the DMO's control are included, the total of fails was £1.2 billion (or 0.21% of total turnover).

10. To achieve 100% accuracy in material published on the DMO web site (insofar as the material is under the control of the DMO and not third parties).

Twelve errors were discovered and corrected on the web site in the financial year. Of these errors one, on 14 March, was the premature release of market sensitive information on the breakdown of planned gilt sales in 2002-03.

Resources

1. Staff and recruitment

During the year staff numbers increased to 53 people. A small number of these continue to be seconded from HM Treasury and the Bank of England.

In 2001-02 recruitment campaigns were held to fill the following ten vacancies.

- Economist/Policy Adviser
- Finance Analyst
- Secretary/Administrator
- Assistant Internal Auditor
- IT Tester
- Settlements Clerk (2 vacancies over the period)
- Office Assistant
- Information Manager
- HR Manager

A diversity breakdown of the successful applicants is detailed below.

- Female: seven
- Male: three
- Disabled: none
- White: eight
- Other categories: two

All vacancies are also now advertised on the recruitment page of the DMO web site www.dmo.gov.uk. New staff have been recruited predominantly from the private sector.

All recruitment to new posts was carried out on the basis of fair and open competition and selection on merit in accordance with the guidance as laid down by the Civil Service Commissioners and was subject to internal compliance audit. All candidates were selected in accordance with the DMO's equal opportunities policy – see below.

There were however, a few occasions where the exceptions provided in Part III paragraph 3.3 (d) of the Civil Service Commissioners' Recruitment Code were used in respect of particular employment decisions;

- **Extensions of appointments of up to 12 months up to a maximum of 24 months;** extension of 2 casual appointments from 3 months and 6 months to 15 months and 18 months respectively, to retain experience in the Settlements area during a time of ongoing workload and change and to retain specific expertise and ensure continuity in the development of information policies and practices to ensure compliance with legislation;

- **Extensions to secondments;** Extension to secondment of one Bank of England secondee to maintain specific market related expertise during a period of development and change.

2. Equal opportunities

The DMO is an equal opportunities employer. Policies are in place to ensure that no job applicant or member of staff receives less favourable treatment on grounds of gender, gender re-assignment, marital or family status, colour, racial origin, sexual orientation, age (except in relation to the retirement policy which is currently under review), religion, disability, Trade Union membership or by any other condition or requirement which cannot be shown to be justifiable. The DMO attaches great importance to its equal opportunities policy, which it believes to be of benefit to itself and its employees.

3. Manpower/employee relations

Trade Unions were not represented within the DMO in 2001-02, although all staff are free to join an appropriate union and to play an active part in it. Because of it's relatively small size, it is possible to discuss all matters affecting staff directly with the whole office, and this is done on a regular basis, with all staff being actively encouraged to contribute both formally and informally. For this and other reasons, the office has been able to establish good internal relations and involve staff in key decisions.

A number of those who will be joining the DMO as a result of the merger with PWLB and CRND are members of a trade union. The DMO will accordingly be consulting with all its staff about the appropriate arrangements for employee consultation and representation in future.

4. Corporate Governance

A number of committees and other groups support the Chief Executive in carrying out his responsibilities. A high-level Advisory Board advises the DMO's Managing Committee, which is in turn supported by a Credit and Risk Committee and strategy groups for each key business area (Debt, Cash, Investment). Two external non-Executive Directors, James Barclay and Colin Price are members of the Advisory Board, together with Paul Mills of HM Treasury.

The DMO established an Audit Committee in 1999 as part of its development of internal risk management and control arrangements in line with best private sector practice. The two external non-executive members of Advisory Board, James Barclay and Colin Price, are also members of the DMO's Audit Committee, which is chaired by James Barclay.

5. Improving good practice and investment in people

The DMO received Investors in People accreditation on 8 June 2000 and continues to work towards maintaining re- accreditation, including putting in place a programme of work to ensure that the standard is retained against the background of the integration of NDO and PWLB. The DMO's training and development policy is central to ensuring that the right people with the right skills are in the right job at the right time; the DMO is also committed to improving the skills base of its employees, where developmental needs are identified.

6. Service Quality

The DMO does not provide services direct to the public, and so is not covered by existing arrangements for reporting service quality. However, as part of its sponsorship role the Treasury sought views from the gilts market as to the standard of service provided by the DMO. Responses from market participants were very positive. The DMO has also substantially upgraded its web site www.dmo.gov.uk on which all its publications appear and which acts as a means of communication for all those with an interest in the DMO's activities.

