*United Kingdom*
**Debt**
**Management**
**Office**

# DMO Annual Review

## 2007-08

The United Kingdom
**Debt Management Office**
is an Executive Agency of
HM Treasury

August 2008


United Kingdom
Debt
Management
Office

# Contents

# Chapter 1: Foreword by the DMO Chief Executive

2007-08 was the tenth year of operation for the DMO and provided the most challenging market environment to date.

The DMO successfully delivered a programme of £58.5 billion of gilt issuance during the financial year (the second highest volume of gilt supply in nominal cash terms) and continued to focus issuance on index-linked and long-dated conventional gilts which together accounted for two thirds of outright gilt supply. A significant development in the delivery of the financing remit in 2007-08 was the introduction of automated bid capture at gilt auctions which helped to halve the publication time of auction results from an average of 20 minutes in 2006-07 to 10 minutes.

Higher gilt issuance has contributed significantly to rising turnover in the market. Average daily turnover has doubled from £7.6 billion in 2000-01 to £15.2 billion in 2007-08.

Maintaining market liquidity is a key factor in addressing the needs of a diversified investor base. In this context, 2007-08 saw a continuation of the trend, underway now for five years, of a steady increase in the amount of gilts held by overseas investors. Overseas holdings of gilts rose by £26.6 billion in 2007-08, to £158.9 billion (or 32.0% of the gilt market[1]).

2007-08 was also a very challenging year for our cash management function, particularly after the summer of 2007 as the turmoil in international capital markets led to a deterioration in credit conditions and liquidity. Despite this the DMO performed strongly in carrying out its cash management function, with all objectives successfully met. We are publishing in Chapter 4 the results of our performance against the cash management performance indicators for both 2006-07 and 2007-08.

In November 2007 we also introduced a new bilateral Treasury bill facility, which allows us to re-open existing bills on request from our cash management counterparties. Over £2 billion of such bills were in issue at end-March 2008.

The Public Works Loan Board (PWLB) also continued to lend significant sums (£10.0 billion) to local authorities. Overall, PWLB's portfolio grew by £2.8 billion to a record nominal value of £50.7 billion and a market value of £59.4 billion by end-March 2008. In addition, major changes to the structure of the Board's interest rates came into effect on 1 November 2007: maturity brackets have been reduced to a uniform length of six months, rates are now expressed in increments of one basis point and a separate set of rates is now published for early repayments.

The DMO has also continued to provide a cost effective service throughout the year to its client funds via the Commissioners for the Reduction of the National Debt (CRND) fund management operation.

Robert Stheeman
August 2008

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[1] Data compiled by the Office for National Statistics (ONS) (by market value).

# Chapter 2: The Economy and Financial Markets

## Fiscal and macroeconomic developments

In the early part of 2007-08 world economic growth was generally robust, but from August 2007 financial market turmoil, with its roots in the US sub-prime mortgage lending crisis, contributed to a significant slowdown in economic growth in the US, the UK and to a lesser extent, the euro area. By the end of the first quarter of 2008 real UK Gross Domestic Product (GDP) had slowed to a relatively subdued rate of 0.4% quarter-on-quarter.

Inflation, as measured by the Consumer Prices Index (CPI), the Bank of England's target measure, increased at a rate of 2.8% year-on-year in April 2007 but by July had fallen to 1.9%; marginally below the Bank's target level of 2.0%. By March 2008 CPI growth had edged back up to 2.5% largely driven by rising petrol, food and domestic fuel costs. The Retail Prices Index (RPI) measure of inflation, which is used to set the cash flows on index-linked gilts, eased during the year finishing at 3.8% in March 2008 having started at 4.5% in April 2007.

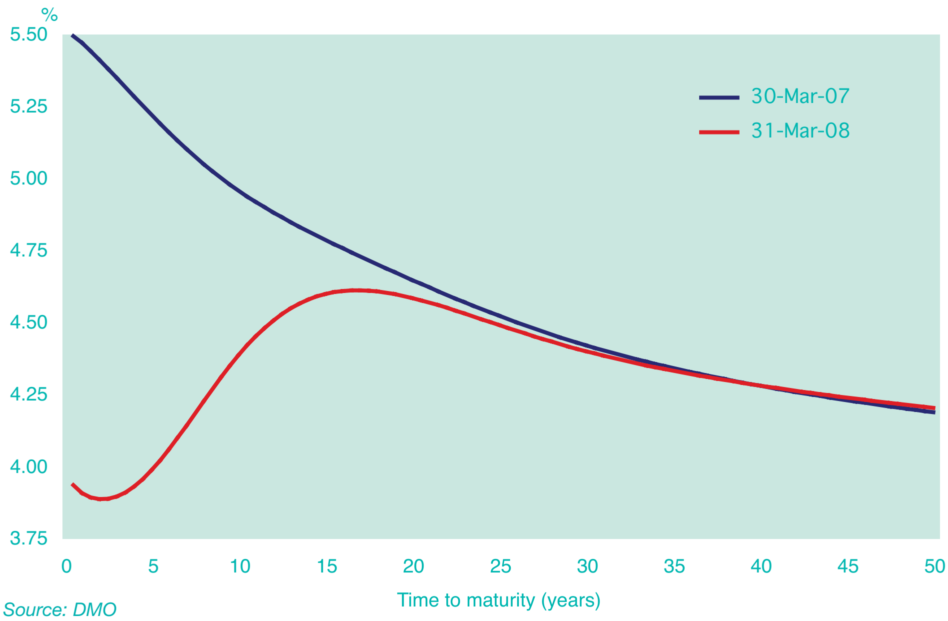
At the start of financial year 2007-08 the Bank of England's official Bank Rate was 5.25%. Rate increases in May and July (25 basis points (bps) on each occasion) took the rate to 5.75% but the onset of turmoil in financial markets in August 2007 increased the downside risks to economic growth and CPI inflation putting an end to the period of increases. December's 25bps rate cut was followed with further easing in February 2008, leaving the level at 5.25% at the financial year end.

## Gilt market developments

### Par gilt yields

Reflecting the national and international economic environment and the significant change in economic growth and interest rate expectations, short-dated conventional gilt yields fell significantly in 2007-08 leading to pronounced curve disinversion. Yields fell at all maturities except at the very long end (over 40-years) where they increased slightly. 2-year par yields fell by 152bps to 3.88%, 5-year yields fell by 123bps to 3.98%, 10-year yields fell by 57bps to 4.38% and 30-year fell by 2bps to 4.39%. 50-year par yields, on the other hand, rose slightly by 2bps to 4.20%. See Chart 1.

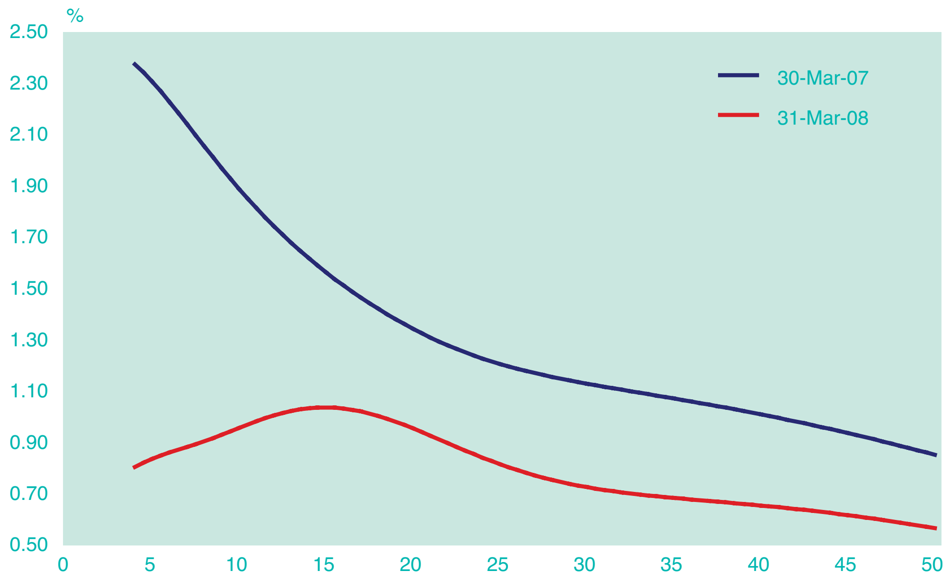
Chart 1
**Nominal par gilt yields**




*Source: DMO*

The real yield curve also disinverted significantly, although not as markedly as the conventional curve, reportedly reflecting the ongoing structural demand for (in particular) longer-dated real assets from the UK pension industry. In 2007-08, the 10-year real par yield fell by 93bps to 0.95% and the 50-year yield fell by 29bps to 0.56%. See Chart 2.

Chart 2
**Real par gilt yields**




*Source: DMO*

## Conventional benchmark gilts

The first quarter of the financial year saw a general and sustained rise in gilt yields. UK interest rates were kept on hold in April 2007. However, strong inflation data published mid-April 2007 showed CPI at 3.1%. This led to an increase in market expectations that the future path of interest rates would be upward. The official

Bank Rate was increased by 25bps to 5.5% in May 2007 and yields continued to rise throughout the month. There were further increases towards the end of the month in the wake of strong US economic data, which had pushed US Treasury yields higher. This trend continued into June, with nominal yields rising along the curve by approximately 20bps as rising inflation expectations strengthened the market's view that further increases in interest rates were likely.

The upward trend in gilt yields reversed sharply in the second quarter of the financial year as the collapse of the sub-prime mortgage market in the US led to increasing turmoil in global credit markets and a flight to quality towards government bonds. Gilt yields fell in July 2007 despite the Monetary Policy Committee (MPC) raising rates, as the market had been expecting. At the same time, difficulties in the US sub-prime sector prompted a downward re-evaluation of interest rate expectations. The fall in yields continued into August 2007, as concerns about global credit markets grew and some central banks began to invoke emergency lending facilities. The short-end of the curve benefited most from the market disruption, as interest rate expectations were revised downwards. Yield curve disinversion also appears to have been influenced by a reported mid-summer lull in Liability Driven Investment (LDI) activity and, from September, emergent market concerns about longer-term inflationary pressures from rising commodity prices, which caused long maturity gilt yields to rise.

The global credit market disruption persisted throughout most of the third quarter of 2007-08. Furthermore, a number of major American and European banks announced significant write-downs on their mortgage-related securities. As a result, credit conditions in the UK sterling money markets remained strained and the growth in house prices slowed. These conditions led to further downward revisions in the market's expectation of the path of future interest rates, leading to more sharp falls in gilt yields in the short to medium sector of the curve. The MPC cut rates by 25bps to 5.50% on 6 December 2007.

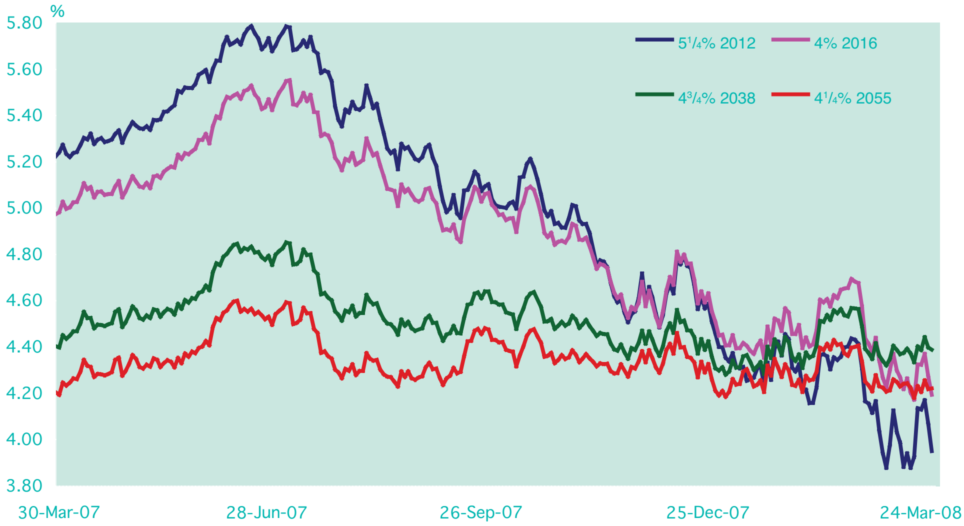
January 2008 saw some sharp intra-day gilt yield movements in inverse correlation to the equity markets. The US Federal Reserve cut US interest rates by 75bps to 3.50% on 22 January 2008, following an emergency meeting but, after this, gilt yields rose. Yields at the short-end of the curve fell sharply again, however, on the last day of the month, in response to the Federal Reserve's second interest rate cut to 3.00%.

Gilts experienced another volatile month in February resulting in a disinversion of the yield curve as the front-end continued to benefit most from the flight-to-quality out of equities. 2-year yields ended the month close to 4.00%. February also saw market speculation about a dilemma faced by the MPC, with declining housing and consumer confidence data on one hand and rising short and medium-term inflationary pressures on the other. The MPC cut the Bank Rate by 25bps, a move widely expected by the markets.

The front-end of the yield curve continued to outperform the rest of the curve in March as investors sought the relative safety of gilts and lead to a reported increase in buying by Central Banks. As a result 2-year yields ended the month below 4.00%. See Chart 3. March economic data showed the UK economy to be resilient, with Q4 GDP growth close to the trend rate. Retail sales were also unexpectedly strong and CPI inflation edged up to 2.5% (year-on-year growth rate). The MPC maintained rates at 5.25%. In the US, the Federal Funds Rate was cut by a further 75bps to 2.25% (in line with the consensus forecast) as payroll and housing market data continued to deteriorate. The main European Central Bank (ECB) refinancing rate was held at 4.00%.

The path of benchmark conventional gilt yields over 2007-08 is shown in Chart 3.

Chart 3
**Conventional benchmark gilt yields**

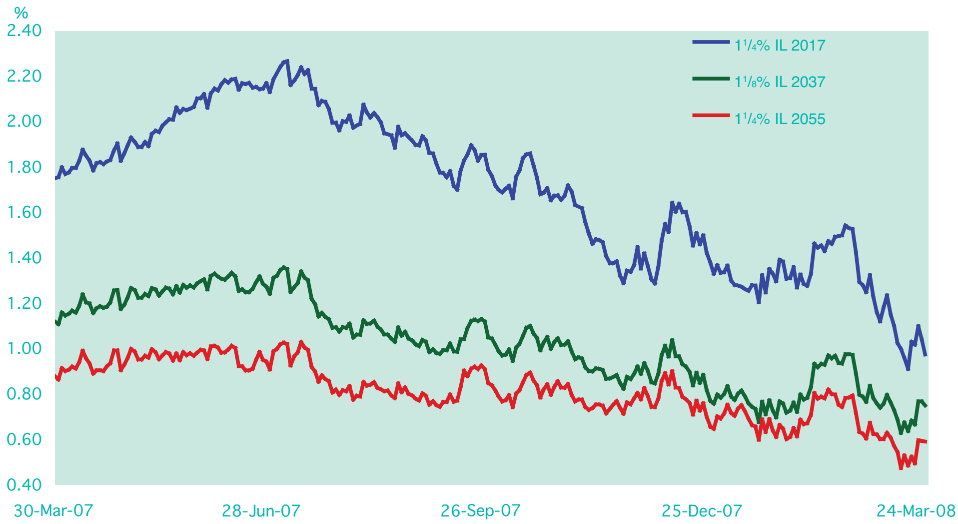



*Source: DMO*

## Index-linked real yields

Chart 4 shows the real yields on selected benchmark index-linked gilts over 2007-08. The yield on the 10-year index linked gilt (1¼% Index-linked Treasury Gilt 2017) fell by 78bps to 0.97% whilst the 30-year and 50-year index-linked gilt yields fell by 37bps and 29bps respectively. The yield on 1⅛% Index-linked Treasury Gilt 2037 and 1¼% Index-linked Treasury Gilt 2055 finished the financial year at 0.74% and 0.58% respectively.

Chart 4
**Index-linked benchmark gilt yields**

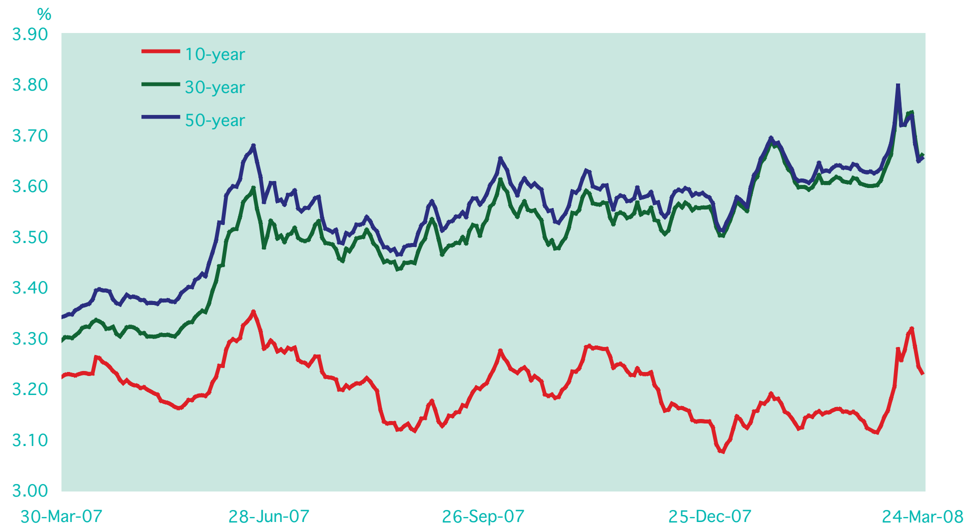



*Source: DMO*

## Breakeven inflation rates

Over the financial year, index-linked gilts generally outperformed conventionals at longer maturities. The 10-year, 30-year and 50-year breakeven inflation rates increased by 1bp to 3.23%, 37bps to 3.66%, and 31bps to 3.65% respectively. See Chart 5.

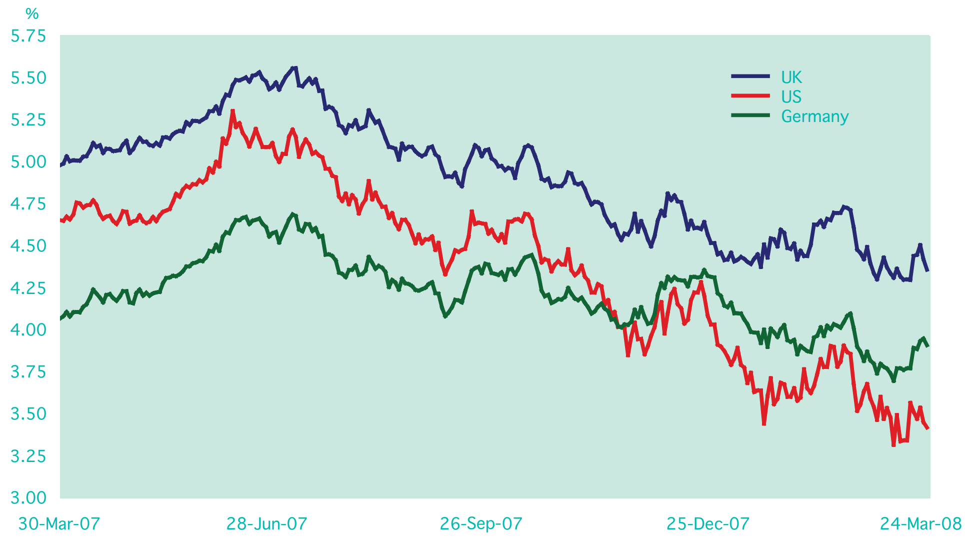
Chart 5
**10-year, 30-year and 50-year breakeven inflation rates**




## International comparisons

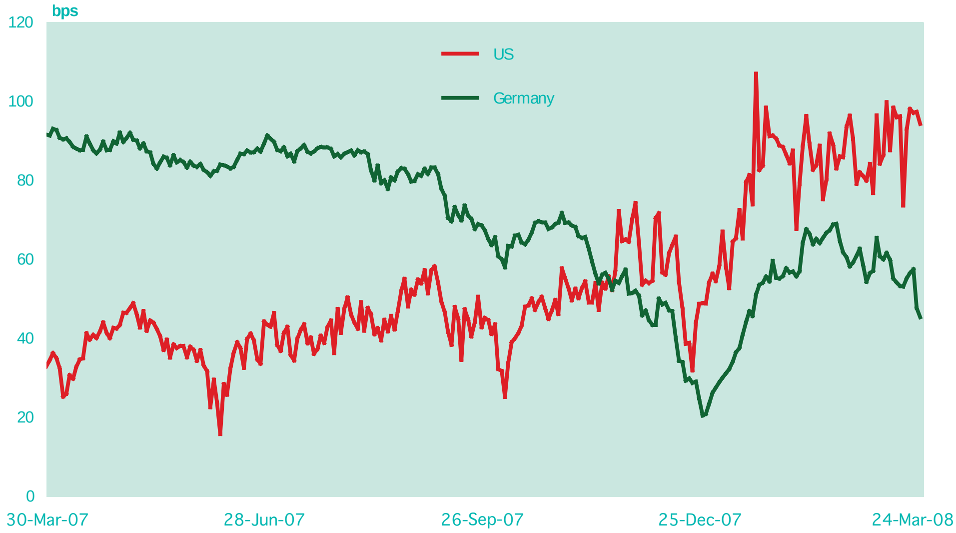
Chart 6 shows the path of 10-year bond yields in the UK, USA and Germany in 2007-08. Gilts traded at higher yields than US and German Government bonds throughout 2007-08, but, as the US Federal Reserve began aggressively cutting rates in the second half of the financial year the yield on 10-year US Treasuries fell below that on Bunds. The corresponding yield spreads are shown in Chart 7.

