

## BUDGET JUNE 2010: REVISION TO THE DMO'S FINANCING REMIT 2010-11

1. Planned gilt sales in 2010-11 are being reduced by £20.2 billion to £165.0 billion as a consequence of the new forecasts for the public finances published in today's Budget. The reductions have been implemented in a way that maintains the existing proportionate split of issuance between maturities and types of gilt. See Table 1. No changes are being made to planned Treasury bill sales.

**Table 1: Planned reduction in total gilt sales by type and maturity of gilt (£bn) and new planned total issuance by maturity/type.**

Split by maturity and type £bn	Reduction	New Plan	%
Short-dated conventional	-6.4	52.6	31.9%
Medium-dated conventional	-4.7	38.2	23.2%
Long-dated conventional	-4.9	40.4	24.5%
Index-linked	-4.2	33.8	20.5%
	<b>-20.2</b>	<b>165.0</b>	

### a) Gilt auctions

2. Planned sales at auctions are being reduced by £14.0 billion to £132.0 billion. Three gilt auctions are being cancelled; one each of short-, medium- and long-dated conventional gilts, thereby reducing the number of planned gilt auctions in 2010-11 to 49. The gilt auctions being cancelled are those previously scheduled for 13 October 2010, 2 December 2010 and 20 January 2011.
3. The reductions in sales across the types and maturities of gilts at auction and the new sales plans are shown in Table 2.

**Table 2: Planned reduction in auction sales by type and maturity of gilt and new planned issuance via auctions.**

Auction sales £bn	Reduction	New Plan
Short-dated conventional	-6.4	52.6
Medium-dated conventional	-4.7	38.2
Long-dated conventional	-2.5	24.2
Index-linked	-0.4	17.0

### b) Supplementary issuance methods

4. Planned sales via supplementary distribution methods are being reduced by £6.2 billion to £33.0 billion. The planned reductions by supplementary issuance method and by type of instrument are shown in Table 3.

**Table 3: Planned reductions in supplementary issuance by method and type of instrument and new planned issuance via supplementary methods.**

Supplementary issuance £bn		
	Reduction	New Plan
Syndications	-3.2	26.0
Tenders	-3.0	7.0
Long conventional	-2.4	16.2
Index-linked	-3.8	16.8

- The DMO envisages holding up to eight syndicated offerings in 2010-11 (including syndications already held/announced). It is also assumed that up to three mini-tenders will be cancelled. The first such cancellation will be the mini-tender previously scheduled for the week commencing 5 July 2010. Decisions about the scheduling of mini-tenders later in the year will be made in due course in accordance with the DMO's normal schedule for announcements.
- The revised plan for the split of gilt issuance in the financing remit is shown in more detail in Table 4. The DMO attaches priority to meeting the individual targets for the different types and maturities of gilt issuance below but the composition of issuance methods used to achieve these targets is a planning assumption. In particular, total financing achieved by supplementary methods (and the split between methods) will be dependent on market and demand conditions at the time transactions are conducted.

**Table 4: Revised gilt issuance split by method of issue, type and maturity of gilt – planning assumptions**

Revised planned gilt issuance split by method of issue, type and maturity 2010-11				
	Auction	Syndication	Mini-tender	Total
<b>Short-dated conventional</b>				
£ billion	52.6			52.6
Per cent				31.9
<b>Medium-dated conventional</b>				
£ billion	38.2			38.2
Per cent				23.2
<b>Long-dated conventional</b>				
£ billion	24.2	12.8	3.4	40.4
Per cent				24.5
<b>Index-linked</b>				
£ billion	17.0	13.2	3.6	33.8
Per cent				20.5
<b>Total</b>	<b>132.0</b>	<b>26.0</b>	<b>7.0</b>	<b>165.0</b>
<i>*As a planning assumption the DMO will use the supplementary issuance programme to sell long-dated conventional and index-linked gilts. Figures may not sum due to rounding.</i>				

### c) Treasury bills

7. No changes are being made to the programme of Treasury bill sales in 2010-11; the planning assumption remains that the Treasury bill stock will fall by £2.5 billion in 2010-11 leaving the end-March 2011 stock at £60.8 billion.

### d) The financing requirement

8. The DMO's financing remit has been revised to reflect a new forecast for the Central Government Net Cash Requirement (CGNCR) in 2010-11 of £146.1 billion, a reduction of £20.3 billion compared to the forecast published at the Budget in March 2010. Offsetting this reduction has been secondary market purchases of (rump) gilts of £0.1 billion by the DMO. The restated financing arithmetic for 2010-11 is at Annex A.

### e) The Post Auction Option Facility (PAOF)

9. Proceeds raised by activation of the PAOF at auctions between 7 April and 17 June totalled £2.5 billion, split as in Table 5 below. The PAOF will continue to be offered at gilt auctions throughout the rest of 2010-11, in accordance with paragraph 5.15 of the DMO's financing remit.