7. Financial performance

The DMO's net operating cost in 2001-02 was £7.8 million. This was greater than the previous year (£6.8 million) reflecting:

- Additional accommodation costs, following relocation to new premises in Eastcheap Court, the DMO having outgrown its office in Cheapside House. Relocation also added significantly to the DMO's capital expenditure in 2001-02 by comparison with the previous year;

- The expansion of services undertaken in the financial year – most notably the services provided to National Savings & Investments following the introduction of a Guaranteed Equity Bond, and the introduction of the Local Authority Deposit Facility which began a pilot scheme in April 2002;

- Additional staffing requirements both to expand the services provided by the DMO and to develop further risk management and control environment.

8. HM Treasury services

In view of the DMO's on-vote agency status and the diseconomies of scale inherent in setting up a wide range of internal support systems given its initial small size, several key support services have in the past year been provided by the Treasury, for example, invoice processing and payment, payroll, library and security. (As the office is growing in size and professional capability, however, some of these arrangements are likely over time to be taken in-house).

9. Auditors' details

As specified by the Government Resources and Accounts Act 2000, the Comptroller & Auditor General is responsible for auditing the DMO's annual accounts.

Forward look

The DMO's strategic objectives and published targets for the 2002-03 financial year are below – but given the integration of PWLB and CRND with the DMO on 1 July 2002, the DMO will be reviewing the objectives of the expanded office.

The DMO's strategic objectives for 2002-03

1. To meet the annual remit set by Treasury Ministers for the sale and purchase of gilts, with high regard to long- term cost minimisation taking account of risk.
2. To offset, through its market operations, the expected outturn cash flow into or out of the NLF, on every business day; and in a cost-effective manner, taking account of risk.
3. To manage effectively, in accordance with objectives set by Treasury Ministers, any assets held on the Debt Management Account.
4. To advise Ministers on setting the remit to meet the Government's objectives under 1-3 above; and to report to Ministers on the DMO's performance against its remit, objectives and targets.
5. To develop policy on, and promote advances in, new instruments, issuance techniques and structural changes to the debt and Treasury bill markets that may help to enhance the efficiency and lower the cost of debt and cash management, liaising as appropriate with the relevant bodies; to keep abreast of developments in debt and cash management policy and practice; and to provide policy advice to Treasury Ministers and officials accordingly.
6. To conduct its market operations, liaising as necessary with the relevant bodies, with a view to maintaining or promoting an orderly, efficient and liquid market for gilts.
7. To provide, including in liaison with the Bank of England and CRESTCo, a high quality and efficient service to investors in Government debt, and to deal fairly and professionally with market participants in the gilts and money markets, consistent with achieving low cost issuance and an efficient market.
8. To contribute to the Treasury's work on the development of the strategy for managing the Government's financial assets and liabilities.
9. To make information publicly available on the debt and Treasury bill markets and DMO policies where that contributes through openness and predictability to efficient markets and lower costs of issuance.
10. To contribute to the Government's wider objectives for financial cost-effectiveness and risk reduction, including by developing partnerships with other parts of the public sector, and by providing advice and expertise to other Government departments (and other governments) as required.
11. To resource, staff and manage the Office to deliver its objectives effectively and efficiently and to ensure value for money in its administrative expenditure.
12. To develop appropriate management, information and control systems with high regard to risk management; and to ensure full and accurate presentation of accounting and other information.

Targets for 2002-03

In taking forward it's objectives for next year the DMO has been set the following published targets

1. To ensure full compliance with the Government's remit for the DMO as set out in the Debt and Reserves Management Report 2002-03, within the tolerances and subject to the review triggers notified separately to the Office and consistent with the objectives of monetary policy.

2. To ensure that the maximum time taken to issue the results of gilt auctions does not exceed 40 minutes, that for structured Treasury bill tenders does not exceed 30 minutes, and that for ad hoc Treasury bill or other tenders does not exceed 15 minutes, while achieving complete accuracy.

3. To achieve complete accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the Debt Management Account (DMA), and in delivering money (and reconciling payments) to the National Loans Fund (NLF) and to meet the statutory deadlines for publication or submission for audit of the annual accounts of the DMO Agency and DMA.

4. To acknowledge all letters and e-mail enquiries from the public within 5 working days and for at least 95% to be sent a substantive reply within 2 weeks.

5. To achieve less than 6 breaches of the operational market notices (excluding any breaches that the Treasury accept were beyond control of the Office).

6. To ensure that the statutory constraint on DMO market borrowing (not to exceed its deposits with the NLF and Bank of England) is always met.