Chart 6
**UK, US and German 10-year Government bond yields**




*Source: Bloomberg*

Chart 7
**UK/US and UK/German 10-year Government bond yield spreads**



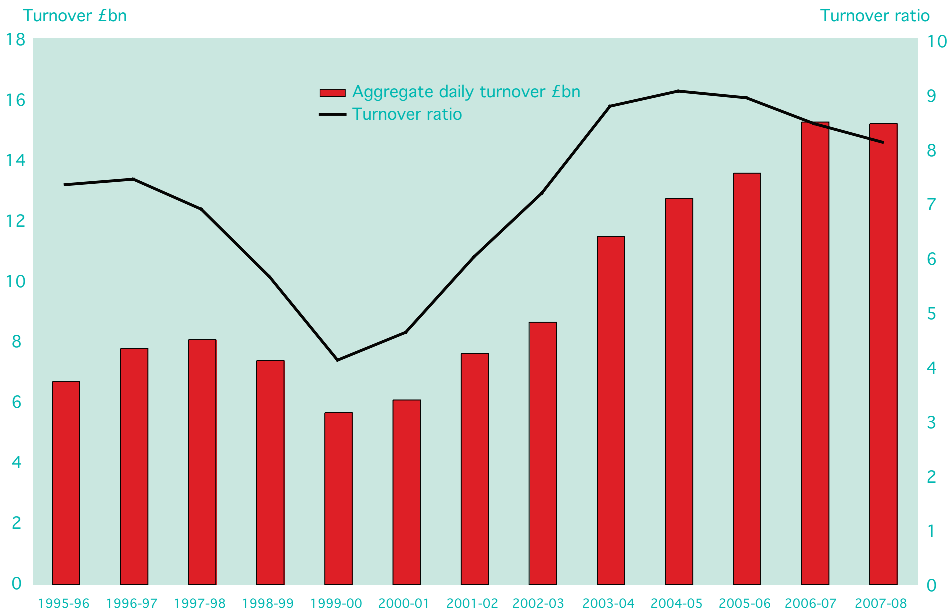

*Source: Bloomberg*

## Gilt market turnover

As can be seen in Chart 8, aggregate daily turnover by value in the gilt market fell marginally in 2007-08 compared with the previous financial year (from £15.29 billion to £15.24 billion); this followed seven consecutive years of growth, with turnover almost tripling from £5.68 billion in 1999-2000. The slowdown in growth in 2007-08 is perhaps reflective of the disruption in the capital markets. Trading intensity in 2007-08 (as measured by the turnover ratio[2]) fell to 8.11, compared to 8.45 in the previous financial year. This reflected the significantly larger gilt portfolio against which the ratio is calculated.

As with previous years, gilt market turnover was weighted heavily towards the 7-10 year and the over 15-year sectors; see Chart 9.

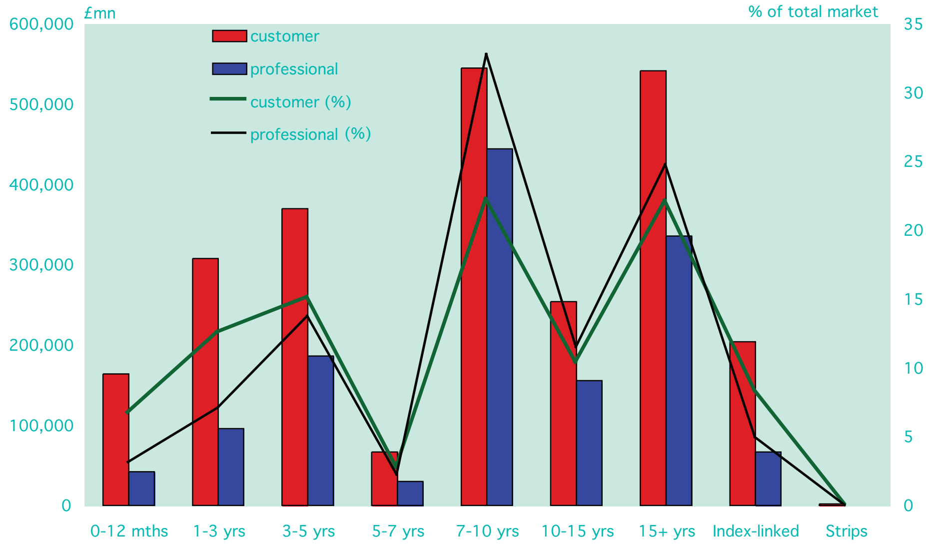
Chart 8
**Gilt market turnover**




*Source: Gilt-edged Market Makers (GEMMs)/DMO*

[2] The turnover ratio measures the aggregate turnover in a financial year relative to the market value of the gilt portfolio at the start of the financial year.

Chart 9
**Gilt market turnover by maturity and type**

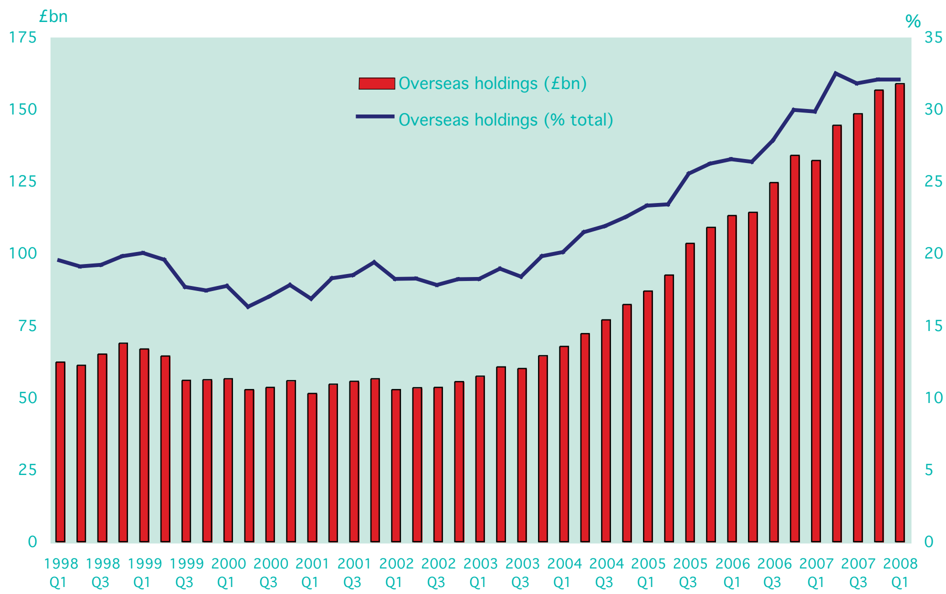



*Source: GEMMs*

## Overseas holdings of gilts

Chart 10 shows the level of overseas holdings of gilts since the start of 1998 (to end- March 2008). From end-2003 there has been a sustained rise (around £100 billion) in the amount of gilts reportedly held by overseas investors. This increase has been attributed to purchases of (mainly short-dated) gilts by Central Banks, reserves managers and hedge funds.

Chart 10
**Overseas holdings of gilts**



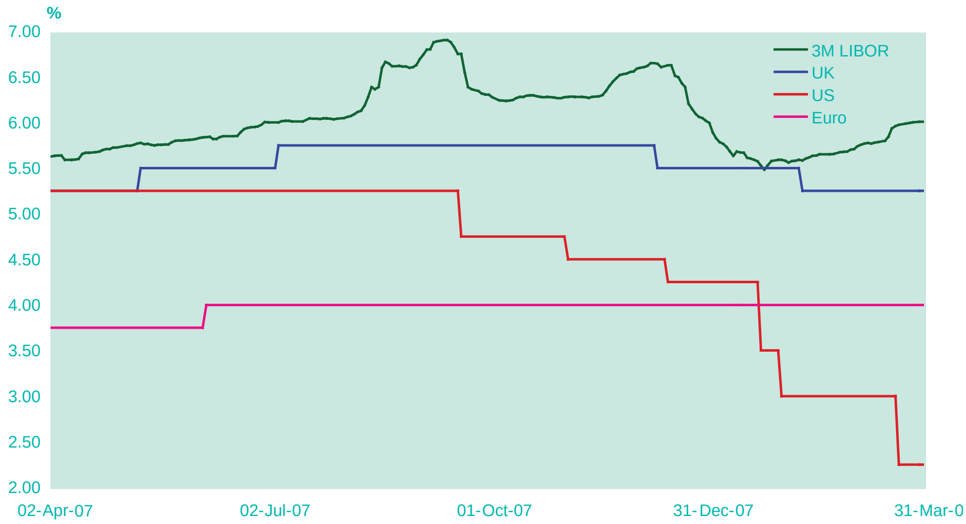

*Source: ONS*

## UK money market developments

The path of official rates in the UK, USA and the euro area (and of three-month UK LIBOR rates) is shown in Chart 11. The UK began the financial year with the Bank Rate at 5.25% (the same as the USA) but with the sterling money markets anticipating a tightening of monetary policy. Three-month LIBOR rates began the financial year 38bps above the Bank's Official Rate and had reached 52bps above by 9 May 2007 (already pricing in two 25bps rate rises) the day before the Bank increased the Bank Rate to 5.50%. LIBOR had again reached 50bps above the Bank Rate on 5 July 2007 ahead of the MPC decision to increase the Rate to 5.75%.

The close correlation between LIBOR and the Bank Rate began to break down from August 2007 as the developing US sub-prime mortgage crisis began to impact on international capital market liquidity. Banks became less willing to lend to counterparties on an unsecured basis and the level of LIBOR increasingly reflected this. By 11 September 2007 LIBOR peaked at 115bps above the prevailing Bank Rate; subsequently conditions eased for a period in October 2007 and LIBOR had fallen back to 50bps above the Bank Rate by early November. As the end of the calendar year approached (with the associated balance sheet restrictions), LIBOR began to rise again whilst overall growth in the economy was slowing to such an extent that the Bank reduced the Bank Rate to 5.50% on 6 December 2007.

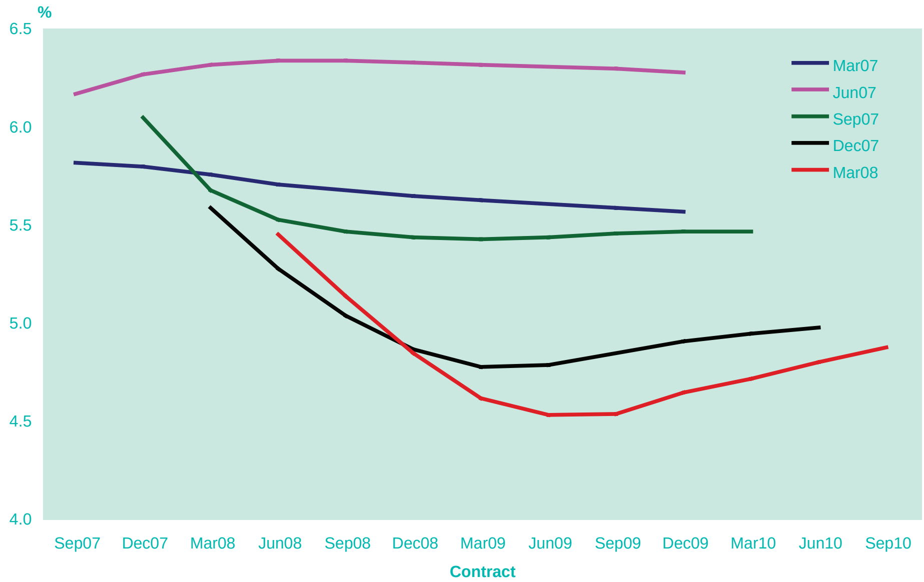
Chart 11
**Official interest rates**




*Source: Bloomberg/British Banker's Association (BBA)*

In the first quarter of 2008, LIBOR fell back towards the Bank Rate which, in the face of weakening economic data, was reduced again by the Bank of England to 5.25% on 7 February 2008. Ongoing liquidity problems in the sterling money markets, particularly from February onwards continued, however, to manifest themselves in upward pressure on LIBOR, which ended the financial year 76bps above the Bank Rate. Changing interest rate expectations during the year as reflected in the derived curves from short sterling contracts are shown in Chart 12.

Chart 12
**Implied curves from short sterling contracts**




*Source: Bloomberg*

# Chapter 3: Government Debt Management

## Debt management responsibilities and objectives

### Objectives of debt management

The UK Government's debt management policy objective is:

"to minimise over the long term, the costs of meeting the Government's financing needs, taking into account risk, whilst ensuring that debt management policy is consistent with the aims of monetary policy."

The debt management policy objective is achieved by:

- pursuing an issuance policy that is open, transparent and predictable;
- issuing benchmark gilts that achieve a benchmark premium;
- adjusting the maturity and nature of the Government's debt portfolio, primarily by means of the maturity and composition of debt issuance and potentially by other market operations including switch auctions, conversion offers and buy-backs;
- developing a liquid and efficient gilt market; and
- offering cost-effective savings instruments to the retail sector through National Savings & Investments (NS&I).

### Maturity and composition of debt issuance

In order to determine the maturity and composition of debt issuance, the Government takes account of a number of factors including:

- the Government's own appetite for risk, both nominal and real;
- the shape of both the nominal and real yield curves and the expected effect of issuance policy;
- investors' demand for gilts; and
- changes to the stock of Treasury bills and other short-term debt instruments.

## The DMO remit for 2007-08

The DMO remit for 2007-08 was published by HM Treasury alongside Budget 2007 on 21 March 2007. On the basis of a central government net cash requirement (CGNCR) forecast of £37.6 billion for 2007-08, gilt redemptions of £29.2 billion and a short-term financing adjustment of -£4.2 billion[3], the published gross financing requirement was £62.6 billion. NS&I was forecast to contribute £2.8 billion to financing, leaving a forecast net financing requirement for the DMO of £59.8 billion, which was to be met by planned gross gilt sales of £58.4 billion and Treasury bill net sales of £1.4 billion.

### Considerations relating to the formulation of the 2007-08 financing remit

The decisions taken by the Economic Secretary to the Treasury about the content of the financing remit for 2007-08 were made in accordance with achieving the debt

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[3] This primarily reflected a reduction of £4.2 billion in the forecast of the 2006-07 CGNCR between PBR 2007 and Budget 2007 which led to the Government having over-financed in 2006-07.

management objective of long-term cost minimisation whilst taking account of risk. Therefore, although the remit published in March 2007 was directed specifically at the issuance programme for 2007-08, its contents reflected the long-term context in which debt management policy is undertaken.

The key underlying assumptions that inform the contents of the remit each year are that:

- there is a strong theoretical case to suggest that pursuing a predictable and transparent gilt issuance policy will help reduce uncertainty over the 'true price' for government debt, which in turn reduces the risk premium attached to that debt;
- the Government will continue to borrow in a sustainable way in the future; and
- in order to be able to borrow cost-effectively in future in a variety of macroeconomic conditions, the Government will need to have access to a wide range of investors and to maintain a well-functioning and efficient gilt market through which it can borrow.

The yield curve in the UK was inverted at the start of 2007 as it had been for much of the previous decade. On the assumption that this would persist through 2007-08 long-term cost savings for government could be achieved through skewing issuance towards longer-dated maturities. In addition, HM Treasury and the DMO had also received representations from gilt market participants that there was strong underlying demand from gilt investors for both long-dated conventional and index-linked gilts.

The decision to continue issuance at key short- and medium-dated benchmark maturities was motivated by the desire to maintain a well-functioning and liquid gilt market across the maturity spectrum in the context of total gilt sales planned at Budget 2007 of £58.4 billion.

### The remit structure

The planned total of gilt sales of £58.4 billion in 34 auctions was split as follows:

| | |
|---|---|
| ● short-dated conventional | £10.0 billion in 4 auctions |
| ● medium-dated conventional | £10.0 billion in 4 auctions |
| ● long-dated conventional | £23.4 billion in 11 auctions |
| ● index-linked | £15.0 billion in 15 auctions |

As part of the commitment to transparency and predictability, the remit also specified plans to hold one short-dated and one medium-dated conventional auction each quarter and to hold at least two long-dated conventional auctions each quarter as well as regular auctions of long-dated index-linked gilts.

The remit also specified that there were no plans to hold switch auctions, conversion offers or syndicated offerings of gilts in 2007-08.

## In-year adjustments to the financing arithmetic and remit

- **The outturn of the 2006-07 CGNCR**

The outturn for the 2006-07 CGNCR was published on 24 April 2007, and at £37.1 billion, was just £0.1 billion above the forecast published at Budget 2007. Planned sales of Treasury bills were increased by £0.1 billion to accommodate this change, taking the planned increase in 2007-08 to £1.5 billion. There were no changes to planned gilt sales.

- **Pre-Budget Report (PBR) 2007**

The Pre-Budget Report 2007 was published on 9 October 2007. The DMO financing requirement fell by £1.6 billion as a result of:

- A revised forecast for the 2007-08 CGNCR of £37.3 billion, £0.3 billion lower than the Budget 2007 forecast;
- A revised forecast contribution to financing by NS&I of £4.2 billion, £1.4 billion higher than the Budget 2007 forecast; and
- Secondary market purchases of "rump[4]" gilts by the DMO of £0.1 billion.

- **Partial repayments of the Ways and Means facility**

On 24 January 2008 the Government announced a £4.0 billion partial repayment of its Ways and Means facility[5] at the Bank of England. A second partial repayment of a further £2.0 billion was announced on 31 January 2008.

Until 2000, when the DMO acquired responsibility for Exchequer cash management from the Bank, the facility had been used to balance the Government's day to day cash needs. Since 2000 the facility had been maintained at £13.4 billion, but it has always been the Government's intention to reduce the size of the Ways and Means facility over time.

The DMO announced on 24 and 31 January 2008 that the repayments would be funded in the first instance as part of its in-year Exchequer cash management operations and in due course taken into account in funding the 2008-09 financing requirement. The cumulative £6.0 billion repayment was reflected in the financing arithmetic as a repayment of short term debt in 2007-08, adding to the net financing requirement for 2008-09.

- **Budget 2008**

Budget 2008 was published on 12 March 2008. The main factors impacting on the financing requirement in 2007-08 were:

- an increase of £0.4 billion in the forecast 2007-08 CGNCR, to £37.7 billion (adding to the financing requirement);

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[4] Rump gilts are small, old illiquid issues in which GEMMs are not required to make markets.

[5] The Ways and Means facility is the Government's overdraft facility at the Bank of England and as part of the Bank's balance sheet it is accounted for as an asset backing the bank note issue.

- an increase of £1.4 billion in forecast net sales by NS&I, taking their contribution to financing in 2007-08 to £5.6 billion (reducing the financing requirement);
- an increase of £0.7 billion in planned Treasury bill sales relative to PBR 2007 as a result of bilateral sales of bills[6] with maturities beyond 31 March 2008 (reducing the financing requirement).

Together these added £1.1 billion to the financing requirement in 2007-2008. As a result of these and other minor adjustments at Budget 2008 the DMO was forecast to end 2007-08 with a short-term net cash position of -£3.7 billion, £4.2 billion below the planned level. The need to refinancing this negative cash position was forecast to add £4.2 billion to the gross financing requirement in 2008-09.

## CGNCR 2007-08 outturn

The outturn CGNCR for 2007-08 was published on 18 April 2008, and at £32.6 billion, it was £5.1 billion lower than the forecast at Budget 2008.

Overall the net financing requirement for 2007-08 fell by £6.7 billion compared to Budget 2008 as a result of:

- the reduction of £5.1 billion in the CGNCR for 2007-08;
- an increase of £1.4 billion relative to Budget 2008 (to £2.0 billion) in the contribution to financing in 2007-08 from Treasury bills (as a result of additional bilateral Treasury bill sales); and
- an increased contribution to financing in 2007-08 of £0.2 billion (to £5.8 billion) from NS&I.

With all financing operations in 2007-08 having being completed, the £6.7 billion reduction in the financing requirement in 2007-08 was passed through to 2008-09. In the financing arithmetic, this was reflected in the DMO's short term net cash position at end-March 2008, which moved from a forecast of -£3.7 billion at Budget 2008 to +£3.0 billion, and in the short term financing adjustment which factors into the net financing requirement for 2008-09. This moved from +£4.2 billion at Budget 2008 (adding to financing) to -£2.5 billion (reducing financing).

[6] See page 27.

The developments in the financing arithmetic during 2007-08 are shown in Table 1 below.

Table 1
**Financing arithmetic 2007-08**

| **2007-08 Financing arithmetic (£bn)** | **Budget 2007** | **2006-07 Outturn** | **PBR 2007** | **Budget 2008** | **2007-08 Outturn** |
|---|---|---|---|---|---|
| CGNCR forecast | 37.6 | 37.6 | 37.3 | 37.7 | 32.6 |
| Gilt redemptions | 29.2 | 29.2 | 29.2 | 29.2 | 29.2 |
| Financing for rerserves | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Buy-backs | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| Planned short-term financing adjustment[1] | -4.2 | -4.1 | -4.1 | -4.1 | -4.1 |
| **Gross financing requirement** | **62.6** | **62.7** | **62.5** | **62.9** | **57.8** |
| Less: | | | | | |
| NS&I contribution | 2.8 | 2.8 | 4.2 | 5.6 | 5.8 |
| **Net financing requirement** | **59.8** | **59.9** | **58.3** | **57.3** | **52.0** |
| Financed by: | | | | | |
| **1. Debt issuance by the DMO** | | | | | |
| **a) T-bills** | **1.4** | **1.5** | **-0.1** | **0.6** | **2.0** |
| **b) Gilt sales** | **58.4** | **58.4** | **58.4** | **58.5** | **58.5** |
| - split | | | | | |
| Short conventional | 10.0 | 10.0 | 10.0 | 10.1 | 10.1 |
| Medium conventional | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Long conventional | 23.4 | 23.4 | 23.4 | 23.4 | 23.4 |
| Index-linked | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 |
| **2. Other planned change in short-term debt[2]** | | | | | |
| Ways and Means | 0.0 | 0.0 | 0.0 | -6.0 | -6.0 |
| **3. Unanticipated change in short-term cash position[3]** | 0.0 | 0.0 | 0.0 | -4.2 | -2.5 |
| **Total financing** | **59.8** | **59.9** | **58.3** | **53.1** | **54.5** |
| **Short term debt levels at end of financial year** | | | | | |
| T-bill stock (in market hands) | 17.0 | 17.1 | 15.5 | 16.2 | 17.6 |
| Ways and Means | 13.4 | 13.4 | 13.4 | 7.4 | 7.4 |
| DMO net cash position | 0.5 | 0.5 | 0.5 | -3.7 | 3.0 |

*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.*

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

*3. A negative (positive) number indicates an increase in (reduction of) the financing requirement for the following financial year.*

## DMO gilt market financing operations 2007-08

The DMO issued six new gilts in 2007-08, as detailed in Table 2 below.