**Table 5: PAOF proceeds by type and maturity in 2010-11 up to and including 17 June**

<b>PAOF total take-up (£mn)</b>	
Short-dated conventional	968
Medium-dated conventional	748
Long-dated conventional	611
Index-linked	163
<b>Total</b>	<b>2,491</b>

10. Consistent with paragraphs 10-13 of the DMO's remit announcement of 24 March 2010, the sums above have been recorded separately from the auction proceeds totals in the financial year to-date. From the restatement of the financing requirement today these proceeds have been incorporated into the auction proceeds totals, reducing the average (or "evenflow") sizes of the remaining auctions accordingly. Progress against the revised remit (including the revised evenflow auction sizes) is set out at Annex B.

### f) Future financing projections

11. The Budget includes new forecasts for the CGNCR from 2011-12 to 2014-15. Annex C sets out revised illustrative gross financing projections using the new CGNCR forecasts plus the latest estimates of gilt redemptions in these years. The projections are not gilt sales forecasts and, in particular, they make no assumption about any contribution to financing from National Savings & Investments (NS&I) or Treasury bill sales.

## Annex A: Financing arithmetic 2010-11

<b>2010-11</b>	
<b>Financing arithmetic (£bn)</b>	<b>June</b>
Central Government Net Cash Requirement	<b>146.1</b>
Gilt redemptions	38.6
Financing for phase 1 of the Bank's Asset Purchase Facility	0.0
Financing for reserves	4.0
Buy-backs	0.1
Planned short-term financing adjustment <sup>1</sup>	-26.3
<b>Gross Financing requirement</b>	<b>162.5</b>
Less	
Contribution to financing from National Savings & Investments	0.0
<b>Net Financing requirement</b>	<b>162.5</b>
Financed by	
<b>1. Debt issuance by the DMO</b>	
<b>a) Treasury bills<sup>2</sup></b>	<b>-2.5</b>
<b>b) Gilt sales</b>	<b>165.0</b>
Short-dated conventionals	52.6
Medium-dated conventionals	38.2
Long-dated conventional	40.4
Index-linked gilts	33.8
<b>2. Other planned change in short term debt</b>	
Ways and Means	0.0
<b>3. Change in short term cash position<sup>3</sup></b>	<b>0.0</b>
<b>Total financing</b>	<b>162.5</b>
<b>Short-term debt levels at end of financial year</b>	
T bill stock (in market hands)	60.8
Ways and Means	0.4
DMO net cash position	0.5
<p><i>1. To accommodate changes to the current year's financing requirement resulting from (i) publication of the previous year's outturn CGNCR and/or (ii) carry over of unanticipated changes to the cash position from the previous year.</i></p>	
<p><i>2. The stock change shown here is a planning assumption. The DMO may finish the financial year with a higher or lower Treasury bill stock than assumed above, depending on the extent to which the DMO uses other short term cash instruments to raise finance and the extent to which there is a deviation from plan on proceeds from supplementary methods of issuance.</i></p>	
<p><i>3. The zero change for the short-term cash position in 2010-11 assumes that the DMO's planning assumption for the end-year Treasury bill stock is met. To the extent that the DMO uses alternative short-term cash instruments to raise finance within year, this will be reflected (as a negative number) in this line in the Table above. A negative (positive) number here indicates an increase in (reduction in) the financing requirement for the following financial year.</i></p>	
<p><i>Figures may not sum due to rounding</i></p>	

## Annex B: Progress against the revised remit

Gilt sales v remit 22 June 2010 (£ millions)					
	Conventional Gilts			Index-linked gilts	Total
	Short	Medium	Long		
<b>Total gilt sales to-date</b>	<b>19,517</b>	<b>12,017</b>	<b>7,957</b>	<b>9,953</b>	<b>49,444</b>
Planned sales at auctions	52,600	38,200	24,200	17,000	132,000
1. Sales at auctions*	19,517	12,017	6,975	4,791	43,300
Balance of auction sales to plan	33,083	26,183	17,225	12,209	88,700
Auctions remaining	8	8	8	11	35
Auction evenflow	4,135	3,273	2,153	1,110	
2. Sales by syndication			0	3,762	3,762
Planned sales by syndication					26,000
3. Sales by tender			982	1,400	2,382
Planned sales by tender					7,000
Total supplementary sales			982	5,162	6,144
Balance to plan			15,218	11,638	26,856
4. PAOF proceeds**					0
<b>Total planned sales</b>	<b>52,600</b>	<b>38,200</b>	<b>40,400</b>	<b>33,800</b>	<b>165,000</b>
* including PAOF proceeds to June Budget					
** since June Budget					

## Annex C: Illustrative gross financing projections.

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