7. To ensure that, when there is a late change in the EFA forecast, any necessary use of end-of-day borrowing or lending facilities is notified to the Bank of England by the due time.

8. To ensure that instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through to settlement is effective, so that the DMO achieves at least 99% (by value) successful settlement of agreed trades on the due date.

9. To release all market sensitive data and announcements in a timely manner and achieve no more than 10 factual errors in material published by the DMO, including on the web site (insofar as the material is under the control of the DMO and not third parties).

ANNUAL ACCOUNTS

Year ended 31 March 2002
Presented to Parliament 23 July 2002

Contents

Foreword

Preparation of accounts

The accounts have been prepared in accordance with a direction given by HM Treasury in pursuance of section 7 (2) of the Government Resource Accounts Act 2000. The text of the direction is reproduced on page 38. The accounts and supporting note relating to the UK Debt Management Office's activities for the year ended 31 March 2002 have been audited by the Comptroller and Auditor General.

History and statutory background

The United Kingdom Debt Management Office (DMO) was established on 1 April 1998 as an on-vote agency of HM Treasury. These accounts therefore cover its fourth year of operation. The agency is financed through the Treasury and operated under gross running cost arrangements. Ministerial responsibility for the DMO is vested in the Chancellor of the Exchequer, who is supported by the Financial Secretary. The DMO's Chief Executive is also Accounting Officer and is responsible to Treasury Ministers for the overall operation of the agency in accordance with its Framework Document.

Principal activities

The DMO's aim is to carry out the Government's debt management policy of minimising financing costs over the longer term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way.

Review of activities

2001-02 was another year of significant achievement for the DMO. It successfully met both its debt and cash management remits as directed by HM Treasury, as well as meeting most of its objectives and published targets in full (a full account of these is given on pages 6-17).

During 2001-02 the DMO expanded its range of services. In a collaborative initiative with National Savings & Investments, the DMO hedged the equity market risk that the Government would otherwise have been exposed to following the introduction of NS&I's Guaranteed Equity Bond.

In February 2002, former Department for Transport, Local Government and the Regions announced that the DMO would be introducing a Deposit Facility to allow local authorities to deposit surplus funds with the Debt Management Account. The facility was successfully introduced (as a pilot scheme) in April 2002.

On 25 March 2002 the Economic Secretary to the Treasury announced that the National Debt Office (NDO) and the Public Works Loan Board (PWLB) were to be integrated with the DMO and their staff relocated to the DMO's premises from 1 July 2002. From 1 July 2002 the activities of NDO will be carried out under the name of the Commissioners for the Reduction of the National Debt (CRND).

Management of the DMO

In 2001-02 the Economic Secretary to the Treasury had ministerial responsibility for the DMO. During the early part of the financial year Melanie Johnson held the post of Economic Secretary. Ruth Kelly, who was appointed in June 2001, succeeded her.

Mike Williams, the Chief Executive, was initially appointed by HM Treasury to set the agency up and ensure its efficient and effective operation. He was appointed for 5 years from 1 January 1998, at the end of which the post will be filled through open competition.

A structure of corporate governance has been established to assist the Chief Executive comprising of a high level Advisory Board which at the 31 March 2002, in additional to the Chief Executive, comprised:

Jo Whelan	- Deputy Chief Executive
Jim Juffs	- Head of Operations and Resources
Paul Mills	- HM Treasury (Debt and Reserves Management)
James Barclay	- non-Executive Director
Colin Price	- non-Executive Director

James Barclay was Chairman and Chief Executive of Cater Allen Holdings Ltd between 1985 and 1998. Colin Price was Finance Director of Shell Pensions Management Services Ltd 1991 to 2001 and a member of the Board of IMRO from 1996 to 2000. Both appointments were made by the Chief Executive and extend to March 2003 and February 2004 respectively, subject to review.

The Advisory Board advises the Managing Committee which comprises the head of individual business units and is in turn supported by a Credit and Risk Committee and strategy groups for each key business area.

The DMO is not responsible for the remuneration of any Ministers. The Chief Executive is a member of the Senior Civil Service and HM Treasury sets his salary. The Chief Executive determines the salaries of the two non-Executive members of Advisory Board. The salaries of the remaining members of the Advisory Board (other than of Paul Mills who is an employee of HM Treasury) and Managing Committee are set internally or by the body from whom they are seconded in line with their own pay policies. Information on the remuneration of senior managers is given in note 2 of the Accounts.

Details of pension costs are disclosed in note 14 to the accounts.