Table 2
**New gilts issued in 2007-08**

| Gilt | | First issue date |
|---|---|---|
| **Conventional** | 5% Treasury Gilt 2018 | 25-May-07 |
| | $4^1/_2$% Treasury Gilt 2042 | 06-Jun-07 |
| | $4^3/_4$% Treasury Gilt 2030 | 03-Oct-07 |
| | $4^1/_2$% Treasury Gilt 2013 | 05-Mar-08 |
| **Index-linked** | $1^7/_8$% Index-linked Treasury Gilt 2022 | 11-Jul-07 |
| | $0^3/_4$% Index-linked Treasury Gilt 2047 | 21-Nov-07 |

### Implementing the 2007-08 remit

- **Q1 Issuance programme**

The consultation meetings with gilt market investors and GEMMs to discuss the April-June 2007 gilt auction calendar were held on 26 March 2007 (the published minutes of these and the three subsequent consultation meetings are reproduced at Annex C).

In the agendas for the meetings published on 21 March 2007, the DMO set out its thinking on the issuance strategy for Q1 and outlined the issues on which it was seeking feedback. These were:

> **Conventional issuance**
> *"In the next financial year, the DMO intends to continue to build up the new 5-year conventional gilt ($5^1/_4$% Treasury Gilt 2012) to benchmark size and is interested in views on the timing of such auctions. The DMO also expects to launch a new 10-year benchmark issue and (at least one) new long-dated gilt in the new financial year and expects that the first new long-dated gilt will have a maturity of around 30-years. Attendees will be invited to express views on such openings, as well as on more precise preferred maturity dates and the scheduling of auctions for new gilts.*
>
> **Index-linked issuance**
> *The DMO's ongoing policy for index-linked gilt issuance is to continue to launch, and build up, new benchmark bonds at key maturities across the real yield curve. A priority in the coming quarter will be the building up of the new 30-year ($1^1/_8$% Treasury Gilt 2037). Views will be sought from attendees on the timing of any such auction(s), along with the maturity of other bonds to be issued or re-opened in a way consistent with the policy of benchmark building at key maturities".*

### Meeting feedback

There was general support expressed at the meetings for the approach outlined by the DMO for issuance in Q1, in particular the launch of a new 10-year conventional gilt (attendees were strongly in favour of a new 2018 as opposed to a 2017 maturity) and a new long-dated gilt with over 30-years to maturity (2040 and 2042 maturity years were mentioned). A general bias towards long-dated index-linked issuance was also expressed, particularly by investors.

In the event, the DMO issued two new conventional gilts in Q1, a new March

2018 on 25 May and a new December 2042 on 6 June. The maturity of the new long at 35 years was somewhat longer than indicated in the meeting agenda, but there was little support for a new 2037 gilt (given the large issues maturing in 2036 and 2038). Neither was the DMO attracted to the idea of a new 2040 gilt. Opening such a bond would effectively rule out the launch in the medium term of a 35-year issue. Hence, the DMO decided to launch a 35-year bond in the first quarter noting that this gilt would bridge the gap between the 2038 and 2046 maturities and also provide additional duration to the market compared to a 2040 (18.2 years compared to 17.8 years).

- **Q2 Issuance programme**

The consultation meetings to discuss the July-September 2007 gilt auction calendar were held on 29 May 2007.

In the agendas for the meetings published on 22 May 2007, the DMO set out its thinking on the issuance strategy for Q2 and outlined the issues on which it was seeking feedback. These were:

**Conventional issuance**

*"The DMO's ongoing policy is to build up new benchmark gilts and we expect to re-open 5$^1/_4$% Treasury Gilt 2012 and 5% Treasury Gilt 2018 in the quarter. The DMO also anticipates re-opening the new conventional gilt maturing in December 2042 (the coupon and size of which will be announced on 29 May at 3.30pm). Attendees are also invited to express views on the merits of launching a new long-dated gilt at a key maturity in the next quarter.*

**Index-linked issuance**

*For index-linked gilt issuance, the DMO wishes to continue to build up new benchmark bonds at key maturities across the real yield curve. Views will be sought from attendees on the maturity and scheduling of such auction(s) and on the case for launching a new maturity gilt".*

**Meeting feedback**

There were further calls at the meetings for continued supply of duration to the market in both types of gilt. For conventionals, there was strong support for two re-openings of the 2042 maturity instead of the launch of a new long-dated conventional gilt in the second quarter. For index-linked, there were some calls for the launch of a new gilt maturing in 2022 in preference to a further reopening of the 2017 maturity.

The DMO had sought feedback on the need for a new long-dated gilt in Q2 given the importance it attaches to having a range of possible long-dated gilts eligible for reopening in any one quarter. The DMO concluded that re-opening the 2042 twice in the second quarter did not significantly narrow issuance options for long-dated conventional gilts going forward.  Regarding index-linked gilts, the DMO was attracted to the proposition of a new 2022 maturity as one that provided a new point on the 3-month index-linked gilt curve between the 2017 and 2027 maturities.

### Q3 Issuance programme

The consultation meetings to discuss the October-December 2007 gilt auction calendar were held on 28 August 2007.

In the agendas for the meetings published on 21 August 2007, the DMO set out its thinking on the issuance strategy for Q2 and outlined the issues on which it was seeking feedback. These were:

**Conventional issuance**
*"The DMO's ongoing policy is to build up new benchmark gilts and we expect to re-open $5^{1}/_{4}$% Treasury Gilt 2012 and 5% Treasury Gilt 2018 in the quarter. Within long maturities the DMO will aim to re-open $4^{1}/_{2}$% Treasury Gilt 2042 in Q3 but also envisages issuing a new long-dated conventional gilt in the next quarter. Attendees are invited to express views on the maturity of such a new long-dated gilt and, in particular, whether they have a preference for a new issue in the 20- or 40-year sectors.*

**Index-linked issuance**
*The DMO expects to continue to build up new benchmark bonds at key maturities across the real yield curve. The DMO would expect to begin the quarter with a re-opening of the 2022 maturity. Views will be sought from attendees on the maturity and scheduling of long-dated auction(s) and, in particular, the case for launching a new long-dated issue around the 40-year maturity".*

### Meeting feedback

Again there was widespread support for the supply of long-dated maturities with a range of maturity years from 2030 to 2050 suggested for a new conventional gilt and also support for the launch of a 40-year index-linked gilt.

The DMO decided to launch a new 2030 maturity conventional and a new 2047 maturity index-linked gilt in the third quarter. The DMO chose 2030 as the maturity year for the new long-dated conventional notwithstanding some calls for a 40-year. 2030 was the most cited maturity date, and the DMO noted that a bond maturing in late 2030 would have a duration almost exactly half way between the 2027 and 2032 bonds (assuming prevailing yields). Also relevant was the fact that there already existed in $4^{1}/_{4}$% Treasury Gilt 2046 an adequate 40-year conventional gilt.

On index-linked issuance, the DMO received a number of expressions of interest from market participants for the launch of a 40-year gilt (this was cited as an attractive maturity for some real Liability Driven Investment (LDI) flows). The launch of a 40-year was also attractive on outright cost of issuance grounds.

In a statement on 31 August 2007 accompanying the announcement of the outright auction calendar for October-December 2007, Robert Stheeman, the DMO Chief Executive said:

*"The Q3 programme announced today reflects the DMO's ongoing commitment to building up benchmark gilts across the whole maturity spectrum in both nominal and index-linked formats.*

*The centre piece of the new auction calendar is the planned launch of two new gilts next quarter – a 2047 maturity index-linked gilt and a 2030 maturity conventional. The issue of a 40-year index-linked gilt has been the subject of discussions with investors and market makers over the past year and its planned launch in November will mean that we have new design bonds in issue at 10-, 15-, 20-, 30-, 40- and 50-years.*

*The decision to launch a new 2030 conventional gilt, which will be opened twice in rapid succession to help build up liquidity, complements ongoing issuance at 5-, 10- and 35-year maturities, thereby helping to meet demand from different investor types. It also offers the DMO and the market a broader choice of issuance and investment options, both now and in the medium-term, given the number of long-dated auctions scheduled and the very broad nature of this maturity band".*

- **Q4 Issuance programme**

The consultation meetings to discuss the January-March 2008 gilt auction calendar were held on 26 November 2007.

In the agendas for the meetings published on 19 November 2007, the DMO set out its thinking on the issuance strategy for Q4 and outlined the issues on which it was seeking feedback. These were:

**Conventional issuance**
*"The DMO's ongoing policy is to build up new gilts to benchmark size. The DMO welcomes views on whether to re-open $5^1/_4$% Treasury Gilt 2012 again in Q4 or launch a new 5-year benchmark. At the medium maturity, the DMO expects to re-open 5% Treasury Gilt 2018 in the coming quarter. Within long-dated maturities, the DMO expects to re-open $4^3/_4$% Treasury Gilt 2030 and $4^1/_2$% Treasury Gilt 2042 at least once each in Q4. Attendees are invited to express views on whether the DMO should issue a new long-dated gilt in Q4 or in the first quarter of the next financial year, and at what maturity.*

**Index-linked issuance**
*The DMO will aim to continue to build up new benchmark bonds at key maturities across the real yield curve. The DMO would expect to re-open the 2022 and new 2047 maturity index-linked gilts at least once each during the quarter, and views will be sought from attendees on the number and scheduling of such auctions, along with candidates for other remaining auction dates".*

**Meeting feedback**
There was significant market support for the launch of a new 2013 gilt to become the next 5-year benchmark (although a number of maturity months were suggested - some out to September) and generally limited appetite for a new long-dated conventional to be launched in the final quarter. A wide variety of existing three-month lag index-linked issues were recommended for re-opening and only isolated calls for a new gilt were received.

As anticipated, the DMO launched a new 2013 conventional gilt in the final quarter. It decided on a March maturity, however, reflecting considerations relating to the near-term redemption profile. The impact of a new gilt with a maturity date later than March 2013 (i.e. in 2013-14) would have resulted in a major deviation in redemption totals between 2012-13, and 2013-14, which would result in undesirably high variations in the financing requirement even before the impact of CGNCR projections is considered.

In a statement on 30 November 2007, accompanying the announcement of the outright auction calendar for January-March 2008, Robert Stheeman, the DMO Chief Executive said:

> *"The Q4 programme announced today is a further demonstration of the DMO's commitment to launch and build up benchmark gilts cross the maturity spectrum in both the conventional and index-linked markets.*
>
> *We plan to launch one new gilt in the final quarter of the financial year; a new current coupon short-dated conventional gilt maturing in March 2013. The maturity date reflects the DMO's interest in managing the redemption profile in such a way that seeks to avoid undue fluctuation in that part of the financing requirement over which we have control.*
>
> *Our index-linked issuance programme for the quarter attempts to balance the needs of investors for maturities along the real yield curve from 15 to 40 years. It also shows the DMO's commitment to continue to build up new index-linked gilts to benchmark size".*

## Results of gilt auctions in 2007-08

The results of the 34 gilt auctions held in 2007-08 are summarised in Table 3 and the gilt sales outturn relative to the remit targets is shown in Table 4.

Table 3
**Gilt auction results 2007-08**

| Date | Gilt | Size £mn (nom) | Cover | Average accepted price AAP (£) | Yield at AAP (%) | Yield tail (bps) | Proceeds (£mn) |
|---|---|---|---|---|---|---|---|
| 3-Apr-2007 | 4¼% Treasury Gilt 2046 | 2,000 | 1.37 | 99.66 | 4.268 | 1.8 | 1,993.1 |
| 12-Apr-2007 | 1¼% Index-linked Treasury Gilt 2017 | 1,100 | 2.07 | 94.54 | 1.818 | N/A | 1,085.3 |
| 24-Apr-2007 | 1⅛% Index-linked Treasury Gilt 2037 | 950 | 1.83 | 98.74 | 1.174 | N/A | 940.5 |
| 3-May-2007 | 4¼% Treasury Gilt 2027 | 2,250 | 1.98 | 92.94 | 4.793 | 0.7 | 2,090.7 |
| 22-May-2007 | 1¼% Index-linked Treasury Gilt 2027 | 1,000 | 2.67 | 95.45 | 1.509 | N/A | 1,003.1 |
| 24-May-2007 | 5% Treasury Gilt 2018 | 2,500 | 2.15 | 98.66 | 5.165 | 0.2 | 2,464.2 |
| 5-Jun-2007 | 4½% Treasury Gilt 2042 | 2,250 | 1.64 | 98.17 | 4.605 | 0.4 | 2,208.0 |
| 21-Jun-2007 | 5¼% Treasury Gilt 2012 | 2,500 | 1.46 | 97.70 | 5.790 | 1.0 | 2,442.0 |
| 26-Jun-2007 | 1⅛% Index-linked Treasury Gilt 2037 | 1,000 | 1.71 | 96.54 | 1.262 | N/A | 979.7 |
| 3-Jul-2007 | 4½% Treasury Gilt 2042 | 2,250 | 1.60 | 96.60 | 4.698 | 0.7 | 2,173.1 |
| 10-Jul-2007 | 1⅞% Index-linked Treasury Gilt 2022 | 1,200 | 2.73 | 99.47 | 1.915 | N/A | 1,191.9 |
| 26-Jul-2007 | 1¼% Index-linked Treasury Gilt 2055 | 700 | 2.02 | 115.44 | 0.859 | N/A | 866.2 |
| 9-Aug-2007 | 5% Treasury Gilt 2018 | 2,500 | 1.74 | 98.14 | 5.231 | 1.6 | 2,453.3 |
| 11-Sep-2007 | 4½% Treasury Gilt 2042 | 2,000 | 1.32 | 101.59 | 4.410 | 3.1 | 2,031.6 |
| 13-Sep-2007 | 5¼% Treasury Gilt 2012 | 2,500 | 1.98 | 101.08 | 4.989 | 1.2 | 2,526.8 |
| 26-Sep-2007 | 1⅛% Index-linked Treasury Gilt 2037 | 900 | 2.03 | 99.11 | 1.160 | N/A | 909.4 |
| 2-Oct-2007 | 4¾% Treasury Gilt 2030 | 2,250 | 1.68 | 99.57 | 4.781 | 1.4 | 2,239.9 |
| 10-Oct-2007 | 1⅞% Index-linked Treasury Gilt 2022 | 1,200 | 2.17 | 105.12 | 1.495 | N/A | 1,265.8 |
| 24-Oct-2007 | 1⅛% Index-linked Treasury Gilt 2037 | 925 | 1.72 | 101.95 | 1.049 | N/A | 965.2 |
| 1-Nov-2007 | 5% Treasury Gilt 2018 | 2,500 | 1.85 | 100.06 | 4.992 | 0.4 | 2,501.2 |
| 6-Nov-2007 | 4¾% Treasury Gilt 2030 | 2,250 | 2.09 | 101.02 | 4.677 | 0.9 | 2,271.8 |
| 20-Nov-2007 | 0¾% Index-linked Treasury Gilt 2047 | 750 | 2.42 | 97.26 | 0.831 | N/A | 729.3 |
| 28-Nov-2007 | 4½% Treasury Gilt 2042 | 2,000 | 1.82 | 101.13 | 4.436 | 0.5 | 2,022.3 |
| 4-Dec-2007 | 5¼% Treasury Gilt 2012 | 2,500 | 2.53 | 102.67 | 4.587 | 0.2 | 2,565.7 |
| 12-Dec-2007 | 1⅞% Index-linked Treasury Gilt 2022 | 950 | 1.98 | 106.53 | 1.390 | N/A | 1,025.1 |
| 8-Jan-2008 | 4¾% Treasury Gilt 2030 | 2,250 | 1.39 | 104.67 | 4.423 | 0.7 | 2,354.8 |
| 17-Jan-2008 | 0¾% Index-linked Treasury Gilt 2047 | 725 | 2.06 | 100.21 | 0.744 | N/A | 731.8 |
| 29-Jan-2008 | 1⅞% Index-linked Treasury Gilt 2022 | 1,100 | 2.01 | 110.07 | 1.134 | N/A | 1,234.0 |
| 5-Feb-2008 | 5% Treasury Gilt 2018 | 2,500 | 1.91 | 104.02 | 4.499 | 0.2 | 2,599.8 |
| 14-Feb-2008 | 4½% Treasury Gilt 2042 | 2,000 | 1.63 | 99.58 | 4.524 | 0.8 | 1,991.4 |
| 27-Feb-2008 | 1⅛% Index-linked Treasury Gilt 2037 | 875 | 2.05 | 104.05 | 0.968 | N/A | 948.8 |
| 4-Mar-2008 | 4½% Treasury Gilt 2013 | 2,500 | 2.48 | 101.03 | 4.269 | 0.4 | 2,524.8 |
| 13-Mar-2008 | 4¾% Treasury Gilt 2030 | 2,000 | 1.41 | 103.21 | 4.522 | 1.2 | 2,063.7 |
| 27-Mar-2008 | 1¼% Index-linked Treasury Gilt 2027 | 975 | 1.41 | 104.63 | 0.990 | N/A | 1,103.4 |
| | | | | | | | **58,497.7** |

Annex D includes an assessment of some aspects of performance relating to the delivery of this programme.

Table 4
**Gilt sales outturn relative to remit targets**

| Gilt sales v remit outturn 2007-08 (£ million) | | | | | |
|---|---|---|---|---|---|
| | Conventional Gilts | | | Index-linked gilts | Total |
| | Short | Medium | Long | | |
| **Gilt sales outturn** | **10,059** | **10,019** | **23,440** | **14,980** | **58,498** |
| **Gilt sales programme** | **10,000** | **10,000** | **23,400** | **15,000** | **58,400** |
| **Relative to plan (£mn)** | **59** | **19** | **40** | **-20** | **98** |
| **Relative to plan (%)** | **0.59%** | **0.19%** | **0.17%** | **-0.14%** | **0.17%** |

### The introduction of automated bid capture at gilt auctions

A significant development in the delivery of the financing remit in 2007-08 was the introduction of automated bid capture at gilt auctions – in place of telephone bidding. This facility, which uses the Bloomberg Auction System, was used for the first time on 22 May 2007 at the auction of $1^1/_4$% Index-linked Treasury Gilt 2027. Automated bid capture was extended to conventional gilt auctions on 21 June 2007 at the auction of $5^1/_4$% Treasury Gilt 2012. All subsequent auctions have used automated bid capture.

A major, and welcome, consequence of the introduction of automated bid capture has been to shorten substantially the time taken by the DMO to publish the results of gilt auctions. In 2006-07, the last financial year in which all auction bids from GEMMs were taken by telephone, the average release time for auction results was 20.2 minutes. In 2007-08 the average release time across all auctions (both telephone and automated bid capture) was 9.6 minutes (and the average release time for those auctions at which bids were captured electronically was only 7.6 minutes).

In addition to speeding up the release of auction results, thereby helping to reduce the market risk for bidders, the move to automated bid capture enables an auction to be run, or a unfinished auction to be completed, at a different location - thereby adding to the DMO's operational resilience.

## The DMO remit 2008-09 and future financing projections

The DMO remit for 2008-09 was published by HM Treasury alongside Budget 2008 on 12 March 2008. On the basis of a CGNCR forecast of £59.3 billion for 2008-09[7], the published financing requirement was £82.8 billion (after taking account of gilt redemptions of £17.3 billion and a short term financing adjustment of £4.2 billion). NS&I was forecast to contribute £4.0 billion to financing, leaving a forecast net financing requirement for the DMO of £78.8 billion.

The net financing requirement was to be met by total planned gilt sales of £80.0 billion and Treasury bill sales of £5.8 billion. Gross financing was, therefore, planned to be £85.8 billion, £7.0 billion higher than the published net financing requirement – with the additional amount being required to finance the Government's repayment in 2008-09 of £7.0 billion of the Ways and Means facility at the Bank of England.

### The remit structure

The planned total of gilt sales of £80.0 billion in 41 auctions was split as follows:

- £25.0 billion short-dated conventional gilt sales in 7 auctions;
- £12.8 billion medium-dated conventional gilt sales in 5 auctions;
- £24.2 billion long-dated conventional gilt sales in 11 auctions; and
- £18.0 billion index-linked gilt sales in 18 auctions.

The DMO has no plans to hold any switch auctions, conversion offers or syndicated offerings in 2008-09.

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[7] The CGNCR forecast includes the impact of HM Treasury's decision to refinance the Bank of England's loan to Northern Rock with a direct loan from HM Treasury. The net amount outstanding of that loan at 31 March 2009 is projected to be £14.0 billion and this is the amount that the CGNCR has been increased by as a result of this refinancing decision.

