3 The Debt Management Office's financing remit for 2011-12

Introduction

3.1 The financing arithmetic sets out the components of the Government's projected net financing requirement and shows the contributions and sources of the projected net financing requirement.

3.2 The debt management remit sets out how the DMO, acting as the Government's agent, will fund the projected net financing requirement.

Financing arithmetic

3.3 The forecast for the CGNCR in 2011-12 is £120.4 billion.

3.4 The forecast net financing requirement of £167.4 billion reflects projected gilt redemptions of £49 billion and the decision to provide an additional £6 billion of sterling finance for the Official Reserves.

3.5 Following the contribution to net financing of £0.3 billion in 2010-11, NS&I is expected to make a net contribution to financing of £2 billion in 2011-12. This projection assumes gross inflows of £14 billion in 2011-12.

3.6 Gilt issuance is the primary means of funding the net financing requirement. Treasury bills and other cash management instruments may be used, at the margin, to fund the net financing requirement.

3.7 The net financing requirement will be met by:

- gross gilt issuance of £169.0 billion; and
- a reduction in the Treasury bill stock of £1.6 billion to £60.8 billion.

3.8 Table 3.A sets out details of the financing arithmetic for 2010-11 and 2011-12.

Table 3.A: Financing arithmetic 2010-11 and 2011-12

	2010-11	2011-12
£ billion		
Central Government Net Cash Requirement	141.2	120.4
Gilt redemptions	38.6	49.0
Financing for the Official Reserves	6.0	6.0
Buy-backs[1]	0.2	0.0
Planned short-term financing adjustment[2]	-26.3	-6.0
Gross financing requirement	159.7	169.4
less:		
National Savings & Investments	0.3	2.0
Net financing requirement	159.4	167.4
Financed by:		
1. Debt issuance by the Debt Management Office		
a) Treasury bills	-0.9	-1.6
b) Gilts	166.4	169
of which:		
Conventional:		
short	53.2	58.0
medium	38.1	34.9
long	41.1	37.7
Index-linked:	34.0	38.4
2. Other planned changes in net short-term debt[3]		
Change in the Ways and Means Advance	0.0	0.0
3. Unanticipated changes in net short-term cash position[4]	6.0	0.0
Total financing	165.5	167.4
Short-term debt levels at end of financial year		
Treasury bill stock[5]	62.5	60.8
Ways and Means Advance	0.4	0.4
DMO net cash position	6.5	0.5

Figures may not sum due to rounding

1Purchases of "rump" gilts which are older, for which there is a small outstanding stock, declared as such by the DMO and in which Gilt-edged Market Makers (GEMMs) are not required to make two-way markets. The Government will not sell further amounts of such gilts to the market but the DMO is prepared, when asked by a GEMM, to make a price to purchase such gilts.

2 To accommodate changes to the current year's financing requirement resulting from: (i) publication of the previous year's outturn CGNCR; (ii) an increase in the DMO's cash position at the Bank of England; and / or (iii) carry over of unanticipated changes to the cash position from the previous year.

3Total planned changes to short-term debt are the sum of: (i) the planned short-term financing adjustment; (ii) net Treasury bill sales; and (iii) changes to the level of the Ways and Means Advance.

4 The DMO's net short-term cash position at the end of a year will also include any impact on financing arising from other activities carried out within Government (e.g. issuance of tax instruments, transfers between central government and other sectors, and foreign exchange transactions). A negative (positive) number indicates an addition to (reduction in) the financing requirement for the following year.

5 The DMO has operational flexibility to vary the end-financial year stock subject to its operational requirements.

3.9 The CGNCR, which is the fiscal aggregate that determines gross debt sales, is derived from PSNB. The relationship between PSNB and the CGNCR is set out in the OBR's *Economic and fiscal outlook,* March 2011.

Financing for the Official Reserves[1]

3.10 For the purposes of the financing arithmetic in Table 3.A, it is assumed that swapped sterling will remain the main form of financing of the Official Reserves (as has been the case in recent years) and no new foreign currency debt will be issued in 2011-12. The financing arithmetic provides for an additional £6 billion of sterling finance for this purpose in 2011-12. Annex D provides more detail on the financing of the Official Reserves. If the Government judges that there is a case for doing so, consideration would be given to issuing foreign currency securities to finance partly the Official Reserves in 2011-12. Any decision will be taken and implemented on the basis set out in Annex D. If the Government were to decide to issue a foreign currency bond later in the year, this would be taken into account in subsequent updates to the DMO's financing remit.

Other short-term debt

3.11 The projected level of the Ways and Means Advance at the Bank of England at 31 March 2011 is £0.4 billion. No changes to the level of the Ways and Means Advance are planned in 2011-12.

3.12 The projected level of the DMO's net cash balance at 31 March 2011 is £6.5 billion, £6.0 billion above the level of the projected cash balance in the 2010 Autumn Statement. The level will be reduced during 2011-12 from £6.5 billion to £0.5 billion (as shown by the planned short-term financing adjustment) that will, in turn, reduce the net financing requirement in 2011-12.

Quantity of gilt sales

3.13 The DMO, on behalf of the Government, will deliver gilt sales of £169.0 billion (cash)[2] in 2011-12.

3.14 The planned amount of issuance and maturity mix in 2011-12 is:

- £58.0 billion of short conventional gilts (34.3 per cent of total issuance);
- £34.9 billion of medium conventional gilts (20.7 per cent of total issuance);
- £37.7 billion of long conventional gilts (22.3 per cent of total issuance); and
- £38.4 billion of index-linked gilts (22.7 per cent of total issuance).

3.15 Through its gilt issuance programme, the Government aims at regular issuance across the maturity spectrum throughout the year and at building up benchmarks at key maturities in both conventional and index-linked gilts.