Supplier payment policy

All the DMO's invoices are processed for payment by HM Treasury, which is committed to the CBI code on prompt payment and aims to pay all valid invoices within 30 days of receipt. HM Treasury achieved this payment target for 99% of invoices across the department in 2001-02.

Equal opportunity policy

The DMO is an equal opportunities employer. Policies are in place to guard against discrimination on grounds of gender, gender reassignment, marital or family status, colour, racial origin, sexual orientation, age (except in relation to the retirement policy which is currently under review), religion, disability, Trades Union membership, or by any other condition or requirement which cannot be shown to justifiable. The policies aim to ensure that there are no unfair or unlawful discriminatory barriers to employment or advancement in the DMO.

Disability

The DMO is committed to the promotion of opportunity in all fields and the above policy statement affirms its commitment to equality of opportunities in employment and to the development of management and staff who demonstrate clear awareness of equality issues. The DMO has a culture of inclusiveness and is working towards removing barriers to achieve full diversity. Whilst the DMO did not employ any individuals with disabilities in the financial year 2001-02, we are currently working towards achieving accreditation to demonstrate our commitment to do so in future. This will include a revision of our recruitment process to guarantee interviews for people with disabilities who meet the requirements of the role.

MIKE WILLIAMS
Chief Executive
15 July 2002

Statement of Accounting Officer's Responsibilities

Under section 7.1 of the Government Resources and Accounts Act 2000 the Treasury has directed the DMO to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction on page 38 of these financial statements. The accounts are prepared on an accruals basis and must give a true and fair view of the agency's affairs at the year-end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing accounts the Accounting Officer is required to:

- *observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;*
- *make judgements and estimates on a reasonable basis;*
- *state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;*
- *prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the agency will continue in operation.*

The Chief Executive's relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in "Government Accounting".

MIKE WILLIAMS
Chief Executive and Agency Accounting Officer
15 July 2002

Statement on Internal Control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the UK Debt Management Office's targets, policies and objectives set by Treasury Ministers, whilst safeguarding the public funds and agency's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve targets, policies and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Office's targets, policies and objectives, to evaluate the nature of and extent of those risks and to manage them efficiently, effectively and economically. This process, which is continuing to evolve, has been operational from October 2000 and accords with Treasury guidance. As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The Office has established the following processes:

1. A robust corporate governance management structure comprising:

    - *An Advisory Board which meets monthly to consider the plans and strategic direction of the DMO*
    - *A Managing Committee which meets weekly to consider strategic and operational issues, referring key issues to the Advisory Board where necessary*
    - *Cash Strategy, Debt Strategy, Investment, and Credit and Risk Committees*
    - *An Audit Committee, chaired by a non-executive director, which meets on a quarterly basis to review the adequacy of the DMO's management of risk and internal controls.*

2. Establishment of business objectives supported by regular review of business priorities and targets. Work is continuing to develop and refine performance indicators and monitoring capabilities.

3. An internal audit function complying with the standards of the Government Internal Audit Manual. Audit reports are produced providing an opinion on the adequacy and effectiveness of the DMO's internal control systems and where applicable contain recommendations for improvement.

4. A compliance function that reviews key operations to assess the extent of compliance with plans, policies, procedures, and legislation.

5. Procedure and control manuals covering the DMO's key operational activities, including all market operations, have been fully reviewed and updated in the year. Work continues to expand full coverage to all support operations.

6. An independent risk management function provides control advice on risks throughout the DMO. The risk management function also conducts risk analysis and provides an operational, market and credit risk capability for the DMO.

7. Presentations have been held with all staff on the DMO's risk management framework. Individual job descriptions continue to include key risks.

8. Heads of business units assess regularly whether risks to their operations are being managed effectively. This includes highlighting new risks or risks where there is an increased likelihood of occurrence, and specifies actions required to ensure all risks will be effectively managed. This process is supported by the maintenance of exception logs, which identify control weaknesses and resultant actions to improve controls. Reports are monitored by the risk management function. Key risks and exceptions are documented in a regular report for Managing Committee.

9. Risk workshops have been held with all business units to ensure that key operational risks have been identified, together with an assessment of the adequacy of controls in place to manage these risks. The resultant risk registers will be integrated into the risk reporting structure in the coming year to further strengthen the regular assessment of the adequacy and effectiveness of controls. A high level risk and controls register has also been produced by senior management.

10. A mechanism for approving and prioritising the DMO's programme of projects enables tracking and regular review of progress by Managing Committee. Improved processes and controls are progressively being introduced at individual project level and further enhancements will continue to be made for managing projects.