## Gilt auction calendar

The gilt auction calendar for 2008-09 is set out in Table 5. It includes the decisions about individual gilts sold in the first quarter which were announced on 30 March 2008. The table also includes the calendar for the second quarter which was announced on 30 May 2008.

Table 5
**Gilt auction calendar 2008-09 (updated to reflect position at 30 May 2008)**

| Date | Gilt/Type |
|---|---|
| 3-Apr-08 | $4\frac{3}{4}$% Treasury Stock 2010 |
| 8-Apr-08 | $1\frac{1}{4}$% Index-linked Treasury Gilt 2017 |
| 17-Apr-08 | $4\frac{1}{2}$% Treasury Gilt 2042 |
| 24-Apr-08 | $0\frac{3}{4}$% Index-linked Treasury Gilt 2047 |
| 15-May-08 | 5% Treasury Gilt 2018 |
| 22-May-08 | $1\frac{1}{8}$% Index-linked Treasury Gilt 2037 |
| 3-Jun-08 | $4\frac{1}{4}$% Treasury Gilt 2055 |
| 10-Jun-08 | $1\frac{7}{8}$% Index-linked Treasury Gilt 2022 |
| 12-Jun-08 | $4\frac{1}{2}$% Treasury Gilt 2013 |
| 24-Jun-08 | $0\frac{3}{4}$% Index-linked Treasury Gilt 2047 |
| 2-Jul-08 | $4\frac{1}{2}$% Treasury Gilt 2042 |
| 8-Jul-08 | $1\frac{1}{8}$% Index-linked Treasury Gilt 2037 |
| 17-Jul-08 | 5% Treasury Stock 2012 |
| 24-Jul-08 | $1\frac{1}{4}$% Index-linked Treasury Gilt 2027 |
| 29-Jul-08 | 5% Treasury Gilt 2018 |
| 5-Aug-08 | $4\frac{3}{4}$% Treasury Gilt 2030 |
| 14-Aug-08 | $1\frac{1}{8}$% Index-linked Treasury Gilt 2037 |
| 2-Sep-08 | New conventional gilt maturing on 7 Dec 2049 |
| 10-Sep-08 | $4\frac{1}{2}$% Treasury Gilt 2013 |
| 23-Sep-08 | $1\frac{1}{4}$% Index-linked Treasury Gilt 2055 |
| 25-Sep-08 | New conventional gilt maturing on 7 Mar 2019 |
| 1-Oct-08 | Conventional |
| 7-Oct-08 | Index-linked |
| 16-Oct-08 | Conventional |
| 28-Oct-08 | Index-linked |
| 4-Nov-08 | Conventional |
| 20-Nov-08 | Conventional |
| 25-Nov-08 | Index-linked |
| 2-Dec-08 | Conventional |
| 9-Dec-08 | Index-linked |
| 11-Dec-08 | Conventional |
| 13-Jan-09 | Conventional |
| 15-Jan-09 | Index-linked |
| 27-Jan-09 | Index-linked |
| 3-Feb-09 | Conventional |
| 12-Feb-09 | Index-linked |
| 24-Feb-09 | Index-linked |
| 26-Feb-09 | Conventional |
| 3-Mar-09 | Conventional |
| 10-Mar-09 | Conventional |
| 26-Mar-09 | Index-linked |

### Future financing projections

Budget 2008 also included forecasts for the CGNCR as a percentage of GDP out to 2012-13. Table 6 sets out the resulting CGNCR projections together with current redemption totals to produce illustrative financing projections. Note that these are not gilt sales forecasts - they take no account of possible contributions to financing by NS&I or Treasury bill sales.

Table 6
**Budget 2008 – updated illustrative financing projections**

| Illustrative financing projections | | | | |
|---|---|---|---|---|
| £bn | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
| CGNCR projections | 49 | 40 | 40 | 32 |
| Gilt Redemptions* | 16 | 34 | 30 | 16 |
| Financing requirement** | 66 | 75 | 70 | 49 |
| CGNCR change since PBR 2006 | 11 | 7 | 6 | 3 |

**Redemptions include impact of short-dated conventional issuance to 8 July 2008*

***indicative gross financing requirements.*

### CGNCR outturn for 2007-08 and subsequent revision to the 2008-09 remit

There are two main events which can trigger revisions to the remit in any financial year:

- the publication, usually in the third week of April, of an outturn to the CGNCR for the previous financial year which differs from that published with the Budget; and/or
- the publication of a significantly different forecast for the current financial year – usually in the PBR.

The CGNCR outturn for 2007-08, as published on 18 April 2008, resulted in a reduction of £6.7 billion in the DMO's net financing requirement for 2008-09. This was accounted for by:

- the CGNCR outturn, which was £32.1 billion, £5.1 billion less than the Budget 2008 forecast;
- a contribution of £2.0 billion to financing by Treasury bill sales in 2007-08, an increase of £1.4 billion from the Budget 2008 forecast. This increase was accounted for entirely by bilateral Treasury bill sales; and
- a net contribution of £5.8 billion to financing in 2007-08 by NS&I, £0.2 billion more than the Budget 2008 forecast.

The lower net financing requirement was accommodated by a reduction of £6.7 billion in planned Treasury bill sales compared to Budget 2008. The earlier planned increase of £5.8 billion in the stock of Treasury bills was replaced by a planned reduction of £0.9 billion, taking the planned stock in market hands at end-March 2009 to £16.7 billion.

# Chapter 4: Exchequer Cash Management

## Cash remit 2007-08

The DMO's cash management remit for 2007-08, published alongside the Budget on 21 March 2007, specified that the Government's cash management objective is:

> *"to ensure that sufficient funds are always available to meet any net daily central Government cash shortfall and, on any day when there is a cash surplus, to ensure this is used to best advantage".*

HM Treasury and the DMO work together to achieve this, with HM Treasury providing information to the DMO about flows into and out of the National Loans Fund (NLF) and the DMO making arrangements for funding and for placing net cash positions, primarily by carrying out market operations on the basis of HM Treasury forecasts.

### The DMO's cash management objective

The remit specifies that the DMO's cash management objective is to:

> *"minimise the cost of offsetting the Government's net cash flows over time, while operating within a risk appetite approved by Ministers. In so doing, the DMO will seek to avoid actions or arrangements that would:*

- *undermine the efficient functioning of the Sterling money markets; or*
- *conflict with the operational requirements of the Bank of England for monetary policy implementation."*

### Instruments and operations used in Exchequer cash management

In 2007-08 the DMO carried out its cash management objective primarily through a combination of:

- weekly Treasury bill tenders; and
- bilateral Treasury bill sales (from November 2007 onwards); and
- bilateral market operations with DMO counterparties.

The results of the Treasury bill tenders held in 2007-08 are reported in Annex F and the average yields achieved compared with prevailing General Collateral (GC) repo rates are reported in Annex G.

Treasury bills play an important role in smoothing cumulative cash positions. Variations in the stock of bills in market hands also serve as a financing instrument within short-term debt sales. In 2007-08 Treasury bill sales contributed £2.0 billion to financing, all of this contribution came from bilateral sales (see below). Table 7 shows the split of issuance in Treasury bills by maturity at tenders over the course of the financial year.

## Introduction of the bilateral Treasury bill facility

In November 2007 the DMO introduced a facility which allowed it to re-open existing Treasury bills and issue them on a bilateral basis on request from its cash management counterparties (provided that such issuance is consistent with the DMO's cash management operational requirements). Monthly issuance of these bills is shown in the *"Other issuance"* category in Table 7. At end-March 2008 there were £2.1 billion of bilateral bills in issue and these formed part of the £17.6 billion stock in market hands on that date.

Table 7
**Treasury bill issuance 2007-08**

| £mn | One Month | Three Month | Six Month | Other Issuance | Total Issuance | Total Stock Outstanding |
|---|---|---|---|---|---|---|
| Apr-07 | 2,500 | 3,750 | 750 | 0 | 7,000 | 16,400 |
| May-07 | 2,000 | 3,000 | 750 | 0 | 5,750 | 16,700 |
| Jun-07 | 2,000 | 3,000 | 750 | 0 | 5,750 | 16,800 |
| Jul-07 | 2,500 | 3,750 | 750 | 0 | 7,000 | 16,150 |
| Aug-07 | 2,000 | 3,000 | 750 | 0 | 5,750 | 16,200 |
| Sep-07 | 2,000 | 3,000 | 750 | 0 | 5,750 | 16,250 |
| Oct-07 | 2,500 | 3,750 | 750 | 0 | 7,000 | 16,250 |
| Nov-07 | 2,000 | 3,000 | 750 | 2 | 5,752 | 16,252 |
| Dec-07 | 2,500 | 3,650 | 750 | 1,834 | 8,734 | 17,986 |
| Jan-08 | 1,900 | 2,600 | 1,500 | 3,688 | 9,688 | 18,204 |
| Feb-08 | 1,800 | 2,600 | 750 | 3,635 | 8,785 | 17,095 |
| Mar-08 | 2,250 | 3,250 | 750 | 2,509 | 8,759 | 17,571 |

The breakdown of the Treasury bill portfolio at end-March 2008 is shown in Table 8.

Table 8
**Treasury bills outstanding at 31 March 2008**

| Bill maturity Date | Amount in issue (£mn) |
|---|---|
| 7-Apr-08 | 2,528 |
| 14-Apr-08 | 1,411 |
| 21-Apr-08 | 1,164 |
| 28-Apr-08 | 1,187 |
| 6-May-08 | 1,438 |
| 12-May-08 | 739 |
| 19-May-08 | 677 |
| 27-May-08 | 902 |
| 2-Jun-08 | 1,525 |
| 9-Jun-08 | 660 |
| 16-Jun-08 | 650 |
| 30-Jun-08 | 650 |
| 23-Jun-08 | 650 |
| 7-Jul-08 | 907 |
| 28-Jul-08 | 903 |
| 26-Aug-08 | 829 |
| 29-Sep-08 | 750 |
| | **17,571** |

## Bilateral cash management operations

In practice a large majority of cash management operations in 2007-08, as in previous years, were negotiated bilaterally by the DMO with market counterparties. To ensure competitive pricing, the DMO maintains relations with a wide range of money market counterparties with whom it transacts both directly and via voice and electronic brokers.

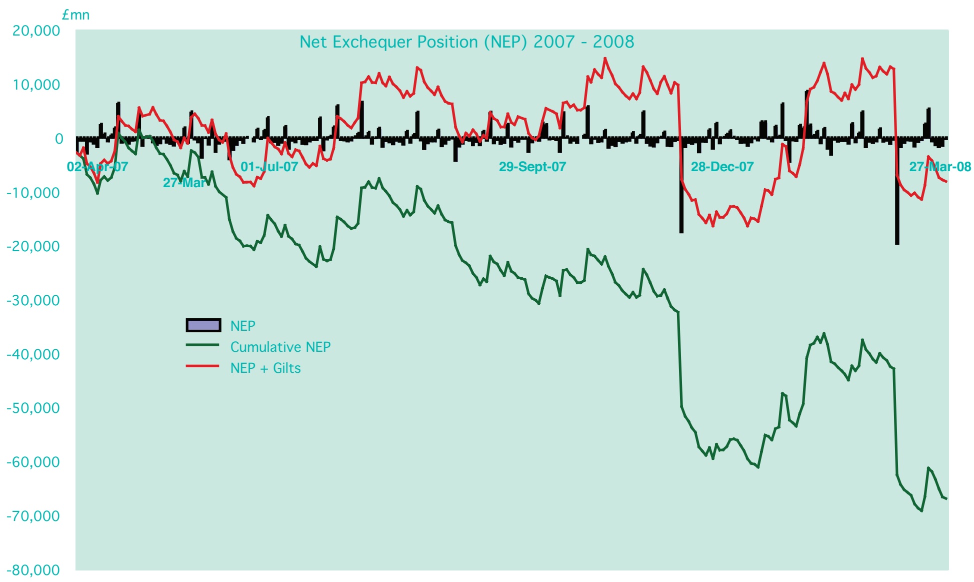
Cash management is conducted through a diversified set of money market instruments in order to minimise cost whilst operating within agreed risk limits. Sterling-denominated repo and reverse repo instruments play a particularly important role, though short-dated cash bonds, Certificates of Deposit, Commercial Paper, reverse repo of foreign currency bonds swapped into sterling, and unsecured loans and deposits are also eligible assets.

The DMO's money market dealers borrow from or lend to the market on each business day to balance the position in the NLF. In order to do so the DMO receives from HM Treasury forecasts of each business day's cash flows into and out of central government. Additionally, the DMO requires up-to-date intra-day monitoring of cash flows as they occur. The DMO trades only with the purpose of offsetting current and forecast future government cash flows, subject to the agreed risk limits. The DMO does not take interest rate positions except in so far as is necessary to offset forecast future cash flows.

Over the course of a financial year, the Exchequer's cash flow has a fairly regular and predictable pattern associated with the tax receipts and expenditure cycles. Outflows associated with gilt coupons and redemptions are also known in advance.

Chart 13 shows the scale of daily cash flows measured in terms of the Net Exchequer Position (NEP) in 2007-08. It excludes the effects of Treasury bill issuance and NS&I's overall net contribution to Government financing, but highlights the major contribution of gilt sales to reducing the cumulative deficit in year.

Chart 13
**Exchequer cash flows 2007-08**




*Source: HM Treasury/DMO*

### Active cash management performance framework and results

Since 2000 the in-year cash needs of the Government have been managed actively by HM Treasury and the DMO: the Treasury providing short and medium-term forecasts of daily net cash surpluses and deficits; the DMO transacting with its market counterparties in a range of instruments at a range of different maturities to offset the current and forecast future cumulative net cash position.

This active cash management framework allows the exercise of considerable discretion by specialist cash managers in selecting the appropriate counterparties, instruments and maturities with which to deliver the cash management remit at minimum cost subject to the agreed risk limits. The Cash Management Review of 2004-05[8] recommended this discretion be captured through a quantifiable measure of net interest saving as a means of enhancing effectiveness and ensuring accountability. In 2006-07 HM Treasury and the DMO announced their intention to begin formal performance reporting, commencing with the 2007-08 outturn. For reference, a consistent set of returns for 2006-07 have also been calculated. These are presented under key performance indicator (KPI) 1.4 below.

The Treasury and the DMO equally recognise that to measure performance solely in terms of net interest savings is a somewhat narrow interpretation that does not fully capture the ethos or the wider policy objectives the Government sets the DMO as its cash manager. Exchequer cash management differs from that of a commercial entity in that it does not seek to maximise profits, but rather to minimise costs subject to risk while playing no role in the determination of sterling interest rates. Consequently the DMO and HM Treasury monitor and assess overall performance in meeting the Government's objectives using a number of quantitative and qualitative KPIs and controls. These were first published in the 2006 Pre-Budget Report and reproduced in Annex C of the 2008-09 Debt and Reserves Management Report (DRMR) and Table 9 below. The remainder of this section aims to assess cash management performance in 2006-07 and 2007-08 against these KPIs and controls.

### The DMO's cash management objective: performance report

The DMO's high level cash management objective as set out on page 26 above has been subdivided into a series of objectives, to each of which has been attached a KPI. The following section explains how performance has been delivered against these objectives in 2006-07 and 2007-08.

*Objective 1.1: DMO must supply sufficient cash each day to enable government to meet its payment obligations. This is fundamental and unconditional.*

The core requirement of Exchequer cash management is to secure the day to day funding of Exchequer cash needs. This objective is supported by HM Treasury's daily net cash flow forecasts for 19 weeks ahead and intraday updates of same-day scheduled expenditure and revenue flows. The DMO cash dealers raise and place current and future anticipated net daily balances in the Debt Management Account (DMA) with counterparties in the sterling money markets, transacting in a range of instruments and at a range of different maturities to smooth the profile of the forecast cumulative net cash position.

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[8] See Chapter 5 of the Annual Review 2004-05 which was published in July 2005.

Table 9
**Cash management key performance indicators**

| Cash management objective | Key performance indicators |
|---|---|
| The Debt Management Office (DMO) must supply sufficient cash each day to enable government to meet its payment obligations. This is fundamental and unconditional. | Way and Means transfers must be avoided for cash management purposes by ensuring that there is always a positive Debt Management Account (DMA) balance. (NB: HM Treasury is responsible for monitoring and reporting performance of the forecasting function against outturns). |
| Cash management operations and arrangements should be conducted in a way that does not interfere with monetary policy operations. | The DMO will conduct market operations with a view to achieving, within a very small range, the weekly cumulative target balance for the DMA at the Bank of England. The DMO will maintain formal and informal channels of communication with the Bank on conditions in the Sterling money markets.<br><br>The DMO will seek to avoid holding weekly or ad hoc Treasury bill tenders when the Bank conducts its weekly open market operations. |
| Cash management operations and arrangements should be conducted without impeding the efficient working of the Sterling money markets | The DMO will advise HM Treasury as appropriate on the impact of Exchequer cash flows on liquidity conditions in the sterling money markets. |
| The DMO should maintain a system in which the costs and risks are transparent, measured and monitored and the performance of government cash management is assessed. The DMO maintains an ethos of cost minimisation rather than profit maximisation. | The DMO will report to HM Treasury on a quarterly basis the details of its cash management activity, its active management performance against the Government's marginal cost of funds and the market and credit risks incurred. Performance may also be reported in the DMO Annual Review. |
| The DMO should maintain a credible reputation in the market that leads to lower costs in the long term and a cash management system that is sustainable. | The DMO should maintain channels of communication with money market participants and Treasury bill counterparties both formally and and informally to explain, as far as possible, the nature and intent of its operations in the money markets.<br><br>The DMO should monitor compliance with its operational notices; provide complete, accurate and timely instructions to counterparties, agents, external systems and operators; and achieve the successful settlement of agreed trades on the due date. |

The DMA is used to manage the Exchequer's net cash position. Balances in central government accounts contained within the Exchequer pyramid are swept on a daily basis into the NLF and the DMA is required to offset the resultant NLF balance through its borrowing and lending in the money markets. The DMA is held at the Bank of England and a positive end of day balance must be maintained at all times; it cannot be overdrawn. Automatic transfers from a Government Ways and Means account[9] at the Bank of England would offset any negative end of day balances, though it is an objective to minimise such transfers. Thus evidence of meeting this objective is provided by reference to the number of occasions the DMA goes overdrawn.

*KPI 1.1: Way and Means end-of-day transfers for cash management purposes must be avoided by ensuring that there is always a positive DMA balance.*

- The DMO ensured a positive end-of-day DMA balance on each day during 2006-07 and 2007-08; there were no overdrawn balances and no Ways and Means transfers.

*Objective 1.2: Cash management operations and arrangements should be conducted in a way that does not conflict with the operational requirements of the Bank of England for monetary policy implementation.*

The DMA target balance at the Bank of England serves solely as a buffer against unexpected payments (and receipts) that occur after the wholesale money markets have closed for same-day settlement. It serves to mitigate the risk of going overdrawn. All changes to the daily net cash forecast that occur before markets are closed should be transacted by DMO cash dealers with market counterparties. The DMO cash forecasters are required to notify the Bank of England, in advance of its weekly round of open market operations, of the target cumulative weekly balance on the DMA for the week ahead. This contributes to the forecast money market shortage and hence it is important that actual cumulative end-of-day balances do not differ significantly from target.

*KPI 1.2: The DMO will conduct market operations with a view to achieving, within a very small range, the weekly cumulative target balance for the DMA at the Bank of England. The DMO will maintain formal and informal channels of communication with the Bank on conditions in the sterling money markets. The DMO will seek to avoid holding weekly or ad hoc Treasury bill tenders when the Bank conducts its weekly open market operations.*

- The DMO achieved its target weekly cumulative balance within an acceptable range on 42 out of 52 occasions in 2006-07 and on 40 out of 52 occasions in 2007-08. In all cases, balances outside this range related to events beyond the DMO's control, largely unexpected late cash flows on the final day of the week or over long weekends. Average absolute deviation from target of weekly balances was 1.7% in 2006-07 and 1.6% in 2007-08. All significant known daily and forecast cumulative weekly variations from target were notified to the Bank of England in a timely fashion. The DMO and the Bank held regular meetings to review the operation of these arrangements.
- No cash management operations were undertaken that by their nature or timing could be perceived to clash with the Bank's open market operations.

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[9] This account deals with overnight balances and is distinct from the Ways and Means facility referred to on page 14 (which is currently frozen at £0.37 billion).

*Objective 1.3: Cash management operations and arrangements should be conducted to avoid undermining the efficient functioning of the sterling money markets.*

While this objective is difficult to capture in a KPI, the DMO interprets this as a responsibility to seek to minimise the impact of individual daily flows on the sterling money markets while ensuring it deals at competitive prices. The DMO operates as a customer at the core of the money markets, seeking to ensure the widest possible access to maturities, instruments, trading arrangements and counterparties across which to diversify its cash management operations. Limits have been set on the amount of dealing with individual counterparties and in individual instruments; exposure to sterling overnight liquidity and sterling interest rates are also subject to limits. In accordance with objective 2.3, limits and controls are intended to avoid concentration of exposures and are reviewed regularly to ensure consistency with market trends and developments.

*KPI 1.3: The DMO will advise HM Treasury as appropriate on the impact of Exchequer cash flows on liquidity conditions in the sterling money markets.*

- Throughout 2006-07 and 2007-08 the DMO has undertaken regular formal and informal communication with the Bank of England, money market counterparties, and industry groups to assess liquidity in the sterling money markets. It has also introduced new cash management products such as foreign currency denominated (fx) swaps to widen its access to non sterling investment and funding instruments, built new trading relationships, including central counterparties, and accessed market liquidity through a combination of bilateral negotiation and electronic platforms. It has maintained frequent and regular dialogue to update HM Treasury on market liquidity and, working with HM Treasury, has reviewed its trading policies and risk controls to respond to significant sterling liquidity trends and developments.