Gilt issuance methods

3.16 Auctions will remain the Government's primary method by which to issue gilts. In addition, the Government has decided to continue the use of supplementary methods to issue gilts. Supplementary methods of issuance will comprise mini-tenders and syndication in 2011-12. The use of supplementary issuance methods adds flexibility to the gilt issuance programme. This additional flexibility is designed to facilitate the effective delivery of the gilt issuance programme

[1] The Government's official holdings of international reserves, with the exception of the Special Drawing Rights (SDR) assets, are held in the Exchange Equalisation Account (EEA).

[2] Figures in Chapter 3 are in cash terms unless otherwise stated.

while remaining consistent with the debt management principles of openness, transparency and predictability.

3.17 It is anticipated that:

- £132.8 billion (78.6 per cent of total issuance) will be issued by pre-announced auctions;
- £31.6 billion (18.7 per cent of total issuance) will be issued by syndication; and
- £4.6 billion (2.7 per cent of total issuance) will be issued by mini-tenders.

3.18 The planning assumption for gilt issuance in 2011-12 by method of issue, type and maturity is shown in Table 3.B.

Table 3.B: Planned gilt issuance split by type, maturity and method of issue[1]

	Auction	Syndication	Mini tender	Total
Short				
£ billion	58.0	-	-	58.0
per cent				34.3
Medium				
£ billion	34.9	-	-	34.9
per cent				20.7
Long				
£ billion	21.3	13.5	2.9	37.7
per cent				22.3
Index-linked				
£ billion	18.6	18.1	1.7	38.4
per cent				22.7
Total[2]	132.8	31.6	4.6	169.0

1As a planning assumption the DMO will use the supplementary issuance programme to sell long-dated and index-linked gilts.

2Totals may not sum due to rounding.

3.19 There are no plans to introduce additional gilt issuance methods in 2011-12. Before introducing any new issuance methods, the DMO would consult market participants and seek HM Treasury's approval.

Gilt auction calendar

3.20 The DMO will publish, alongside the DRMR, a gilt auction calendar consistent with the remit which sets out the expected timing of gilt sales at auction.

Post auction option facility

3.21 In 2011-12, the DMO will continue to offer to successful bidders (both primary dealers and investors) at auctions an option to "top up" gilt purchases by up to 10 per cent of the amount allocated to them at auction, at the average accepted price at conventional auctions and the clearing (or strike) price at index-linked auctions. Further details of this facility are available in the DMO's gilt market operational notice[3].

3.22 Any additional amounts sold via this facility will count towards the remit sales targets and may be used to reduce the required average sizes for the remaining auctions of the maturity/type of gilt in question. If exercised consistently, the option may allow the cancellation

[3] Available at http://www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/Opnot20091120.pdf&page=operational_rules/Document.

of future auctions, but any such cancellation would be announced well in advance as part of the regular issuance calendar announcements and/or at the 2011 Autumn Statement.

Taps and reverse taps

3.23 The above programme of gilt sales by auction, mini-tenders and syndicated offerings may be supplemented by sales or purchases of gilts by the DMO "on tap"[4]. Taps of gilts will be used only as a market management instrument in exceptional circumstances.

The Standing Repo Facility

3.24 For the purposes of market management, the DMO may create and repo out gilts in accordance with the provisions of its Standing Repo Facility launched on 1 June 2000 and most recently revised on 6 August 2009[5]. Any gilts so created will not be sold outright to the market and will be cancelled on return.

Other operations

3.25 The DMO has no current plans for a programme of reverse or switch auctions or conversion offers in 2011-12.

Coupons

3.26 As far as possible, the DMO will set coupons on new issues to price the gilt close to par at the time of issue.

Buy-ins of short-maturity debt

3.27 The DMO will have responsibility for buying in gilts close to maturity to help manage Exchequer cash flows.

Treasury bill sales

3.28 The outstanding stock of Treasury bills is expected to fall by £1.6 billion to £60.8 billion in 2011-12. In addition to the scheduled weekly tenders, the DMO may continue to re-open, on request, existing issues of Treasury bills for sale on a bilateral basis, to raise funds for cash management. Consequently, the DMO will continue to have operational flexibility to vary the end-financial year stock, subject to its operational requirements. The 2010-11 outturn for the Treasury bill stock will be reported alongside CGNCR outturn in April 2011; similarly, the outturn for 2011-12 will be reported in April 2012 alongside the outturn for the 2011-12 CGNCR.

New instruments

3.29 Before introducing any new instruments, the DMO will consult market participants and seek HM Treasury's approval prior to their introduction.

3.30 In July 2010, the Government decided to use the CPI as the measure of price inflation for the purposes of the revaluation and indexation of occupational pension schemes. The Government expects to undertake a formal consultation on the issuance of CPI-linked gilts in 2011-12.

[4] Taps (reverse taps) are sales (purchases) of gilts conducted directly with GEMMs by the DMO as a market management mechanism in circumstances, temporary or otherwise, such that the secondary market has become, or is likely to become, dislocated. See http://www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/Opnot20091120.pdf&page=operational_rules/Document.

[5] The announcement of 6 August 2009 is available on the DMO website at: http://www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/RepoTC060809B.pdf&page=operational_rules/Document

Revisions to the remit

3.31 In addition to planned updates to the remit, any aspect of this remit may be revised during the year, in the light of exceptional circumstances and/or substantial changes in the following:

- the Government's forecast of the net financing requirement;
- the level and shape of the gilt yield curve;
- market expectations of future interest and inflation rates; and
- market volatility.

3.32 Any such unplanned revisions will be announced transparently to the market.