11. Business continuity plans, including a disaster recovery site and other arrangements, have been updated and tested and will be developed further in the coming year.

My review of the effectiveness of the system of internal control is informed by the development and maintenance of the internal control framework by management within the DMO, the work of the DMO's internal audit team, and comments made by the external auditors in their management letter and other reports.

MIKE WILLIAMS
Chief Executive and Agency Accounting Officer
15 July 2002

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 26-28 under the Government Resources and Accounts Act 2000**.** These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 29.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 20, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on page 22-23 reflects the Agency's compliance with Treasury's guidance 'Corporate governance: statement on internal control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

the financial statements give a true and fair view of the state of affairs of the United Kingdom Debt Management Office at 31 March 2002 and of the net operating cost, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and

in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
16 July 2002

National Audit Office
157-197 Buckingham Palace Road
LONDON
SW1W 9SP

OPERATING COST STATEMENT YEAR ENDED 31 MARCH 2002

	Note	2001-2002 £'000	2000-2001 £'000
Administration Costs			
Staff costs	2	2,677	1,948
Other administration costs	3	3,503	2,624
Depreciation	6	743	882
Gross Administration Costs		**6,923**	**5,454**
Operations related costs	4a	1,809	1,743
Gross Administration and Operations-Related Costs		**8,732**	**7,197**
Operating income	5a	(987)	(523)
CFER income	5b	(3)	(4)
Net Administration and Operations-Related Costs before Notional Interest on Capital		**7,742**	**6,670**
Notional Interest on Capital	4b	91	83
Net Operating Cost		**7,833**	**6,753**

The 2000-01 figures for "Other administration costs", "Depreciation" and "Operations related costs" have been restated to reflect the current year classification of Settlement and Custodian Charges as Operations related costs, and the current year format for the disclosure of Depreciation and the Deficit on Revaluation.

No separate statement of total recognised gains and losses has been prepared as there are no material recognised gains or losses other than those in the operating cost statement.

The notes on pages 29-37 form part of these accounts

BALANCE SHEET AT 31 MARCH 2002

	Note	31 MARCH 2002 £'000	£'000	31 March 2001 £'000
Fixed assets				
Tangible fixed assets	6a		1,741	960
Intangible fixed assets	6b		291	329
			2,032	**1,289**
Current assets				
Debtors	7	1,056		432
Cash at Bank and in Hand	8	311		86
		1,367		**518**
Creditors (amounts falling due within one year)	9	**(1,424)**		**(765)**
Net current (liabilities)/assets			**(57)**	**(247)**
Total Net Assets			**1,975**	**1,042**
Represented by:				
Taxpayers' Equity				
General fund	10		1,975	1,017
Revaluation reserve	11		–	25
			1,975	**1,042**

MIKE WILLIAMS
Chief Executive and Agency Accounting Officer
15 July 2002

The notes on pages 29-37 form part of these accounts

CASH FLOW STATEMENT YEAR ENDED 31 MARCH 2002

	Notes	2001-2002 £'000	2000-2001 £'000
Net cash outflow from operating activities	12a	(6,690)	(5,509)
Receipts surrendered to the Consolidated Fund		(3)	(4)
Capital expenditure and financial investment	12b	(1,729)	(413)
Net cash outflow before financing		**(8,422)**	**(5,926)**
Financing			
Net cash requirement		8,647	5,941
Increase in cash in the period		225	15

The notes on pages 29-37 form part of these accounts

NOTES TO THE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

1.1 Basis of preparation
These financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by the DMO are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.2 Accounting Convention
The financial statements have been prepared under the historical cost convention, as modified to account for the revaluation of fixed assets at their value to the business by reference to their current cost.

1.3 Fixed assets
Assets acquired for on-going use with a purchase cost in excess of £500 are capitalised. All assets acquired on an individual or grouped basis (for similar items or those used together) for ongoing use falling above this threshold will be shown as fixed assets.
These are revalued each year to the net current replacement cost by reference to appropriate indices included within *Price Index Numbers for Current Cost Accounting*, published by the Government Statistics Service. Revaluation surpluses arising from temporary changes in value are credited to the revaluation reserve. Permanent diminutions in value are charged to the operating cost statement, except to the extent that a revaluation surplus exists in respect of the same asset.
Profits or losses arising on the disposal of fixed assets are calculated by reference to the carrying value of the asset.
Internal staff costs for IT development work are capitalised as tangible assets when a distinct asset for on-going use is created or significantly developed.
Software purchases that meet the capitalisation criteria are classified as intangible assets.