*Objective 1.4: DMO should maintain a system in which the costs and risks are transparent, measured and monitored and the performance of government cash management is assessed. The DMO maintains an ethos of cost minimisation rather than profit maximisation.*

The active cash management framework encompasses a series of quantitative liquidity, interest rate, foreign exchange and credit risk limits that together reflect the government's risk preference and are designed to be consistent with the wider policy objectives the Government sets its cash manager.

In addition, in June 2005 the DMO and HM Treasury began trialling a benchmark approach to quantify cash management performance. The original approach compared the actual net interest costs of active cash management with a notional net interest cost of a benchmark determined by a passive default strategy. One of the reasons for trialling this approach was to ensure it would be resilient to the volatility then observed in money market rates. Following the reforms to the sterling money markets introduced by the Bank of England in May 2006, stable money-market rates have allowed the performance methodology to be simplified. Under the current approach active cash performance is no longer evaluated against a notional benchmark but measured and evaluated directly by comparing actual net interest paid and received with cost of funds (i.e. deducting net interest on daily balances at the Bank of England repo rate and deducting transaction and management costs).

*KPI 1.4: The DMO will report to HM Treasury on a quarterly basis the details of its cash management activity, including active management performance after cost of funds and the liquidity, interest rate, foreign exchange and credit risks incurred. Performance may also be reported in the DMO Annual Review.*

- The DMO reports to the Treasury on a quarterly cycle the details of its cash management activity, including active management performance and usage of liquidity, interest rate, foreign exchange and credit risk limits.
- 2007-08 is the first full year since the introduction of Bank of England reforms to the sterling money markets in May 2006 and the first for which active management performance has been published. For reference, full year returns for 2006-07 have also been included. Net returns (over cost of funds) will be affected by market conditions and the size and volatility of the Exchequer's cumulative cash position, both of which will vary significantly over time.
- Results should be interpreted in the context of the Government's ethos of cost minimisation and not profit maximisation: cash transactions are solely intended to smooth a given cash flow profile over time and across products and instruments, within agreed risk parameters, and are not intended to seek opportunities to generate excess return.
- Active cash management earned positive net interest after cost of funds but before transaction and management costs, of £17.7 million for 2007-2008 compared with £6.7 million for 2006-2007. The DMO's estimated transaction and management costs for active cash management in 2007-08 were £7.1 million.
- Positive net interest after cost of funds has been earned by virtue of funding the Exchequer's daily cash needs in the wholesale money markets at rates that have been on average below the prevailing Bank of England repo rate and from investing surpluses at market rates that were on average above the Bank's rate.
- There were no breaches of credit, interest rate, foreign exchange or liquidity limits recorded in 2006-07 or 2007-08.

*Objective 1.5: DMO should maintain a credible reputation in the market that leads to lower costs in the long term and a system that is sustainable.*

The DMO seeks to maintain and enhance its reputation in the market by being open, transparent and consistent about the aims and intentions of its operations and transactions. This has allowed it to continue to widen its market and counterparty access and to deal at fair and competitive rates.

In addition, DMO personnel, processes and internal systems have to be capable of complying with market standards and following market practice in respect of speed and accuracy in negotiation, clearing and settlement of trades.

*KPI 1.5: The DMO should maintain channels of communication with money market participants and Treasury bill counterparties both formally and informally to explain, as far as possible, the nature and intent of its operations in the money markets. The DMO should monitor compliance with its operational notices; provide complete, accurate and timely instructions to counterparties, agents, external systems and operators; and achieve the successful settlement of agreed trades on the due date.*

- As in KPI 1.3 above, in 2006-07 and 2007-08 the DMO maintained an active and open dialogue with cash counterparties and other market stakeholders to explain its cash management approach and strategy and to explain the context for and receive feedback on T-bill tenders and other market operations.
- There were no breaches of cash management operational targets for trade settlement (99% by value on the due date), announcement of Treasury bill tender results (30 minutes) or maximum permitted breaches of cash management operational notices (5).

# Chapter 5: Fund management and local authority lending for Central Government

## Fund management

The origins of the Commissioners for the Reduction of the National Debt (CRND) can be traced back to the passing of the National Debt Reduction Act of 1786. From their earliest days the Commissioners had associations with the stock market and this led to a diversification of CRND operations, including in particular the responsibility for the investment of major Government funds. This now constitutes the main function of CRND, which has around £60 billion under its control, representing the assets of the various investment accounts.

The investment powers differ to some extent from fund to fund, depending upon the provisions of the relevant Acts of Parliament, but essentially investments are restricted to government and government guaranteed securities. Currently, the largest funds are the National Insurance Fund Investment Account, the Court Funds Investment Account and the National Lottery Distribution Fund Investment Account. The full list of funds under management is as follows:

- Court Funds Investment Account
- Insolvency Services Investment Account
- National Endowment for Science, Technology and the Arts
- National Insurance Fund Investment Account
- National Lottery Distribution Fund Investment Account
- National Savings Bank Fund
- Northern Ireland Court Service Investment Account
- Northern Ireland National Insurance Fund Investment Account
- Olympic Lottery Distribution Fund Investment Account

CRND continues to provide an efficient, value for money service, with the main investment objectives being to maintain sufficient liquidity to meet withdrawals and to protect the capital value of the funds under management.

## Lending to local authorities

### PWLB responsibilities and objectives

The PWLB is an independent statutory body, headed by Commissioners, which dates back to 1793. Since 2002, the Board has operated as a unit of the DMO, sharing common services while retaining its statutory identity. The Board's Secretary and staff are employees of the DMO.

The PWLB's function is to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. Nearly all borrowers are local authorities requiring loans for capital purposes.

Loans, which are automatically secured by statute on the revenue stream of the authority, are sourced from the NLF. Rates of interest are determined by the DMO in accordance with methodologies agreed with HM Treasury.

The Board's accounts are audited by the Comptroller & Auditor General, whose reports on them are laid before Parliament, to which the Board makes its own statutory report.

## PWLB operations in 2007-08

Loans of £10.0 billion (cash) were made to local authorities during 2007-08.

After taking account of loan repayments, the PWLB's portfolio of loans grew by £2.8 billion over 2007-08 and at end-March 2008, the outstanding balance of principal was £50.7 billion, with a market value of £59.4 billion.

- Change to the structure of PWLB rates

Major changes to the structure of the Board's interest rates were introduced by Circulars 140 of 16 October 2007 and 141 of 31 October 2007. The changes, which came into effect on 1 November 2007, were:

- maturity brackets were reduced to a uniform length of six months;
- rates were expressed in increments of one basis point; and
- a separate set of rates was published for early repayments.

The Board announced at the time that the first two changes were expected to be advantageous to borrowers by enabling them to borrow at rates closer to the gilt yield curve and, therefore, closer to the Government's own cost of borrowing. It was recognised that the third measure, a separate set of early repayment rates, would be perceived by local authorities as raising the cost of debt restructuring. The move was designed better to balance the benefits to local authorities of such activity against the impact on the Exchequer. The judgement was that the previous methodology used to set rates had inadequately reflected the value of the borrower's option to refinance and the impact on the Exchequer of such activity. It was felt that a differential between the rates for borrowing and for early repayment would be a realistic way to achieve a balance.

# Chapter 6: The DMO

The DMO was established on 1 April 1998. In institutional terms, the DMO is legally and constitutionally part of HM Treasury, but, as an Executive Agency, it operates at arms 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 website) 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.

## Business planning

The DMO publishes an annual Business Plan. The plan sets out the DMO's targets and objectives for the year ahead, and the strategies for achieving them. It also reviews the preceding year. The starting point of the DMO's business plan is the strategic objectives given by the Chancellor of the Exchequer to the DMO and set out in the Framework Document.

## Organisation and resources

The DMO is organised flexibly to ensure that resources are available as necessary for the respective requirements of the business areas. There are two main business areas in the DMO: Policy and Markets, and Operations and Resources. These areas are in turn split into a number of teams across which there is substantial cross-team working to ensure that both policy and operational concerns are adequately met; that the relevant skills are applied to tasks or problems; and that essential operations are adequately resourced.

The DMO's Managing Board (MB) considers all major strategic decisions and includes the Chief Executive, the Deputy Chief Executive, the Joint Heads of Policy and Markets and the Chief Operating Officer. The other members in 2007-08 were Colin Price and Brian Larkman (non-executive directors) and Samantha Beckett from HM Treasury (non-executive director). Colin Price is also Chairman of the Exchequer Funds Audit Committee, which advises the DMO Chief Executive on matters connected with the DMA, PWLB and CRND accounts. The Treasury Group Resource Audit Committee advises the Chief Executive on matters connected with the DMO's Resource Account.

Within the DMO most business issues are considered by internal committees: in particular those on debt management, cash management and investment; these are supported by a Risk Committee, which also reports to the Managing Board.

### *Managing risk*

The processes the DMO employs to manage its risks are subject to continual review and development to ensure their continued effectiveness. Of particular note was the need to proactively adjust risk policies and risk appetite in response to more uncertain market conditions during the year.

### Financial Performance

The DMO is financed through HM Treasury and operates under net cost arrangements, meaning that the control total for the DMO's annual expenditure is agreed by Parliament and comprises an aggregate of target expenditure and income.

- **Operating costs**

The DMO's operating budget reflects a need for skills and systems that are not available elsewhere in Government. The DMO's net operating cost for 2007-08 was £9.9 million (compared with £7.4 million in the previous financial year). Although this increase was due to a number of different factors that generated higher gross expenditure and lower income received, the DMO successfully managed its operations within the expenditure limits agreed with HM Treasury and voted by Parliament.

- **Administrative costs**

During 2007-08 the DMO's gross administrative expenditure was £13.1 million, an increase of £1.0 million from 2006-07. This increase was due largely to a major upgrade to the DMO's core trading system, which included the migration of some business processes that had previously been undertaken on legacy systems.

### Government sterling sukuk issuance: feasibility study

In April 2007, the Economic Secretary to the Treasury announced that the DMO and HM Treasury would carry out a feasibility study into the potential for the Government to become an issuer of Islamic financial instruments in the wholesale sterling market, consulting with the Islamic Finance Experts Group (IFEG)[10] that the Economic Secretary established and reporting on progress at the time of the 2007 Pre-Budget Report (PBR).

The terms of reference for the study, published with the announcement[11] stated that it would examine the benefits and costs of the case for the Government to become an issuer of wholesale sterling Islamic financial instruments and the practical and legal implications of doing so, taking account of: (i) the Government's debt management policy objective; (ii) the size and nature of demand; (iii) the potential risks; (iv) any implications for the Government's financing strategy; (v) the experience of other sovereign issuers of Islamic instruments; and (vi) the impact on markets including the impact on the City of London as an Islamic financial centre. An update on the study was provided in the 2007 PBR.

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[10] The letter from the Economic Secretary to the Treasury establishing the IFEG is on HM Treasury's website at: http://www.hm-treasury.gov.uk./consultations_and_legislation/islamic_financial/consult_islamic_financial.cfm

[11] The feasibility study was announced in a speech by Ed Balls MP to the Financial Services Authority's (FSA's) 'Principles-based Regulation' Conference, 23 April 2007.

Following the 2007 PBR, the Government published a consultation document, on 14 November 2007[12], seeking views on the potential for the Government to become an issuer of sterling Islamic financial instruments, specifically, Islamic bonds or ‘sukuk’. In particular, views were sought on the advantages, disadvantages and risks of the proposal and on some technical issues concerning the structuring of sukuk issuance.

In Budget 2008, the Government also made further announcements regarding Islamic finance, including a commitment to publish a full response to the consultation in the summer of 2008. The Government’s response to the consultation was published on 2 June 2008 and set out how the views of consultees had informed the Government’s ongoing consideration of the feasibility of issuing Islamic financial instruments. The response also gave an update on progress made since the consultation was launched, and also set out the remaining issues that would need to be resolved before the Government would be in a position to proceed with issuance.

The Government continues to work to resolve these outstanding issues and will provide an update of progress in the 2008 PBR. Any decision to proceed with issuance of sukuk will be based on the Government’s assessment of the costs, benefits and risks of so doing.

### European Union Emissions Trading Scheme (EU ETS): DMO involvement

At PBR 2007 the Chancellor of the Exchequer appointed the DMO as auctioneer for Phase II of the EU Emissions Trading Scheme (EU ETS). This appointment followed a period during which the DMO had offered technical advice to the Department for Environment, Food and Rural Affairs (DEFRA) and HM Treasury on the auction process, and how it could be successfully adapted to the auctioning of emissions licences. The current intention is to hold the first UK ETS auction towards the end of 2008.

DEFRA considers climate change to be the greatest environmental challenge facing the world today; and emissions trading is emerging as a key instrument in the drive to reduce greenhouse gas and carbon dioxide emissions. The EU ETS is one of the policies being introduced across Europe to reduce emissions – and is a high priority of the UK Government.

The EU ETS works on a "cap and trade" basis. EU Member State governments set an emission cap for all installations covered by the Scheme e.g electricity generators, cement works etc. Industry is allocated emissions "allowances" (equivalent to one tonne of CO2) which can then be traded. This is intended to encourage companies that are in a position to reduce emissions to do so and to sell any unused allowances. The first phase of the Scheme ran from 2005-2007 and the second phase runs from 2008-2012 to coincide with the first Kyoto Commitment Period[13]. Negotiations are currently ongoing on Phase III of the Scheme, running from 2013-2020.

The number of tradable allowances each installation will receive is established in the National Allocation Plan (NAP). The Emissions Trading Directive sets a limit that

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[12] The consultation document can be found on HM Treasury’s website at:
http://www.hm-treasury.gov.uk./consultations_and_legislation/sukuk_issuance/consult_sukuk_issuance.cfm

[13] The Kyoto Protocol (ratified December 2007) commits developed countries to binding greenhouse gas emissions targets.

up to 10% of allowances may be auctioned. The UK NAP for Phase II sets a limit of 7% for auctioning, which amounts to around 85 million allowances.

In December 2007 DEFRA launched a 12-week consultation period on the proposed UK auction design for Phase II of the EU ETS. There were 41 responses from a variety of large and small emitters. Respondents were broadly in agreement with the majority of the proposals set out in the consultation document. In light of this, the intention is to hold the first UK auction towards the end of 2008. However, given the time constraints the plan is initially to implement the competitive bidding facility only, and to develop the non-competitive element of the auction model in time for the first compliance period of Phase II – March-April 2009.

For further information on climate change and EU ETS visit the DEFRA website www.defra.gov.uk

# Annexes:

**A) Gilts in issue at 31 March 2008**

**B) List of GEMMs and IDBs at 31 March 2008**

**C) Minutes of quarterly consultation meetings**

**D) Gilt issuance performance**

**E) Gilt redemptions and the gilt portfolio**

**F) Treasury bill tender results**

**G) Treasury bill tender performance**

**H) The DMO website**

# A: Gilts in issue at 31 March 2008

## Total amount in issue (including uplift on index-linked gilts): £478.77 billion (nominal)

| Conventional gilts | Redemption date | Dividend dates | First issue date | Amount in issue (£mn nom) | Central Govt holdings (DMO & CRND) (£mn nom) |
|---|---|---|---|---|---|
| **Shorts: (maturity up to 7 years)** | | | | | |
| 4% Treasury Stock 2009 | 7-Mar-2009 | 7 Mar/Sep | 14-May-2003 | 17,141 | 912 |
| 5¾% Treasury Stock 2009 | 7-Dec-2009 | 7 Jun/Dec | 30-Jul-1998 | 12,124 | 1,038 |
| 4¾% Treasury Stock 2010 | 7-Jun-2010 | 7 Jun/Dec | 19-Nov-2004 | 12,900 | 657 |
| 6¼% Treasury Stock 2010 | 25-Nov-2010 | 25 May/Nov | 27-Jan-1994 | 5,256 | 774 |
| 4¼% Treasury Gilt 2011 | 7-Mar-2011 | 7 Mar/Sep | 9-Nov-2005 | 13,886 | 142 |
| 9% Conversion Loan 2011 | 12-Jul-2011 | 12 Jan/Jul | 12-Jul-1987 | 5,720 | 529 |
| 5% Treasury Stock 2012 | 7-Mar-2012 | 7 Mar/Sep | 25-May-2001 | 14,147 | 1,036 |
| 5¼% Treasury Gilt 2012 | 7-Jun-2012 | 7 Jun/Dec | 16-Mar-2007 | 10,351 | 104 |
| 4½% Treasury Gilt 2013 | 7-Mar-2013 | 7 Mar/Sep | 5-Mar-2008 | 2,500 | 0 |
| 8% Treasury Stock 2013 | 27-Sep-2013 | 27 Mar/Sep | 1-Apr-1993 | 6,553 | 758 |
| 5% Treasury Stock 2014 | 7-Sep-2014 | 7 Mar/Sep | 25-Jul-2002 | 13,834 | 841 |
| **Mediums: (maturity 7 to 15 years)** | | | | | |
| 4¾% Treasury Stock 2015 | 7-Sep-2015 | 7 Mar/Sep | 26-Sep-2003 | 13,782 | 788 |
| 8% Treasury Stock 2015 | 7-Dec-2015 | 7 Jun/Dec | 26-Jan-1995 | 7,820 | 615 |
| 4% Treasury Gilt 2016 | 7-Sep-2016 | 7 Mar/Sep | 2-Mar-2006 | 13,633 | 142 |
| 8¾% Treasury Stock 2017 | 25-Aug-2017 | 25 Feb/Aug | 30-Apr-1992 | 8,216 | 845 |
| 5% Treasury Gilt 2018 | 7-Mar-2018 | 7 Mar/Sep | 25-May-2007 | 10,074 | 78 |
| 4¾% Treasury Stock 2020 | 7-Mar-2020 | 7 Mar/Sep | 29-Mar-2005 | 10,849 | 354 |
| 8% Treasury Stock 2021 | 7-Jun-2021 | 7 Jun/Dec | 29-Feb-1996 | 17,746 | 1,352 |
| **Longs: (maturity over 15 years)** | | | | | |
| 5% Treasury Stock 2025 | 7-Mar-2025 | 7 Mar/Sep | 27-Sep-2001 | 16,348 | 1,105 |
| 4¼% Treasury Gilt 2027 | 7-Dec-2027 | 7 Jun/Dec | 6-Sep-2006 | 13,633 | 136 |
| 6% Treasury Stock 2028 | 7-Dec-2028 | 7 Jun/Dec | 29-Jan-1998 | 12,462 | 1,015 |
| 4¾% Treasury Gilt 2030 | 7-Dec-2030 | 7 Jun/Dec | 3-Oct-2007 | 8,817 | 69 |
| 4¼% Treasury Stock 2032 | 7-Jun-2032 | 7 Jun/Dec | 25-May-2000 | 17,497 | 1,169 |
| 4¼% Treasury Stock 2036 | 7-Mar-2036 | 7 Mar/Sep | 27-Feb-2003 | 15,822 | 826 |
| 4¾% Treasury Stock 2038 | 7-Dec-2038 | 7 Jun/Dec | 23-Apr-2004 | 15,105 | 862 |
| 4½% Treasury Gilt 2042 | 7-Dec-2042 | 7 Jun/Dec | 6-Jun-2007 | 10,584 | 86 |
| 4¼% Treasury Gilt 2046 | 7-Dec-2046 | 7 Jun/Dec | 12-May-2006 | 13,886 | 138 |
| 4¼% Treasury Gilt 2055 | 7-Dec-2055 | 7 Jun/Dec | 27-May-2005 | 11,716 | 218 |
| 3½% War Loan | Undated | 1 Jun/Dec | 1-Dec-1932 | 1,939 | 31 |

| Index-linked gilts | Redemption date | Dividend dates | First issue date | Base RPI* | Amount in issue (£mn nom) | Nominal including inflation uplift (£mn nom) | Central Govt holdings (DMO & CRND) (£mn nom) |
|---|---|---|---|---|---|---|---|
| **3-month lag** | | | | | | | |
| 1¼% I-L Treasury Gilt 2017 | 22-Nov-2017 | 22 May/Nov | 8-Feb-2006 | 193.72500 | 8,176 | 8,854 | 79 |
| 1⅞% I-L Treasury Gilt 2022 | 22-Nov-2022 | 22 May/Nov | 11-Jul-2007 | 205.65806 | 4,481 | 4,571 | 34 |
| 1¼% I-L Treasury Gilt 2027 | 22-Nov-2027 | 22 May/Nov | 26-Apr-2006 | 194.06667 | 6,980 | 7,546 | 57 |
| 1⅛% I-L Treasury Gilt 2037 | 22-Nov-2037 | 22 May/Nov | 21-Feb-2007 | 202.24286 | 5,695 | 5,908 | 46 |
| 0¾% I-L Treasury Gilt 2047 | 22-Nov-2047 | 22 May/Nov | 21-Nov-2007 | 207.76667 | 1,482 | 1,497 | 7 |
| 1¼% I-L Treasury Gilt 2055 | 22-Nov-2055 | 22 May/Nov | 23-Sep-2005 | 192.20000 | 5,337 | 5,826 | 88 |
| **8-month lag** | | | | | | | |
| 2½% I-L Treasury Stock 2009 | 20-May-2009 | 20 May/Nov | 19-Oct-1982 | 310.7 | 3,335 | 8,727 | 311 |
| 2½% I-L Treasury Stock 2011 | 23-Aug-2011 | 23 Feb/Aug | 28-Jan-1982 | 294.1 | 4,674 | 12,922 | 402 |
| 2½% I-L Treasury Stock 2013 | 16-Aug-2013 | 16 Feb/Aug | 21-Feb-1985 | 351.9 | 7,416 | 17,135 | 599 |
| 2½% I-L Treasury Stock 2016 | 26-Jul-2016 | 26 Jan/Jul | 19-Jan-1983 | 322.0 | 7,768 | 19,616 | 708 |
| 2½% I-L Treasury Stock 2020 | 16-Apr-2020 | 16 Apr/Oct | 12-Oct-1983 | 327.3 | 6,409 | 15,921 | 509 |
| 2½% I-L Treasury Stock 2024 | 17-Jul-2024 | 17 Jan/Jul | 30-Dec-1986 | 385.3 | 6,644 | 14,020 | 555 |
| 4⅛% I-L Treasury Stock 2030 | 22-Jul-2030 | 22 Jan/Jul | 12-Jun-1992 | 135.1 | 5,068 | 7,731 | 394 |
| 2% I-L Treasury Stock 2035 | 26-Jan-2035 | 26 Jan/Jul | 11-Jul-2002 | 173.6 | 9,477 | 11,251 | 554 |

