

PBR 2006: REVISION TO THE DMO FINANCING REMIT 2006-07

The latest projections for the public finances have been published today in the Chancellor of the Exchequer's Pre-Budget Report (PBR). This announcement summarises:

- the impact of the PBR on the DMO's financing remit; (gilt sales fall by £0.5 billion, Treasury bill sales fall by £5.0 billion);
- the allocation of supplementary gilt issuance (£2.0 billion to long conventional gilt issuance); and
- the outright gilt auction calendar for Q4 2006-07.

In addition, the DMO will conduct the sale of the existing index-linked gilt holdings of the Nuclear Liabilities Investment Portfolio (NLIP) in the final quarter of this financial year. These sales are distinct from, and will not count towards, the DMO's remit target for index-linked gilts. See more details at section D below.

A) PBR impact on DMO remit.

The net financing requirement for the DMO has fallen by £5.5 billion to £59.0 billion. This reflects: a forecast for the CGNCR in 2006-07 unchanged from that in Budget 2006, the proceeds from the disposal of the NLIP held by British Nuclear Fuels Limited (BNFL) which are forecast to contribute £3.8 billion, an increase of £2.2 billion in the forecast net contribution to financing by National Savings & Investments (NS&I), and other minor adjustments to the financing arithmetic¹.

The reduced net financing requirement is being met by:

- A reduction in planned Treasury bill sales of £5.0 billion (taking the forecast stock at end-March 2007 to £15.6 billion); and;
- A reduction in the amount of supplementary gilt issuance for Q4 of £0.5 billion (leaving £2.0 billion to be allocated) taking total planned gilt sales in 2006-07 to £62.5 billion.

B) Allocation of the supplementary gilt issuance for Q4 2006-07

The £2.0 billion of supplementary gilt issuance is being directed exclusively to long conventional gilts taking planned sales of long conventional gilts in 2006-07 to £25.25 billion (cash). An additional conventional gilt auction is being scheduled for Tuesday 6 February 2007.

¹ Purchases of rump gilts by the DMO totalling £0.2bn, and an increase of £0.3bn in the planned short term financing adjustment (reflecting an increase in the size of the DMO net cash position at the Bank of England)

C) Gilt auction calendar January-March 2007

Auction date	Gilt	Details ² announced (3.30pm)
Tuesday 9 January	4¼% Treasury Gilt 2027	Tuesday 2 January
Thursday 18 January	1¼% Index-linked Treasury Gilt 2017	Tuesday 9 January
Thursday 25 January	1¼% Index-linked Treasury Gilt 2055	Tuesday 16 January
Tuesday 6 February	4¼% Treasury Gilt 2046	Tuesday 30 January
Tuesday 20 February	New index-linked Gilt maturing on 22 Nov 2037	Tuesday 13 February
Thursday 22 February	4% Treasury Gilt 2016	Tuesday 13 February
Tuesday 6 March*	4¼% Treasury Gilt 2027	Tuesday 27 February
Thursday 15 March*	New conventional Gilt maturing on 7 Jun 2012	Tuesday 6 March
Tuesday 27 March*	1¼% Index-linked Treasury Gilt 2027	Tuesday 20 March

* Subject to confirmation, depending on the Chancellor's decision on the Budgetary timetable.

D) Sale by the DMO of index-linked gilts belonging to British Nuclear Fuels Limited (BNFL)

Following the transfer of the discharge of nuclear liabilities to the Nuclear Decommissioning Authority in the Energy Act 2004, the holdings of NLIP are being liquidated so that the funds can be remitted to the Secretary of State and returned to the Consolidated Fund. As part of this process, the DMO will conduct the sale (on an execution only basis) of the existing index linked gilt holdings on the NLIP. The gilts will be sold by tender, at 2.30pm on the following days.

Date	Gilt	Nominal amount
15 January 2007	2½% Index-linked Treasury Stock 2009	£10 million
15 January 2007	2½% Index-linked Treasury Stock 2013	£65 million
29 January 2007	2½% Index-linked Treasury Stock 2024	£164 million
12 February 2007	2½% Index-linked Treasury Stock 2016	£168 million
26 February 2007	2½% Index-linked Treasury Stock 2020	£162 million
12 March 2007	2½% Index-linked Treasury Stock 2024	£164 million

The DMO will announce further details, including the terms and conditions for bidding and settlement, at 3:30pm on the Tuesday preceding each tender.

These are sales of existing gilts, not new issues, and the transactions will not impact on any gilt market indices. The proceeds from these transactions will **not** count toward the DMO's index-linked gilt sales remit target. The forecast contribution of these sales to the public finances is incorporated in the wider nuclear liability restructuring line in the financing arithmetic (which also includes the liquidation earlier in 2006 of managed funds held in the NLIP and the redemption of NLIP's holdings of 2% Index-linked Treasury Stock 2006).

² Including nominal size and the coupon on the two new gilts.

Financing arithmetic table

2006-07 Financing arithmetic (£bn)	April revision	PBR
CGNCR	41.2	41.2
Redemptions	29.9	29.9
Restructuring British Nuclear Liabilities		-3.8
Financing for reserves	0.0	0.0
Buy-backs	0.0	0.2
Planned short-term financing adjustment ¹	-3.6	-3.3
Financing requirement	67.5	64.2
Less		
NS&I	3.0	5.2
Net financing requirement	64.5	59.0
Financed by		
1. Debt issuance by the DMO		
a) T bills	1.5	-3.5
b) Gilt sales	63.0	62.5
2. Other planned change in short term debt²		
Ways and Means	0.0	0.0
3. Unanticipated change in short term cash position³	0.0	0.0
Total financing	64.5	59.0
Short-term debt levels at end of financial year		
T bill stock (in market hands)	20.6	15.6
Ways and Means	13.4	13.4
DMO net cash position	0.2	0.5
<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>		

Illustrative gross financing projections

Updated PBR projections of the CGNCR from 2007-08 to 2011-12 (derived from the published figures expressed as a percentage of GDP beyond 2007-08) are shown in the table below. These have been added to the redemption totals³ for the years in question to produce illustrative gross financing requirements. These are **not** gilt sales forecasts and make no assumptions about the contribution to financing by NS&I, Treasury bill sales, or any short-term financing adjustment.

Illustrative financing projections (figures may not sum due to rounding)					
£bn	2007-08	2008-09	2009-10	2010-11	2011-12
CGNCR projections	35	31	33	29	32
Redemptions	29	17	16	30	27
Financing Requirement*	64	48	49	59	59
CGNCR change since Budget	0	1	2	1	na
<i>*indicative gross financing requirements.</i>					

³ NB the redemption total for 2010-11 has increased by £6.0 billion since Budget 2006 (reflecting subsequent issuance of 4¼% Treasury Gilt 2011).