1.4 Depreciation
Depreciation is provided on a straight-line basis, calculated on revalued amounts to write off assets over their estimated useful lives. The useful lives of tangible fixed assets have been estimated as follows:

IT equipment and software	3 years
Development costs	3 years
Office and other non IT equipment	5 years
Furniture, fixtures and fittings	10 years
Leasehold improvements	Lesser of 10 years or outstanding lease term

The depreciation period for IT equipment for networking and central services has been changed in 2001-02 to reflect a revision in the estimated working lives of these assets from 4 to 3 years.

1.5 Operating leases
Rental payable under operating leases is charged to the operating cost statement on a straight-line basis over the term of the lease. Operating leases are accounted for in accordance with SSAP 21. The DMO's commitments are disclosed in note 13.

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1.6 Notional charges
Central HM Treasury costs and other overheads are charged on a notional basis and included in the accounts. These charges include auditors' remuneration and centrally-provided support services for payroll, procurement, finance, security, health and safety and legal services. Notional costs are charged to the operating cost statement and credited as a movement on the general fund.

1.7 Value added tax
Value added tax (VAT) on purchases, to the extent that it is irrecoverable, is charged to the operating cost statement included under the heading relevant to the type of expenditure. Where VAT is recoverable in respect of DMO expenditure, it is recovered by HM Treasury and is not refunded to the DMO.

1.8 Operating Income
Operating income for the DMO relates to cost recoveries on a full cost basis for services provided primarily to the National Loans Fund. As the agency is subject to gross administration cost control provisions, for funding purposes, HM Treasury treats operating income amounts as Appropriations-in-Aid.

2. STAFF NUMBERS AND COSTS

2.1 The average number of DMO employees during the year was as follows:

	2001-2002 Number	2000-2001 Number
	51	37

2.2 Aggregate staff payroll costs were:

	2001-2002 £'000	2000-2001 £'000
Wages and salaries	2,210	1,639
Social security costs	178	122
Other pension costs	289	187
	2,677	1,948

A total of £64,445 (£23,243 in 2000-01) of staff payroll costs have been capitalised as development expenditure in the creation of software assets. These will be depreciated over three years.

2.3 The Chief Executive's remuneration for the year, including allowances, was £88,238.

	Age	Salary at 31/03/2002	Real increase in pension at 60	Total accrued pension At 60 on 31/03/2002
Mike Williams	54	88,238	3,333	28,209

The Chief Executive is an ordinary member of the Principal Civil Service Pension Scheme. Contributions in respect of the Chief Executive are paid by the DMO to this scheme at the rate of 18.5% of his gross salary.

The other most senior managers of the agency have not given their consent for the above information to be disclosed. This represents a departure from the disclosure requirements of the Resource Accounting Manual in force for the 2001-2002 accounts. However, the agency considers that the requirements of the RAM in this area may conflict with existing legislation.

2.4 The salary and allowances for the period of the most senior managers of the agency fell within the following ranges:

	2001-2002 Number	2000-2001 Number
£30,000 to £34,999	–	1
£45,000 to £49,999	–	1
£50,000 to £54,999	1	1
£55,000 to £59,999	2	2
£60,000 to £64,999	1	–
£65,000 to £69,999	–	1
£70,000 to £74,999	1	2
£75,000 to £79,999	2	1
£80,000 to £84,999	1	1
£85,000 to £89,999	1	–
£95,000 to £99,999	–	1
£100,000 to £104,999	1	–

During the financial year 2001-02 senior manager Mike Ness left the organisation management team.

Non-Executive Directors James Barclay and Colin Price received salaries and allowances of £11,000 and £12,500 respectively. The other members of the DMO's Advisory Board were Mike Williams, Jo Whelan, Jim Juffs and Paul Mills (an employee of HM Treasury and not remunerated by the DMO).

3. OTHER ADMINISTRATION COSTS

Other administration costs include the following:

	2001-2002 £'000	2000-2001 £'000
Accommodation related costs	1,378	272
Consultants & Professionals	270	890
IT & Telecommunications	895	605
HM Treasury Notional Costs	38	38
Auditors Fee	18	17
Travel, Subsistence & Hospitality	33	12
Legal Services	113	176
Training	116	78
Printing & Stationery	89	87
Other Costs	169	324
Deficit on Revaluation	384	125
	3,503	**2,624**

Accommodation costs include £970,548 for rent on buildings.
The auditors' fee relates entirely to audit work.