*Base RPI for all index-linked gilts from 2009 to 2024 maturities (except the 2017 and 2022 maturities) is based on RPI Jan 1974 = 100. For the 2017, 2022 maturities and all maturities from 2027 to 2055, Base RIP Jan 1987 = 100.*

**Rump gilts are not available for purchase from the DMO**

| Rump gilts | Redemption date | Dividend dates | First Issue date | Amount in issue (£mn nom) | Central Govt Holdings (DMO & CRND) (£mn nom) |
|---|---|---|---|---|---|
| 5½% Treasury Stock 2008-2012 | 10-Sep-2008 | 10 Mar/Sep | 5-Oct-1960 | 692 | 0 |
| 9% Treasury Loan 2008 | 13-Oct-2008 | 13 Apr/Oct | 11-Feb-1987 | 379 | 0 |
| 8% Treasury Stock 2009 | 25-Sep-2009 | 25 Mar/Sep | 23-Apr-1986 | 223 | 0 |
| 7¾% Treasury Loan 2012-2015 | 26-Jan-2012 | 26 Jan/Jul | 26-Jan-1972 | 441 | 1 |
| 9% Treasury Stock 2012 | 6-Aug-2012 | 6 Feb/Aug | 7-Feb-1992 | 211 | 0 |
| 12% Exchequer Stock 2013-2017 | 12-Dec-2013 | 12 Jun/Dec | 15-Jun-1978 | 17 | 0 |
| 2½% Treasury Stock | Undated | 1 Apr/Oct | 28-Oct-1946 | 426 | 23 |
| 4% Consolidated Loan | Undated | 1 Feb/Aug | 16-Mar-1932 | 273 | 0 |
| 2½% Consolidated Stock | Undated | 5 Jan/Apr/Jul/Oct | 5-Apr-1888 | 186 | 1 |
| 3% Treasury Stock | Undated | 5 Apr/Oct | 1-Mar-1946 | 41 | 2 |
| 3½% Conversion Loan | Undated | 1 Apr/Oct | 1-Apr-1921 | 18 | 5 |
| 2½% Annuities | Undated | 5 Jan/Apr/Jul/Oct | 13-Jun-1853 | 1 | 0 |
| 2½% Annuities | Undated | 5 Jan/Apr/Jul/Oct | 17-Oct-1884 | 1 | 0 |

*It is assumed that double-dated gilts (which have not been called) that are currently trading above par will be redeemed at the first maturity date.*

*Central government holdings include holdings by the DMO and the Commissioners for the Reduction of the National Debt (CRND) but exclude holdings by local authorities, public corporations and the Bank of England.*

# B: List of Gilt-edged Market Makers (GEMMs) and Inter-Dealer Brokers (IDBs) at 31 March 2008*

**All GEMMs are market-makers in both conventional and index-linked gilts**

| GEMM | Website |
|---|---|
| **Barclays Capital**<br>5 The North Colonnade<br>Canary Wharf<br>London E14 4BB | www.barcap.com |
| **BNP Paribas (London Branch)**<br>10 Harewood Avenue<br>London<br>NW1 6AA | www.bnpparibas.com |
| **Citigroup Global Markets Limited**<br>Citigroup Centre<br>33 Canada Square<br>London E14 5LB | www.citigroup.com |
| **Credit Suisse Securities**<br>One Cabot Square<br>London E14 4QJ | www.csfb.com |
| **Deutsche Bank AG (London Branch)**<br>Winchester House<br>1 Great Winchester Street<br>London EC2N 2DB | https://gm-secure.db.com |
| **Dresdner Bank AG (London Branch)**<br>PO Box 52715<br>30 Gresham Street<br>London EC2P 2XY | www.drkw.com |
| **Goldman Sachs International Limited**<br>Peterborough Court<br>133 Fleet Street<br>London EC4A 2BB | www.gs.com |
| **HSBC Bank PLC**<br>8 Canada Square<br>London E14 5HQ | www.hsbcgroup.com |

*ABN Amro Bank was a GEMM on 31 March 2008 but resigned on 11 April 2008 and is, therefore, excluded from this list on that basis.

**JP Morgan Securities Limited** www.jpmorgan.com
125 London Wall
London EC2Y 5AJ

**Lehman Brothers International (Europe)** www.lehman.com
25 Bank Street
Docklands
London E14 5LE

**Merrill Lynch International**** www.ml.com
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

**Morgan Stanley & Co. International Limited** www. morganstanley.com
20 Cabot Square
Canary Wharf
London E14 4QW

**Royal Bank of Canada Europe Limited** www.rbccm.com
Thames Court
One Queenhithe
London EC4V 4DE

**Royal Bank of Scotland PLC** www.rbsmarkets.com
135 Bishopsgate
London EC2M 3UR

**UBS Limited** www.ubs.com/investmentbank/
1 Finsbury Avenue
London EC2M 2PP

**Winterflood Securities Limited** www.wins.co.uk
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

**Index-linked gilts are traded by Merrill Lynch International Bank (London Branch)

# Inter Dealer Brokers

**BGC International** www.bgcpartners.com
One Churchill Place
Canary Wharf
London
E14 5RD

**Dowgate** www.ksbb.com
6th Floor
Candlewick House
120 Cannon Street
London
EC4N 6AS

**ICAP Electronic Broking Limited** www.icap.com
2 Broadgate
London
EC2M 7UR

**ICAP WCLK Limited** www.icap.com
2 Broadgate
London
EC2M 7UR

**Tullet Prebon Gilts** www.cstplc.com
155 Bishopsgate
London
EC2N 3DA

# C: Minutes of the quarterly consultation meetings

## RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE APRIL-JUNE 2007 GILT AUCTION ANNOUNCEMENT

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 26 March 2007. The meetings were primarily intended to inform the choice of gilts to be issued in the scheduled auctions in April-June 2007.

Nine gilt auctions are scheduled in the first quarter of 2007-08: five conventional gilt auctions and four of index-linked gilts. The conventional auctions will be held on 3 April, 3 May, 24 May, 5 June and 21 June. The index-linked auctions will be held on 12 April, 24 April, 22 May and 26 June. Details of the gilt to be auctioned on 3 April will be announced by the DMO at 3.30pm on 27 March. The complete auction calendar for the first quarter will be announced at 3.30pm on Friday 30 March. After the DMO's introductory comments, the following main points emerged in discussion:

### GEMMs

***CONVENTIONAL:*** $5^1/_4$% 2012 was the unanimous choice for issuance in the 5-year sector. For the 10-year, some suggested a December 2017 maturity but most recommended a 2018 maturity. It was suggested by some that if the new 10-year was to mature in 2018 it made sense to issue it as late as possible in the quarter (i.e. after the reopening of $5^1/_4$% 2012) so that it might be a little closer to being a 10-year at issue. GEMMs supported the proposition that a new bond of around 30-years to maturity be issued in Q1, with most suggesting that it could be opened twice. Most also felt that a maturity of 2040 was preferable to 2037. Views were divided about whether the calendar should start with a new bond, with the 2027 or 2046 maturities suggested as alternatives. There were some calls for a reopening of $4^1/_4$% 2055 in the quarter and also for a new gilt maturing in 2034 or 2042.

***INDEX-LINKED:*** Most attendees recommended the index-linked programme begin with a reopening of the 2017 maturity. There was a general preference for three long auctions to include the 2027 and 2037 maturities, although there were some calls for the re-opening of the 2030 and 2055 maturities and for the launch of a new 2022 maturity.

### END-INVESTORS

***CONVENTIONAL:*** $5^1/_4$% 2012 was again seen as the obvious candidate for the 5-year benchmark and those who expressed a view on the maturity of a new 10-year bond stated a preference for a bond maturing in 2018 to be built up over the next year or so. For long-dated maturities, there was general support for a new gilt with a maturity of around 30 years to be issued in the next quarter with 2037, 2040 and 2042 all mentioned as potential maturity years. Views were divided on whether the new bond should be opened twice in the quarter, with the balance to be accounted for by reopening either or both the 2027 or 2046 maturities. There were some calls for a new longer maturity (between 2046 and 2055) to be issued.

***INDEX-LINKED:*** A strong preference for biasing issuance to long maturities was expressed, with some attendees noting that overall the government was planning to sell less duration in the coming year than in 2006-07. There were some calls for all four index-linked auctions in Q1 to be of long maturities, but most favoured one re-opening of the 2017. Most recommended two re-openings of the new 2037 maturity alongside one reopening of the 2027 although there were other calls for auctions of a new 2022 and 2047 maturity bond and for a reopening of the 2030 maturity.

The next quarterly consultation meetings will be held on Tuesday 29 May 2007.

Published: 27 March 2007

## RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE JULY-SEPTEMBER 2007 GILT AUCTION ANNOUNCEMENT

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 29 May 2007. The meetings were primarily intended to inform the choice of gilts to be issued in the scheduled auctions in July - September 2007.

Seven gilt auctions are scheduled in the second quarter of FY 2007-08: four conventional gilt auctions and three of index-linked gilts. The conventional auctions will be held on 3 July, 9 August, 11 September and 13 September. The index-linked auctions will be held on 10 July, 26 July and 26 September. The auction calendar for the second quarter will be announced at 3.30pm on Thursday 31 May 2007. The following main points emerged in discussion:

### GEMMs

***CONVENTIONAL:*** Most attendees pointed to ongoing demand for long-dated maturities and expressed strong support for two re-openings of 4$^1/_2$% 2042 in July, and September; most thought there was little need for a new long-dated conventional in Q2 citing a preference to build up the new 2042 first. 5$^1/_4$% 2012 and 5% 2018 were seen as the obvious candidates for short- and medium-dated issuance with views divided about the sequencing of these auctions.

***INDEX-LINKED:*** Here too, investor attendees highlighted the strong current demand for duration, as evidenced by the shape of the gilt curve. All recommended at least one re-opening of the 2037 maturity, with some calling for that gilt to be auctioned twice (along with a re-opening of the 2027 maturity). There were also several calls for a re-opening of the 2055 maturity. In the medium maturity bracket, there was generally more support for the launch of a new 2022 maturity to start the quarter, as opposed to a further re-opening of the 2017 maturity. There was also a call for the introduction of a new 40-year index-linked gilt.

### END-INVESTORS

***CONVENTIONAL:*** Again, strong demand for longs was cited and there was general support for re-opening of 4$^1/_2$% 2042 twice in the quarter, in July and September. Some attendees, however, noted that if a new long-dated gilt was to be issued, it should be a shorter than 2042. $5\frac{1}{4}$% 2012 and 5% 2018 were seen as the obvious candidates for conventional short- and medium-dated issuance in September and August respectively.

***INDEX-LINKED:*** Here too, investor attendees highlighted the strong current demand for duration, as evidenced by the shape of the gilt curve. All recommended at least one re-opening of the 2037 maturity, with some calling for that gilt to be auctioned twice (along with a re-opening of the 2027 maturity). There were also several calls for a re-opening of the 2055 maturity. In the medium maturity bracket, there was generally more support for the launch of a new 2022 maturity to start the quarter, as opposed to a further re-opening of the 2017 maturity. There was also a call for the introduction of a new 40-year index-linked gilt.

The next quarterly consultation meetings will be held on Tuesday 28 August 2007.

Published: 30 May 2007

## RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE OCTOBER-DECEMBER 2007 GILT AUCTION ANNOUNCEMENT

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 28 August 2007. The meetings were primarily intended to inform the choice of gilts to be issued in the scheduled auctions in October - December 2007.

Nine gilt auctions are scheduled in the third quarter of FY 2007-08: five conventional gilt auctions and four of index-linked gilts. The conventional auctions are scheduled to be held on 2 October, 1, 6 and 28 November and 4 December. The index-linked auctions are scheduled to be held on 10 and 24 October, 20 November and 12 December. The auction calendar for the third quarter will be announced at 3:30pm on Friday 31 August 2007. The following main points emerged in discussion:

### GEMMs

***CONVENTIONAL:*** Almost all GEMMs suggested two further re-openings of $4\frac{1}{2}$% 2042, and some even advocated three such operations in Q3. Those who expressed a preference for the launch of a new long-dated gilt had mixed opinions on the maturity, although 2030 was the most often mentioned, along with suggestions of 2034, 2040 or a new 40-year. $5\frac{1}{4}$% 2012 and 5% 2018 were unanimous choices for 5- and 10-year issuance, with some suggesting that the $5\frac{1}{4}$% 2012 auction might be held late in the quarter to coincide closely with the redemption of $7\frac{1}{4}$% 2007. Most suggested 5% 2018 for early November. Some GEMMs also raised the issue of liquidity at the short-end of the yield curve.

***INDEX-LINKED:*** There was virtual unanimity over the choice of $1\frac{7}{8}$% IL 2022 on 10 October and some called for this gilt to be issued twice in Q3. Views were mixed about the need for the introduction of a new 40- year index-linked gilt in the next quarter, with others preferring to concentrate instead on continuing to build up the existing $1\frac{1}{8}$% IL 2037. Some GEMMs called for an auction of $1\frac{1}{4}$% IL 2027 in the coming quarter, and there were also isolated calls for re-openings of the 2017s, 2035s and 2055s.

### *INVESTORS*

***CONVENTIONAL:*** Most attendees recommended that $4\frac{1}{4}$% 2042 be re-opened twice in Q3 and there was a general preference for a new long-dated bond in the 40-year area (maturity years of 2048 or 2050 were mentioned) rather than something shorter. Some attendees expressed the view that it might be advisable to launch a new 40-year conventional before any new 40-year index-linked gilt. $5\frac{1}{4}$% 2012 and 5% 2018 were again seen unanimously as the obvious choices for 5- and 10-year issuance, and here too were some suggestions that the $5\frac{1}{4}$% 2012 auction might be scheduled for 4 December to help smooth the redemption of $7\frac{1}{4}$% 2007.

***INDEX-LINKED:*** All supported a reopening of $1\frac{7}{8}$% IL 2022 on 10 October and a number suggested that this bond be re-opened later in the quarter. Most also supported the launch of a new 40-year index-linked gilt, with 2046 and 2048 suggested as redemption years. There was also general support for at least one re-opening of $1\frac{1}{8}$% IL 2037 in Q3 and an isolated call for a re-opening of $1\frac{1}{4}$% IL 2027.

### Any other business – Islamic financial instruments

An update was given on the feasibility study into whether the Government should issue wholesale Islamic financial instruments, which is being undertaken by the Debt Management Office and HM Treasury. Significant progress has been made in the study assessing the costs and benefits of issuance, as well as consulting with relevant stakeholders including the City and members of the Islamic Finance Experts Group. Attendees were encouraged to continue to feed in their views on the potential benefits of such issuance. The Government will publish a progress report on the feasibility study with the Pre-Budget Report in October.

The next quarterly consultation meetings will be held on Monday 26 November 2007.

Published: 29 August 2007

## RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE JANUARY-MARCH 2008 GILT AUCTION ANNOUNCEMENT

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 26 November 2007. The meetings were primarily intended to inform the choice of gilts to be issued in the scheduled auctions in January-March 2008.

Nine gilt auctions are scheduled in the final quarter of FY 2007-08: five of conventional gilts and four of index-linked gilts. The conventional auctions are scheduled to be held on 8 January, 5 and 14 February and 4 and 13 March. The index-linked auctions are scheduled to be held on 17 and 29 January, 27 February and 27 March. The auction calendar for the final quarter will be announced at 3:30pm on Friday 30 November

2007. The following main points emerged in discussion:

**GEMMs.**

***CONVENTIONAL:*** Almost all GEMMs supported the case for the launch of a new short-dated gilt maturing in 2013, although views were mixed on the preferred redemption month (March, September or December were all mentioned). The remainder called for a further reopening of $5^{1}/_{4}$% Treasury Gilt 2012 instead. 5% Treasury Gilt 2018 was seen as the obvious candidate for the medium-maturity auction. Aside from one call for a new 15-year maturity gilt, there was no real appetite for the issue of a new long-dated bond, instead most GEMMs recommended two auctions of $4^{3}/_{4}$% Treasury Gilt 2030 and one of $4^{1}/_{2}$% Treasury Gilt 2042 in the coming quarter.

***INDEX-LINKED:*** A wide variety of maturities were mentioned as candidates here. All supported at least one re-opening of the $0^{3}/_{4}$% Index-linked Treasury Gilt 2047, with a number of GEMMs suggesting two auctions of this bond in the quarter. Significant support was also expressed for re-openings of the 2017, 2022, 2027 and 2037 maturities (although some attendees also advised against a re-opening of $1^{7}/_{8}$% Index-linked Treasury Gilt 2022 in Q4). In addition, there were isolated calls for the launch of a new 2032 maturity Index-linked gilt and a re-opening of the existing 2030 and 2035 maturities.

**INVESTORS**

***CONVENTIONAL:*** A small majority of investors recommended the launch a new short-dated conventional gilt (maturing in March 2013) in Q4, with the remainder suggesting a further auction of $5^{1}/_{4}$% Treasury Gilt 2012. Within the group calling for a new 2013 maturity, views were mixed as to whether the bond should be auctioned in February or March 2008. 5% Treasury Gilt 2018 was again seen as the obvious choice for the medium-maturity auction. $4^{3}/_{4}$% Treasury Gilt 2030 was the favoured candidate for the 8 January auction and most recommended a re-opening of $4^{1}/_{2}$% Treasury Gilt 2042 on 14 February. Most investors also recommended two auctions of $4^{3}/_{4}$% Treasury Gilt 2030 in the quarter, but others advocated the launch of a new long-dated gilt in Q4, with maturities of 2034, 2040 and 2044 mentioned as possibilities.

***INDEX-LINKED:*** Most investors recommended that $0^{3}/_{4}$% Index-linked Treasury Gilt 2047 be auctioned twice in the quarter, beginning on 17 January. Views were mixed on the other maturities to be issued, with the 2027 and 2037 maturities mentioned most frequently. A few attendees, however, suggested that $1^{7}/_{8}$% Index-linked Treasury Gilt 2022 need not be re-opened in Q4. There were also some calls for a new index-linked gilt to be issued towards the end of the quarter – with maturities of 2032 or 2042/3 mentioned in this context.

The annual consultation meeting chaired by the Economic Secretary will be held at HM Treasury on 11 December.

The next quarterly consultation meetings will provisionally be held at the DMO on Tuesday 25 March 2008.

Published: 27 November 2007

# D: Gilt issuance performance

## Gilt issuance counterfactuals

The DMO has been publishing the results of its measurement of auction performance against counterfactuals in its Annual Review since 2001. Over time, the DMO has extended the range of the counterfactuals which are designed to indicate whether different non-discretionary issuance patterns during the year would have resulted in higher or lower costs of financing (measured by comparing the cash weighted yield of issuance). The cash weighted average yield of actual issuance at the 34 gilt auctions in 2007-08 was 4.610%, see Table D1. (Index-linked real yields have been converted to nominal equivalents, assuming 3% inflation). The cash weighted yield of issuance by type and maturity is shown in Table D2

Table D1
**Cash weighted average yield of gilt issuance at auction 2007-08**

| Date | Gilt | Real yield (%) | Nominal yield (%) | Cash £mn |
|---|---|---|---|---|
| 3-Apr | 4¼% 2046 | | 4.268 | 1,993.1 |
| 12-Apr | 1¼% IL 2017 | 1.818 | 4.823 | 1,085.3 |
| 24-Apr | 1⅛% IL 2037 | 1.174 | 4.169 | 940.5 |
| 3-May | 4¼% 2027 | | 4.793 | 2,090.7 |
| 22-May | 1¼% IL 2027 | 1.509 | 4.509 | 1,003.1 |
| 24-May | 5% 2018 | | 5.165 | 2,464.2 |
| 5-Jun | 4½% 2042 | | 4.605 | 2,208.0 |
| 21-Jun | 5¼% 2012 | | 5.790 | 2,442.0 |
| 26-Jun | 1⅛% IL 2037 | 1.262 | 4.259 | 979.7 |
| 3-Jul | 4½% 2042 | | 4.698 | 2,173.1 |
| 10-Jul | 1⅞% IL 2022 | 1.915 | 4.921 | 1,191.9 |
| 26-Jul | 1¼% IL 2055 | 0.859 | 3.850 | 866.2 |
| 9-Aug | 5% 2018 | | 5.231 | 2,453.3 |
| 11-Sep | 4½% 2042 | | 4.410 | 2,031.6 |
| 13-Sep | 5¼% 2012 | | 4.989 | 2,526.8 |
| 26-Sep | 1⅛% IL 2037 | 1.160 | 4.155 | 909.4 |
| 2-Oct | 4¾% 2030 | | 4.781 | 2,239.9 |
| 10-Oct | 1⅞% IL 2022 | 1.495 | 4.495 | 1,265.8 |
| 24-Oct | 1⅛% IL 2037 | 1.049 | 4.042 | 965.2 |
| 1-Nov | 5% 2018 | | 4.992 | 2,501.2 |
| 6-Nov | 4¾% 2030 | | 4.677 | 2,271.8 |
| 20-Nov | 0¾% IL 2047 | 0.831 | 3.821 | 729.3 |
| 28-Nov | 4½% 2042 | | 4.436 | 2,022.3 |
| 4-Dec | 5¼% 2012 | | 4.587 | 2,565.7 |
| 12-Dec | 1⅞% IL 2022 | 1.390 | 4.389 | 1,025.1 |
| 8-Jan | 4¾% 2030 | | 4.423 | 2,354.8 |
| 17-Jan | 0¾% IL 2047 | 0.744 | 3.733 | 731.8 |
| 29-Jan | 1⅞% IL 2022 | 1.134 | 4.129 | 1,234.0 |
| 5-Feb | 5% 2018 | | 4.499 | 2,599.8 |
| 14-Feb | 4½% 2042 | | 4.524 | 1,991.4 |
| 27-Feb | 1⅛% IL 2037 | 0.968 | 3.960 | 948.8 |
| 4-Mar | 4½% 2013 | | 4.269 | 2,524.8 |
| 13-Mar | 4¾% 2030 | | 4.522 | 2,063.7 |
| 27-Mar | 1¼% IL 2027 | 0.990 | 3.983 | 1,103.4 |
| | | | **4.610** | **58,497.7** |

below.