4. OPERATIONS-RELATED COSTS AND NOTIONAL INTEREST ON CAPITAL

4a. Operations-Related Costs

Operations-related costs are costs that the DMO must incur as a result of trading and other dealing activities and are not directly controllable. They relate primarily to stock listing, settlement, auction advertising and other trading fees. Where the DMO is acting as agent for the NLF regarding these transactions, these costs are reimbursable.

	2001-2002 £'000	2000-2001 £'000
Settlement and Custodial Charges	1,247	1,309
Stock Exchange Listing Fees	292	210
Auction Advertising Costs	270	224
	1,809	**1,743**

4b. Notional Interest on Capital

A charge reflecting the cost of capital utilised by the agency is included within the operating cost statement. The charge is calculated at the government's standard rate of 6% in real terms on all assets less liabilities.

5. OPERATING INCOME AND CFERS

5a. Operating Income

Operating income amounts relate to cost recoveries made, on a full cost basis, for services provided. All operating income is treated as Appropriations-in-Aid, with the exception of Interest received on Bank of England current account. Operating income for the period was generated from the following sources:

	2001-2002 £'000	2000-2001 £'000
Recharges to the National Loans Fund (stock listing and other fees)	593	402
Recharges to GEMMs (regarding trading system costs)	85	101
Rental Income from External Tenants	131	–
Other income	178	20
	987	523

Of the recharges to the National Loans Fund for 2001-02, £30k relates to the prior year. Of the recharges to GEMMs for 2001-02, £49k relates to the prior year.

5b. CFER

CFER income in the period comprises Bank of England interest received in the year.

6. FIXED ASSETS

6a. Tangible Fixed assets

	IT	Telecoms	Furniture & Fittings	Other	Leasehold Improvements	Total
Cost or valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2001	1,536	178	128	9	–	1,851
Additions	928	3	24	–	730	1,685
Surplus/(deficit) on revaluation	(264)	(25)	1	–	(16)	(304)
At 31 March 2002	**2,200**	**156**	**153**	**9**	**714**	**3,232**
Depreciation						
At 1 April 2001	772	84	31	4	–	891
Charge for the year	502	23	15	2	57	599
Backlog Depreciation	–	-	1	–	-	1
At 31 March 2002	**1,274**	**107**	**47**	**6**	**57**	**1,491**
Net book value						
At 31 March 2002	926	49	106	3	657	1,741
At 31 March 2001	**764**	**94**	**97**	**5**	**–**	**960**

Capitalised staff development costs of £64,445 (last year £23,243) are included in the tangible assets figure.

6b. Intangible Fixed Assets

Cost or valuation	Software £'000
At 1 April 2001	603
Additions	210
Surplus/(deficit) on revaluation	(105)
At 31 March 2002	**708**
Depreciation	
At 1 April 2001	273
Charge for the year	144
At 31 March 2002	**417**
Net book value	
At 31 March 2002	291
At 31 March 2001	**330**

2000-01 balances have been restated to reflect the separate disclosure of Intangible Fixed Assets in the current year.

7. DEBTORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2002 £'000	31 March 2001 £'000
Prepayments and accrued income	660	184
Amounts receivable from NLF	261	236
Other Debtors	135	12
	1,056	**432**

8. CASH AT BANK AND IN HAND

	31 March 2002 £'000	31 March 2001 £'000
Balances with the Bank of England	311	86

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2002 £'000	31 March 2001 £'000
Trade creditors	303	165
HM Treasury and Departmental creditors	39	86
Accruals and deferred income	811	514
Deposit advance held as creditor bond	271	–
	1,424	**765**

10. TAXPAYERS' EQUITY

Reconciliation of Net Operating Cost to Changes in General Fund

	2001-2002 £'000	2000-2001 £'000
Net operating cost	(7,833)	(6,753)
CFER Expense	(3)	(4)
Net Cash Requirement	8,647	5,941
Add: Non-Cash Charges:		
Notional Interest on Capital	91	83
Auditors Fee	18	17
HM Treasury Notional Costs	38	38
	147	**138**
Net (decrease)/increase in General Fund	958	(678)
General Fund at 1 April 2001	1,017	1,695
General Fund at 31 March 2002	1,975	1,017

11. REVALUATION RESERVE

	£'000
Opening Balance at 1 April 2001	25
Movement on revaluation during the year	(25)
Balance at 31 March 2002	-