Table D2
**Average issuance yield by type and maturity of gilt.**

| Average yield of gilt issuance in 2007-08 | | |
|---|---|---|
| | **Cash** | **%** |
| **All issuance** | **58,498** | **4.610** |
| **By maturity** | | |
| Short (conv) | 10,059 | 4.900 |
| Medium (conv+ilg) | 13,363 | 4.832 |
| Long (conv+ilg) | 35,075 | 4.441 |
| **Conventional** | | |
| Short | 10,059 | 4.900 |
| Medium | 10,019 | 4.965 |
| Long | 23,440 | 4.562 |
| **Total Conventional** | **43,518** | **4.733** |
| **Index-linked** | | |
| Medium | 3,344 | 4.434 |
| Long | 11,635 | 4.199 |
| **Total index-linked** | **14,980** | **4.252** |

The actual average yield of all outright issuance in 2007-08 of 4.610% can then be compared with two main counterfactuals.

## Counterfactual 1 assumes that:

- ***for conventional issuance*** the total cash raised (£43.52 billion) was achieved through sales split equally between 4¼% 2011, 4% 2016 and 4¾% 2038, using the average of the daily close of business yields of each of the gilts over the quarter;

- ***for index-linked issuance*** the total cash raised (£14.98 billion) was achieved by sales of equal amounts of all index-linked gilts with a maturity of 2016 or longer, using the average of the daily close of business yields of the relevant gilts in the quarter.

Table D3
**Counterfactual 1: yield**

| Counterfactual 1 | Cash | Real yield | Nom yield |
|---|---|---|---|
| **Conventional** | 43,518.1 | | 4.796 |
| **Index-linked** | 14,979.6 | 1.291 | 4.288 |
| | **58,497.7** | | **4.666** |

Actual issuance outperformed counterfactual 1 by 5.6 bps, reflecting the higher weighting of short- and medium-dated issuance compared to the actual, and the fact that short yields were, on average over the financial year as a whole, higher than long-dated yields (though clearly towards the end of the financial year this was no longer the case). The split of issuance assumed in the counterfactuals compared to the actual split of issuance in 2007-08 is shown in Table D4 below.

Table D4
**Average issuance yield by type and maturity of gilt**

| | Actual % | Counterfactuals % |
|---|---|---|
| **Conventional** | | |
| Short | 24.3 | 33.3 |
| Medium | 24.2 | 33.3 |
| Long | 51.6 | 33.3 |
| **Index-linked** | | |
| Short | 0.0 | 0.0 |
| Medium | 24.1 | 36.0 |
| Long | 75.9 | 64.0 |

## Counterfactual 2 assumes that:

- ***for conventional issuance*** the cash amounts of the auctions are raised at the average of the close of business yields of three counterfactual gilts (4¼% 2011, 4% 2016 and 4¾% 2038) at:

  a) the day before the auction;
  b) the day of the auction.

- ***for index-linked issuance*** the cash amounts of the auctions are raised at the average close of business yields of all index-linked gilts (2016 maturity or longer) at:

  a) the day before the auction;
  b) the day of the auction.

The results are shown in the table D5 below. For the same reasons as outlined in connection with Counterfactual 1, actual issuance outperformed both counterfactuals 2a and 2b by 5.9bps and 6.2bps respectively.

Table D5
**Counterfactual 2: yields**

| Counterfactual 2a (cob before auction) | | | |
|---|---|---|---|
| **Date** | **Gilt** | **Real yield** | **Nominal yield** |
| 3-Apr | Con | | 4.890 |
| 12-Apr | ILG | 1.443 | 4.443 |
| 24-Apr | ILG | 1.466 | 4.466 |
| 3-May | Con | | 5.015 |
| 22-May | ILG | 1.607 | 4.609 |
| 24-May | Con | | 5.125 |
| 5-Jun | Con | | 5.196 |
| 21-Jun | Con | | 5.373 |
| 26-Jun | ILG | 1.666 | 4.669 |
| 3-Jul | Con | | 5.303 |
| 10-Jul | ILG | 1.787 | 4.792 |
| 26-Jul | ILG | 1.576 | 4.577 |
| 9-Aug | Con | | 5.174 |
| 11-Sep | Con | | 4.788 |
| 13-Sep | Con | | 4.781 |
| 26-Sep | ILG | 1.443 | 4.443 |
| 2-Oct | Con | | 4.868 |
| 10-Oct | ILG | 1.319 | 4.317 |
| 24-Oct | ILG | 1.393 | 4.391 |
| 1-Nov | Con | | 4.829 |
| 6-Nov | Con | | 4.761 |
| 20-Nov | ILG | 1.125 | 4.120 |
| 28-Nov | Con | | 4.516 |
| 4-Dec | Con | | 4.527 |
| 12-Dec | ILG | 1.223 | 4.219 |
| 8-Jan | Con | | 4.328 |
| 17-Jan | ILG | 0.988 | 3.981 |
| 29-Jan | ILG | 0.960 | 3.953 |
| 5-Feb | Con | | 4.383 |
| 14-Feb | Con | | 4.471 |
| 27-Feb | ILG | 1.185 | 4.180 |
| 4-Mar | Con | | 4.290 |
| 13-Mar | Con | | 4.264 |
| 27-Mar | ILG | 0.837 | 3.827 |
| | | | **4.669** |

| Counterfactual 2b (cob auction day) | | | |
|---|---|---|---|
| **Date** | **Gilt** | **Real yield** | **Nominal yield** |
| 3-Apr | Con | | 4.932 |
| 12-Apr | ILG | 1.474 | 4.473 |
| 24-Apr | ILG | 1.479 | 4.479 |
| 3-May | Con | | 5.046 |
| 22-May | ILG | 1.588 | 4.589 |
| 24-May | Con | | 5.111 |
| 5-Jun | Con | | 5.214 |
| 21-Jun | Con | | 5.380 |
| 26-Jun | ILG | 1.684 | 4.687 |
| 3-Jul | Con | | 5.339 |
| 10-Jul | ILG | 1.682 | 4.685 |
| 26-Jul | ILG | 1.527 | 4.528 |
| 9-Aug | Con | | 5.133 |
| 11-Sep | Con | | 4.779 |
| 13-Sep | Con | | 4.834 |
| 26-Sep | ILG | 1.468 | 4.468 |
| 2-Oct | Con | | 4.854 |
| 10-Oct | ILG | 1.393 | 4.391 |
| 24-Oct | ILG | 1.343 | 4.341 |
| 1-Nov | Con | | 4.818 |
| 6-Nov | Con | | 4.771 |
| 20-Nov | ILG | 1.134 | 4.128 |
| 28-Nov | Con | | 4.602 |
| 4-Dec | Con | | 4.475 |
| 12-Dec | ILG | 1.317 | 4.314 |
| 8-Jan | Con | | 4.373 |
| 17-Jan | ILG | 0.986 | 3.979 |
| 29-Jan | ILG | 1.040 | 4.033 |
| 5-Feb | Con | | 4.295 |
| 14-Feb | Con | | 4.480 |
| 27-Feb | ILG | 1.181 | 4.177 |
| 4-Mar | Con | | 4.252 |
| 13-Mar | Con | | 4.200 |
| 27-Mar | ILG | 0.933 | 3.924 |
| | | | **4.672** |

Another way of measuring the impact of a different pattern of issuance on financing costs (as measured by the average yield of issuance) is to apply the actual cash weighted yield of different maturities/type of gilt to different gilt issuance patterns. Table D6 contrasts the actual average issuance yield of the 2007-08 remit with three counterfactuals assuming:

a) an even-distribution approach to financing;
b) a significantly greater bias towards long-dated issuance,
c) a significantly greater bias towards short-dated issuance, and most fundamentally;
d) that the different issuance patterns had no impact on yields.

Table D6
**Illustrative yields assuming different issuance patterns**

| Conventional | ave yield | Remit 07-08 (£bn) | Even-flow (£bn) | Longer (£bn) | Shorter (£bn) |
|---|---|---|---|---|---|
| Short | 4.900 | 10.059 | 14.5 | 5.0 | 20.0 |
| Medium | 4.965 | 10.019 | 14.5 | 5.0 | 10.0 |
| Long | 4.562 | 23.440 | 14.5 | 33.5 | 13.5 |
| | | **43.518** | **43.5** | **43.5** | **43.5** |
| **Index-linked** | | | | | |
| Medium | 4.434 | 3.344 | 7.5 | 3.0 | 12.0 |
| Long | 4.199 | 11.635 | 7.5 | 12.0 | 3.0 |
| | | **14.979** | **15.0** | **15.0** | **15.0** |
| **Total Gilt Sales** | | **58.497** | **58.5** | **58.5** | **58.5** |
| **Average yield** | | **4.610** | **4.683** | **4.540** | **4.701** |
| **Difference bps** | | | **7.3** | **-6.9** | **9.2** |

## Auction concession analysis

Table D7 shows the yield at the average accepted/strike price at gilt auctions in 2007-08 and how the yield on each gilt being auctioned moved both between the close of business on the day before each auction and the auction itself, and between the auction and the close of business on the day of the auction. This gives an indication of the extent of any concessions around the auctions.

On average, yields rose by 2.0bps on the morning ahead of auctions and fell by 1.3bps in the remainder of the day afterwards. This is a marginal deterioration on 2006-07 when the corresponding movements were +0.7bps and -0.5bps. This may be a reflection of the more difficult trading conditions being experienced in international capital markets since summer 2007.

## Benchmark premia

One of the ways in which the DMO seeks to deliver its debt management objectives is to issue gilts that deliver a benchmark premium, i.e. they acquire a premium relative to adjacent gilts on the yield curve by virtue of their size and liquidity. The chart below shows how the yield spread between the gilt issued to become the 10-year benchmark (5% Treasury Gilt 2018) moved relative to a previous 10-year benchmark (4% Treasury Gilt 2016) and an older, smaller high coupon gilt 8¾% Treasury Stock 2017 nearest to it on the yield curve.

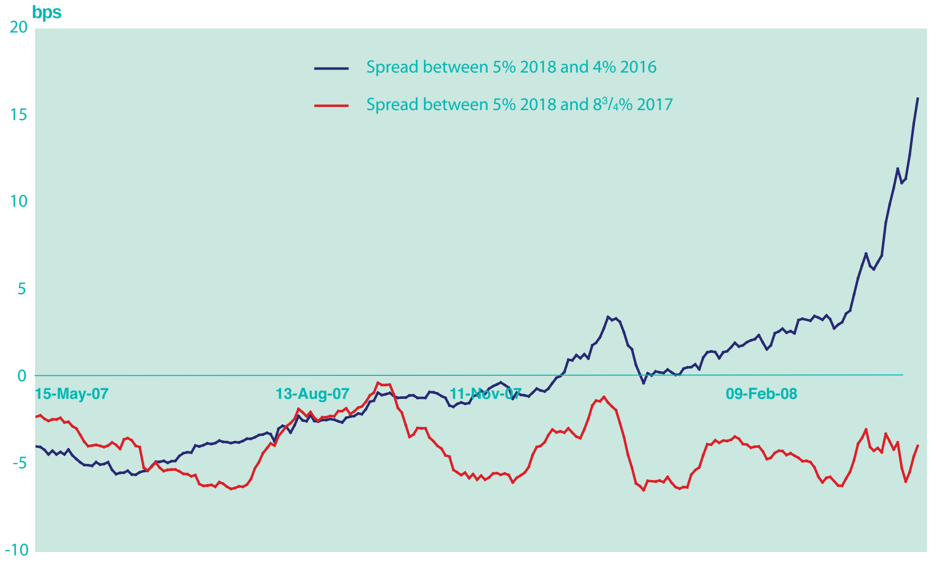
At the time of issue (May 2007) 5% Treasury Gilt 2018 yielded some 4bps less than 4% Treasury Gilt 2016 and 2½bps less than 8¾% Treasury Stock 2017. As would be expected 5% Treasury Gilt 2018 consistently yielded less than the 2017 maturity (on average by 4bps during the period May 2007 - March 2008). The premium on 5% Treasury Gilt 2018 over 4% Treasury Gilt 2016 disappeared, however, towards the end of 2007, and the gilt ended the financial year yielding 15.9 bps more than 4% Treasury Stock 2016. This development is, however, likely to be predominantly accounted for by the sharp disinversion of the yield curve in late 2007 - early 2008 as interest rate expectations fell.

The modest evidence of benchmark premia reported above is likely to reflect a combination of factors, in particular that the conventional gilt yield curve is now predominantly made up of benchmark issues, and the shape of the curve itself.

Table D7
**Cash weighted average yield of gilt issuance at auction 2007-08**

| Auction Date | Gilt | Movement before (bps) | Auction yield at (AAP*) | Movement after (bps) |
|---|---|---|---|---|
| 3-Apr | 4¼% 2046 | 3.0 | 4.268 | 6.8 |
| 12-Apr | 1¼% IL 2017 | 3.0 | 1.818 | 0.2 |
| 24-Apr | 1⅛% IL 2037 | 0.1 | 1.174 | 0.3 |
| 3-May | 4¼% 2027 | 2.5 | 4.793 | 1.1 |
| 22-May | 1¼% IL 2027 | -2.0 | 1.509 | -1.8 |
| 24-May | 5% 2018 | -1.3 | 5.165 | -0.5 |
| 5-Jun | 4½% 2042 | 3.5 | 4.605 | -1.3 |
| 21-Jun | 5¼% 2012 | 4.8 | 5.790 | -2.4 |
| 26-Jun | 1⅛% IL 2037 | 0.5 | 1.261 | 2.4 |
| 3-Jul | 4½% 2042 | 1.4 | 4.698 | 3.1 |
| 10-Jul | 1⅞% IL 2022 | -3.6 | 1.915 | -9.0 |
| 26-Jul | 1¼% IL 2055 | 0.9 | 0.859 | -5.9 |
| 9-Aug | 5% 2018 | 1.1 | 5.231 | -4.1 |
| 11-Sep | 4½% 2042 | 3.2 | 4.410 | -0.6 |
| 13-Sep | 5¼% 2012 | -0.2 | 4.989 | 6.0 |
| 26-Sep | 1⅛% IL 2037 | 4.6 | 1.160 | -3.8 |
| 2-Oct | 4¾% 2030 | 5.2 | 4.781 | -6.0 |
| 10-Oct | 1⅞% IL 2022 | -1.8 | 1.495 | 2.0 |
| 24-Oct | 1⅛% IL 2037 | 0.6 | 1.049 | -5.7 |
| 1-Nov | 5% 2018 | 7.5 | 4.992 | -9.0 |
| 6-Nov | 4¾% 2030 | 4.3 | 4.677 | -2.3 |
| 20-Nov | 0¾% IL 2047 | 6.4 | 0.831 | -3.3 |
| 28-Nov | 4½% 2042 | 2.7 | 4.436 | 1.9 |
| 4-Dec | 5¼% 2012 | -2.0 | 4.587 | -4.8 |
| 12-Dec | 1⅞% IL 2022 | 3.5 | 1.390 | 6.7 |
| 8-Jan | 4¾% 2030 | 2.5 | 4.423 | 1.9 |
| 17-Jan | 0¾% IL 2047 | 2.2 | 0.744 | -4.8 |
| 29-Jan | 1⅞% IL 2022 | 5.2 | 1.134 | 3.4 |
| 5-Feb | 5% 2018 | -0.3 | 4.499 | -9.4 |
| 14-Feb | 4½% 2042 | 3.8 | 4.524 | -0.9 |
| 27-Feb | 1⅛% IL 2037 | 0.0 | 0.968 | -0.2 |
| 4-Mar | 4½% 2013 | 1.3 | 4.269 | -5.5 |
| 13-Mar | 4¾% 2030 | -1.0 | 4.522 | -1.7 |
| 27-Mar | 1¼% IL 2027 | 6.7 | 0.990 | 3.4 |
| | | **2.0** | | **-1.3** |

Chart D1
**Spread between the yields on 5% Treasury Gilt 2018 and 4% Treasury Gilt 2016 and 8³/₄% Treasury Stock 2017**




*Source: DMO*

# E: Gilt redemptions and the gilt portfolio

## Gilt redemptions

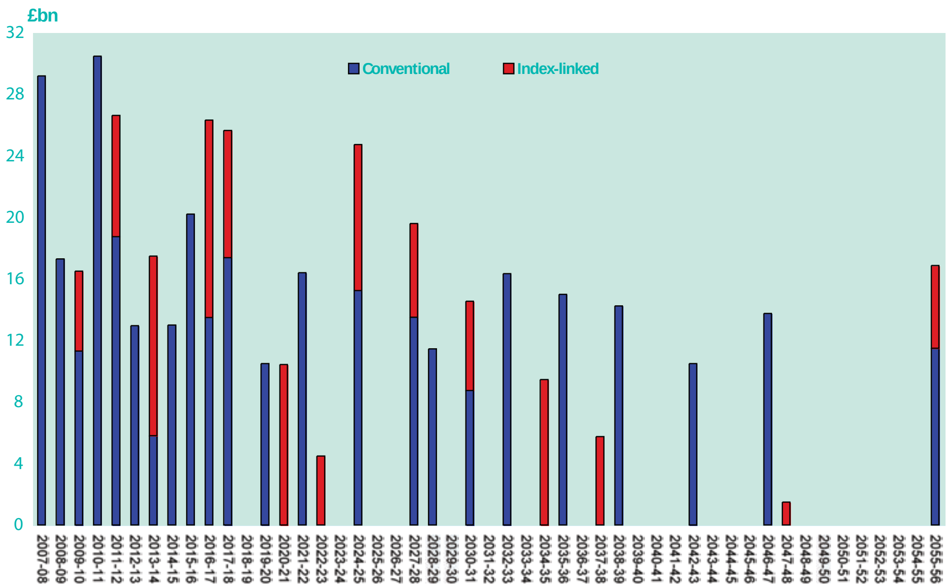
£29.2 billion of gilts in market hands redeemed in 2007-08, as detailed in Table E1.

Table E1
**Gilt redemptions in 2007-08 (£mn)**

| Gilt | Redemption date | Amount in issue (£mn) | Government holdings (£mn) | Redemptions to market (£mn) |
|---|---|---|---|---|
| $8\frac{1}{2}$% Treasury Loan 2007 | 16-Jul-07 | 4,869 | 600 | 4,269 |
| $7\frac{1}{4}$% Treasury Stock 2007 | 7-Dec-07 | 11,655 | 795 | 10,860 |
| 5% Treasury Stock 2008 | 7-Mar-08 | 14,928 | 865 | 14,063 |
| | | | | **29,192** |

The future profile of gilt redemptions at end-March 2008 is shown in Chart E1.

Chart E1
**Gilt redemption profile at end-March 2008**




*Source: DMO*

## The Gilt portfolio

The key statistics of the gilt portfolio at end-March 2008 compared to the position at the end of the previous financial year are shown in Table E2 below.