12. ANALYSIS OF CASH FLOW

12a. Reconciliation of Operating Costs to Operating Cash Flows

	2001-2002 £'000	2001-2002 £'000	2000-2001 £'000
Net operating cost		7,833	6,753
Adjust for non-cash transactions:			
Depreciation & Revaluation	1,127		1,007
Notional Interest on Capital	91		83
HM Treasury Notional Costs	38		38
Auditors Remuneration	18		17
Loss on Disposal of Asset	–		3
		(1,274)	(1,148)
Adjust for movements in working capital other than cash :			
Increase in debtors	623		171
(Increase) in current creditors	(492)		(267)
		131	(96)
Net Cash outflow from operating activities		**6,690**	**5,509**

12b. Net Cash Flow from Investing Activities

	2001-2002 £'000	2000-2001 £'000
Purchase of tangible fixed assets	1,685	382
Purchase of intangible fixed assets	210	143
Increase in capital creditors	(166)	(112)
Net cash outflow from investing activities	**1,729**	**413**

13. OPERATING LEASES

At 31 March 2002 commitments under operating leases were as follows:

	Land and Buildings £'000
Operating leases which expire beyond five years: premises lease	1,130

14. PENSION ARRANGEMENTS

Pension contributions paid or payable are included within the operating cost statement.

The majority of the DMO's employees are civil servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. These staff, together with staff on loan from HM Treasury and other government departments, but not those on short term contracts, are members of the Principal Civil Service Pension Scheme (PCSPS).

The PCSPS is an unfunded multi-employer defined benefit scheme but the DMO is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2001-02, employer's contributions of £280,906 were payable to the PCSPS (2000-01 £190,306) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revision of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Staff on loan from the Bank of England are members of the Bank's pension scheme. Contributions to the relevant pension scheme are recharged to the DMO and included within 'Wages and salaries'.

Staff on short term contracts make their own pension arrangements.

15. CAPITAL COMMITMENTS

The DMO has no capital commitments contracted but not provided at 31 March 2002.

16. CONTINGENT LIABILITIES

The DMO had no contingent liabilities at 31 March 2002.

17. RELATED PARTY TRANSACTIONS

The DMO is an executive agency of HM Treasury, which is therefore regarded as a related party. During the year the DMO has had various transactions with HM Treasury for which notional charges of £38,000 are made.

The Chief Executive is a non-executive member of the board of CRESTCo Ltd (and Chairman of CRESTCo's Audit and Compliance Committee) for which he is paid an annual fee of £20,000 which is passed to the DMO. CRESTCo Ltd provides settlement and related services to the UK securities markets. The Bank of England settles the majority of the DMO's market transactions through the CREST and CMO systems run by CRESTCo, for which they pay CRESTCo a proportion of the settlement charges disclosed in note 4a.

Other related parties with whom DMO has undertaken various transactions are NILO, the Bank of England and National Savings and Investments.

None of the Managing Committee members, senior managers or other related parties has undertaken any material transactions with the DMO during the year.

18. KEY FINANCIAL PERFORMANCE TARGETS

There are no key financial targets; the DMO has a number of key targets, but these are intentionally not focused on financial accounting indicators in order to avoid undue risk to its longer-term objectives.

19. POST BALANCE SHEET EVENTS

On 1 July 2002, the DMO merged with Public Works and Loans Board (PWLB) and Commissioners for the Reduction of the National Debt (CRND).

20. FRS13 DISCLOSURES

Excluding its operation of the Debt Management Account (which is reported separately from its administrative expenditure) the DMO agency account has no material exposure to liquidity risk, interest rate risk or currency risk. The DMO agency account does not have any borrowings, deposits or foreign currency positions. All material assets and liabilities are denominated in sterling.

ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 7 (2) OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000

1 The direction applies to the United Kingdom Debt Management Office.

2 The United Kingdom Debt Management Office shall prepare accounts for the year ended 31 March 2002 in compliance with the accounting principles and disclosure requirements of the edition of the Resource Accounting Manual issued by H M Treasury which is in force for 2001-02.

3 The accounts shall be prepared so as to give a true and fair view of the income and expenditure, recognised gains and losses, and cash flows of the United Kingdom Debt Management Office for the financial year, and of the state of affairs as at 31 March 2002.

4 Compliance with the requirement of the Resource Accounting Manual will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirement of the Resource Accounting Manual is inconsistent with the requirement to give a true and fair view the requirements of the Resource Accounting Manual should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the Resource Accounting Manual. Any material departure from the Resource Accounting Manual should be discussed in the first instance with the Treasury.

David Loweth
Head of the Central Accountancy Team, Her Majesty's Treasury

26 February 2002

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