Table E2
**Key portfolio statistics**

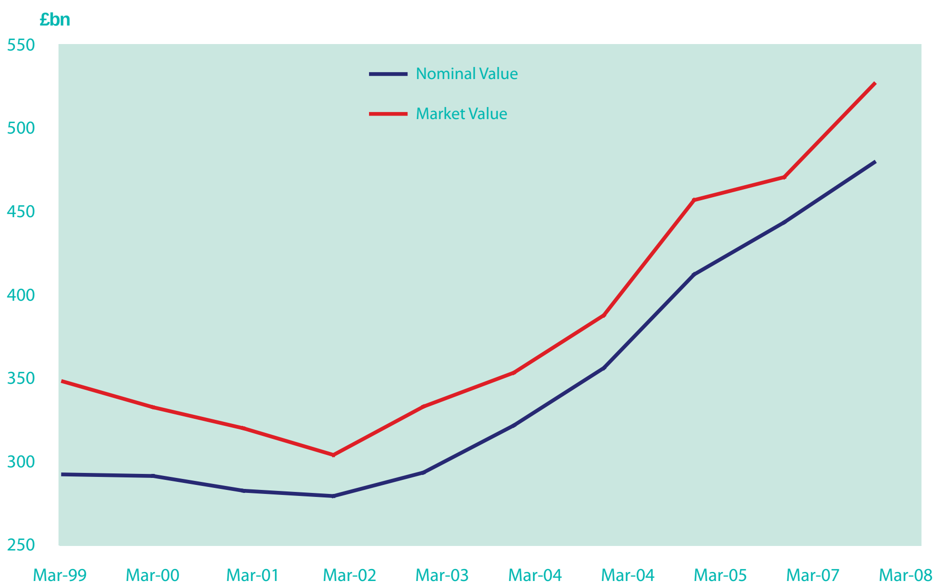
| Gilt Portfolio Summary Statistics | End-March 2007 | End-March 2008 |
|---|---|---|
| Nominal (uplifted) value of the gilt portfolio (£): | 442.86 billion | 478.77 billion |
| Market value of the gilt portfolio (£): | 469.95 billion | 525.94 billion |
| Weighted average market yields | | |
| conventional gilts: | 4.94% | 4.25% |
| index-linked gilts: | 1.72% | 0.88% |
| Portfolio average maturity | 14.16 years | 14.79 years |
| conventional gilts: | 13.92 years | 14.74 years |
| index-linked gilts: | 14.77 years | 14.91 years |
| Weighted average modified duration | | |
| conventional gilts: | 8.51 years | 9.04 years |
| index-linked gilts: | 11.95 years | 12.49 years |
| Average amt outstanding of largest 20 (£): | 14.77 billion | 15.21 billion |

The nominal value of the gilt portfolio rose by 8% to £478.8 billion as gross gilt issuance greatly exceeded gilt redemptions. The market value of the portfolio rose by 12%, however, to £525.9 billion, reflecting the rise in gilt prices over the year (evidenced by the sharp fall in market yields).

The rise in nominal and market values of the portfolio continued the trend of the previous few financial years, reflecting the step change in levels of gilt issuance since 2002-03.

Chart E2 shows the nominal and market values of the gilt portfolio at end-March in each year since 1999.

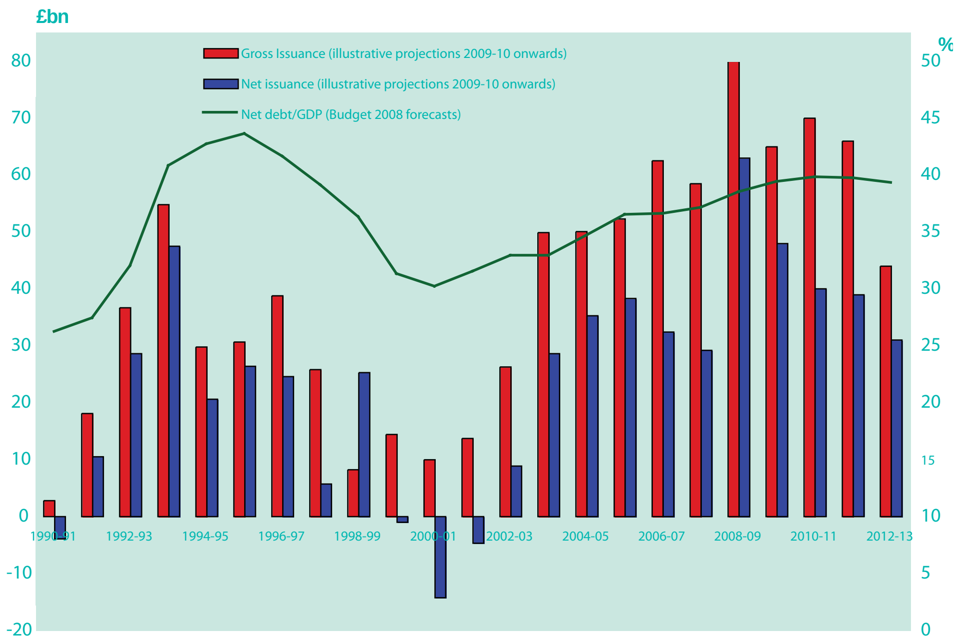
Chart E2
**Uplifted nominal and market values of the gilt portfolio**




*Source: DMO*

On the basis of future financing projections, the trend of rising nominal values is expected to continue. Chart E3 shows past and projected gross and net gilt issuance levels (and net debt/GDP data).

Chart E3
**Gross and net issuance history and projections**




*Source: HM Treasury/DMO*

## Breakdown of the gilt portfolio by type and maturity

Table E3 and Chart E4 show the evolution of the gilt portfolio by type and maturity since March 1999. They show the steadily rising proportion of long conventional gilts (from 15% to 28% of the portfolio), and index-linked gilts (from 21% to 30% of the gilt portfolio) over the nine year period.

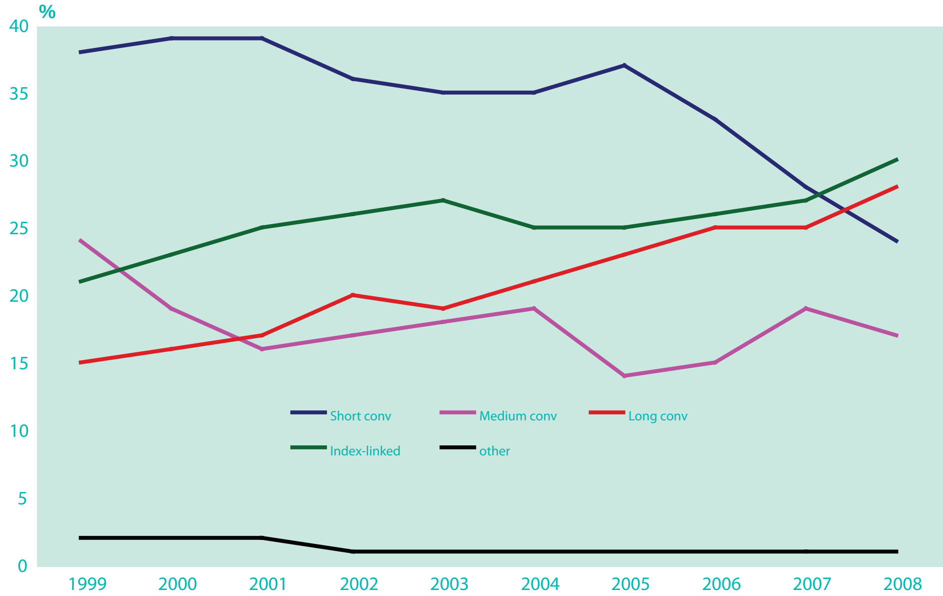
Table E3
**Portfolio composition 1999-2008**

| At end-March | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Conventional** | | | | | | | | | | |
| 0-3 years | 16 | 17 | 17 | 18 | 16 | 16 | 20 | 19 | 14 | 13 |
| 3-7 years | 22 | 22 | 22 | 18 | 19 | 19 | 17 | 14 | 14 | 11 |
| 7-15 years | 24 | 19 | 16 | 17 | 18 | 19 | 14 | 15 | 19 | 17 |
| Over 15 years | 15 | 16 | 17 | 20 | 19 | 21 | 23 | 25 | 25 | 28 |
| **Total Conventional** | **76** | **75** | **73** | **73** | **73** | **74** | **74** | **73** | **72** | **69** |
| **Index-linked*** | **21** | **23** | **25** | **26** | **27** | **25** | **25** | **26** | **27** | **30** |
| Undated | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Floating rate | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

*including index-linked uplift
(Figures may not sum due to rounding)

Chart E4 includes both the 0-3 years and 3-7 years data within the "short conventional" category and undated and floating rate gilts in the "other" category.

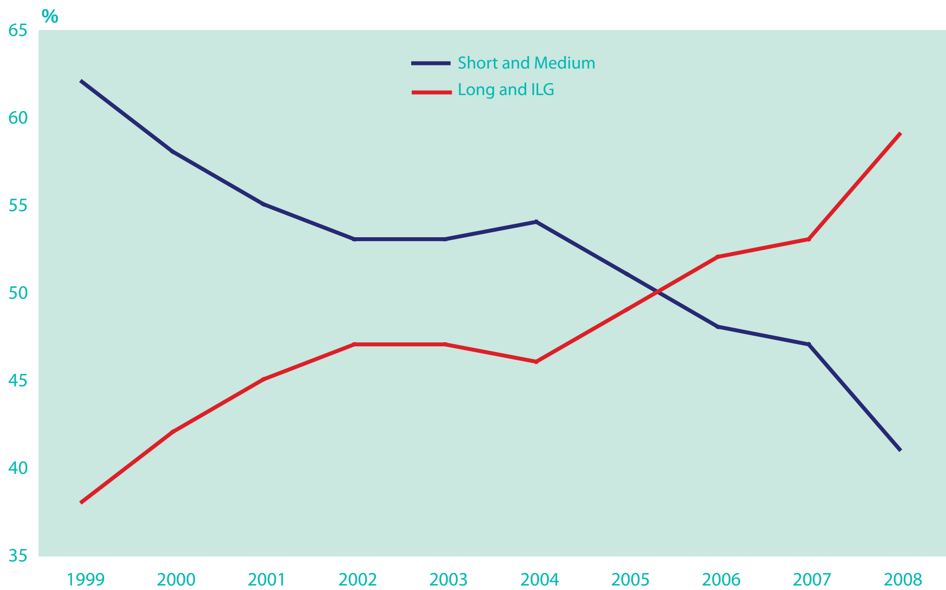
Chart E4
**Gilt portfolio – breakdown proportion by maturity and type**




*Source: DMO*

Chart E5 compares the change in the balance of the portfolio accounted for by: (i) short- and medium-dated conventional gilts; with (ii) long-dated and index-linked gilts at the end of March each year since 1999. This shows clearly the impact of the general skew of issuance towards long-dated and index-linked gilts over this period.

Chart E5
**Gilt portfolio – breakdown between short- and medium-dated conventional gilts and between long-dated conventional and index-linked gilts.**




*Source: DMO*

# F: Treasury bill tender results 2007-08

Table F1
**One-month tender results**

| Tender date | Issue Date | Redemption Date | Nominal Amount £mn | Cover | Avg Yield | Avg price | Yield tail (bps) |
|---|---|---|---|---|---|---|---|
| 5-Apr-2007 | 10-Apr-2007 | 8-May-2007 | 500 | 6.31 | 5.3780 | 99.5891 | 0 |
| 13-Apr-2007 | 16-Apr-2007 | 14-May-2007 | 500 | 4.45 | 5.3114 | 99.5942 | 1 |
| 20-Apr-2007 | 23-Apr-2007 | 21-May-2007 | 500 | 7.71 | 5.3498 | 99.5913 | 0 |
| 27-Apr-2007 | 30-Apr-2007 | 29-May-2007 | 500 | 8.97 | 5.4204 | 99.5712 | 1 |
| 4-May-2007 | 8-May-2007 | 4-Jun-2007 | 500 | 7.31 | 5.4927 | 99.5953 | 1 |
| 11-May-2007 | 14-May-2007 | 11-Jun-2007 | 500 | 8.70 | 5.4980 | 99.5800 | 0 |
| 18-May-2007 | 21-May-2007 | 18-Jun-2007 | 500 | 5.22 | 5.4972 | 99.5801 | 0 |
| 25-May-2007 | 29-May-2007 | 25-Jun-2007 | 500 | 4.40 | 5.5380 | 99.5920 | 1 |
| 1-Jun-2007 | 4-Jun-2007 | 2-Jul-2007 | 500 | 5.72 | 5.5250 | 99.5780 | 0 |
| 8-Jun-2007 | 11-Jun-2007 | 9-Jul-2007 | 500 | 3.81 | 5.5200 | 99.5783 | 0 |
| 15-Jun-2007 | 18-Jun-2007 | 16-Jul-2007 | 500 | 5.34 | 5.5524 | 99.5759 | 2 |
| 22-Jun-2007 | 25-Jun-2007 | 23-Jul-2007 | 500 | 5.67 | 5.6431 | 99.5690 | 0 |
| 29-Jun-2007 | 2-Jul-2007 | 30-Jul-2007 | 500 | 3.21 | 5.8236 | 99.5552 | 3 |
| 6-Jul-2007 | 9-Jul-2007 | 6-Aug-2007 | 500 | 4.23 | 5.7699 | 99.5593 | 0 |
| 13-Jul-2007 | 16-Jul-2007 | 13-Aug-2007 | 500 | 4.68 | 5.7868 | 99.5580 | 2 |
| 20-Jul-2007 | 23-Jul-2007 | 20-Aug-2007 | 500 | 7.23 | 5.7884 | 99.5579 | 0 |
| 27-Jul-2007 | 30-Jul-2007 | 28-Aug-2007 | 500 | 4.55 | 5.7766 | 99.5431 | 0 |
| 3-Aug-2007 | 6-Aug-2007 | 3-Sep-2007 | 500 | 6.14 | 5.7795 | 99.5586 | 0 |
| 10-Aug-2007 | 13-Aug-2007 | 10-Sep-2007 | 500 | 2.55 | 5.9001 | 99.5494 | 2 |
| 17-Aug-2007 | 20-Aug-2007 | 17-Sep-2007 | 500 | 4.84 | 5.9101 | 99.5487 | 1 |
| 24-Aug-2007 | 28-Aug-2007 | 24-Sep-2007 | 500 | 4.71 | 5.8314 | 99.5705 | 1 |
| 31-Aug-2007 | 3-Sep-2007 | 1-Oct-2007 | 500 | 3.09 | 5.8888 | 99.5503 | 1 |
| 7-Sep-2007 | 10-Sep-2007 | 8-Oct-2007 | 500 | 8.14 | 5.8267 | 99.5550 | 2 |
| 14-Sep-2007 | 17-Sep-2007 | 15-Oct-2007 | 500 | 6.88 | 5.8185 | 99.5556 | 2 |
| 21-Sep-2007 | 24-Sep-2007 | 22-Oct-2007 | 500 | 7.89 | 5.7443 | 99.5613 | 0 |
| 28-Sep-2007 | 1-Oct-2007 | 29-Oct-2007 | 500 | 6.34 | 5.7182 | 99.5633 | 3 |
| 5-Oct-2007 | 8-Oct-2007 | 5-Nov-2007 | 500 | 7.74 | 5.7400 | 99.5616 | 1 |
| 12-Oct-2007 | 15-Oct-2007 | 12-Nov-2007 | 500 | 5.07 | 5.7450 | 99.5612 | 1 |
| 19-Oct-2007 | 22-Oct-2007 | 19-Nov-2007 | 500 | 6.34 | 5.7098 | 99.5639 | 1 |
| 26-Oct-2007 | 29-Oct-2007 | 26-Nov-2007 | 500 | 3.66 | 5.6858 | 99.5657 | 1 |
| 2-Nov-2007 | 5-Nov-2007 | 3-Dec-2007 | 500 | 7.99 | 5.6951 | 99.5650 | 1 |
| 9-Nov-2007 | 12-Nov-2007 | 10-Dec-2007 | 500 | 6.52 | 5.6797 | 99.5662 | 1 |
| 16-Nov-2007 | 19-Nov-2007 | 17-Dec-2007 | 500 | 4.34 | 5.6747 | 99.5666 | 1 |
| 23-Nov-2007 | 26-Nov-2007 | 24-Dec-2007 | 500 | 5.22 | 5.5840 | 99.5735 | 6 |
| 30-Nov-2007 | 3-Dec-2007 | 31-Dec-2007 | 500 | 2.49 | 5.6620 | 99.5675 | 2 |
| 7-Dec-2007 | 10-Dec-2007 | 7-Jan-2008 | 500 | 2.20 | 5.4946 | 99.5803 | 1 |
| 14-Dec-2007 | 17-Dec-2007 | 14-Jan-2008 | 500 | 3.92 | 5.5362 | 99.5771 | 2 |
| 21-Dec-2007 | 24-Dec-2007 | 21-Jan-2008 | 500 | 3.39 | 5.4737 | 99.5819 | 3 |
| 28-Dec-2007 | 31-Dec-2007 | 28-Jan-2008 | 500 | 3.75 | 5.4250 | 99.5856 | 3 |
| 4-Jan-2008 | 7-Jan-2008 | 4-Feb-2008 | 500 | 4.30 | 5.3485 | 99.5914 | 2 |
| 11-Jan-2008 | 14-Jan-2008 | 11-Feb-2008 | 500 | 5.00 | 5.4500 | 99.5837 | 1 |
| 18-Jan-2008 | 21-Jan-2008 | 18-Feb-2008 | 450 | 4.19 | 5.3746 | 99.5894 | 2 |
| 25-Jan-2008 | 28-Jan-2008 | 25-Feb-2008 | 450 | 5.14 | 5.2652 | 99.5977 | 4 |
| 1-Feb-2008 | 4-Feb-2008 | 3-Mar-2008 | 450 | 6.42 | 5.1893 | 99.6035 | 2 |
| 8-Feb-2008 | 11-Feb-2008 | 10-Mar-2008 | 450 | 5.66 | 5.1831 | 99.6040 | 2 |
| 15-Feb-2008 | 18-Feb-2008 | 17-Mar-2008 | 450 | 5.16 | 5.1882 | 99.6036 | 1 |
| 22-Feb-2008 | 25-Feb-2008 | 25-Mar-2008 | 450 | 5.43 | 5.1844 | 99.5898 | 0 |
| 29-Feb-2008 | 3-Mar-2008 | 31-Mar-2008 | 450 | 3.40 | 5.1846 | 99.6039 | 5 |
| 7-Mar-2008 | 10-Mar-2008 | 7-Apr-2008 | 450 | 2.44 | 5.1756 | 99.6045 | 7 |
| 14-Mar-2008 | 17-Mar-2008 | 14-Apr-2008 | 450 | 4.20 | 5.1906 | 99.6034 | 3 |
| 20-Mar-2008 | 25-Mar-2008 | 21-Apr-2008 | 450 | 7.13 | 4.8783 | 99.6404 | 9 |
| 28-Mar-2008 | 31-Mar-2008 | 28-Apr-2008 | 450 | 3.48 | 5.0638 | 99.6131 | 12 |

Table F2
## Three-month tender results

| Tender date | Issue Date | Redemption Date | Nominal Amount £mn | Cover | Avg Yield | Avg price | Yield tail (bps) |
|---|---|---|---|---|---|---|---|
| 5-Apr-2007 | 10-Apr-2007 | 9-Jul-2007 | 750 | 8.80 | 5.4929 | 98.6637 | 1 |
| 13-Apr-2007 | 16-Apr-2007 | 16-Jul-2007 | 750 | 5.29 | 5.4501 | 98.6594 | 1 |
| 20-Apr-2007 | 23-Apr-2007 | 23-Jul-2007 | 750 | 7.24 | 5.5323 | 98.6395 | 1 |
| 27-Apr-2007 | 30-Apr-2007 | 30-Jul-2007 | 750 | 7.65 | 5.5478 | 98.6357 | 1 |
| 4-May-2007 | 8-May-2007 | 6-Aug-2007 | 750 | 7.93 | 5.6112 | 98.6353 | 1 |
| 11-May-2007 | 14-May-2007 | 13-Aug-2007 | 750 | 8.11 | 5.6093 | 98.6208 | 0 |
| 18-May-2007 | 21-May-2007 | 20-Aug-2007 | 750 | 4.56 | 5.6097 | 98.6207 | 0 |
| 25-May-2007 | 29-May-2007 | 28-Aug-2007 | 750 | 4.91 | 5.6481 | 98.6114 | 1 |
| 1-Jun-2007 | 4-Jun-2007 | 3-Sep-2007 | 750 | 6.19 | 5.6685 | 98.6064 | 0 |
| 8-Jun-2007 | 11-Jun-2007 | 10-Sep-2007 | 750 | 3.36 | 5.6693 | 98.6063 | 1 |
| 15-Jun-2007 | 18-Jun-2007 | 17-Sep-2007 | 750 | 6.56 | 5.6935 | 98.6004 | 1 |
| 22-Jun-2007 | 25-Jun-2007 | 24-Sep-2007 | 750 | 7.20 | 5.7891 | 98.5772 | 1 |
| 29-Jun-2007 | 2-Jul-2007 | 1-Oct-2007 | 750 | 2.76 | 5.8541 | 98.5615 | 2 |
| 6-Jul-2007 | 9-Jul-2007 | 8-Oct-2007 | 750 | 5.37 | 5.8731 | 98.5569 | 1 |
| 13-Jul-2007 | 16-Jul-2007 | 15-Oct-2007 | 750 | 5.98 | 5.8546 | 98.5613 | 0 |
| 20-Jul-2007 | 23-Jul-2007 | 22-Oct-2007 | 750 | 6.86 | 5.8685 | 98.5580 | 0 |
| 27-Jul-2007 | 30-Jul-2007 | 29-Oct-2007 | 750 | 6.95 | 5.8381 | 98.5654 | 1 |
| 3-Aug-2007 | 6-Aug-2007 | 5-Nov-2007 | 750 | 7.33 | 5.8611 | 98.5598 | 2 |
| 10-Aug-2007 | 13-Aug-2007 | 12-Nov-2007 | 750 | 1.51 | 5.9682 | 98.5338 | 1 |
| 17-Aug-2007 | 20-Aug-2007 | 19-Nov-2007 | 750 | 5.16 | 5.8796 | 98.5553 | 1 |
| 24-Aug-2007 | 28-Aug-2007 | 26-Nov-2007 | 750 | 8.25 | 5.8348 | 98.5817 | 1 |
| 31-Aug-2007 | 3-Sep-2007 | 3-Dec-2007 | 750 | 3.89 | 5.8517 | 98.5621 | 2 |
| 7-Sep-2007 | 10-Sep-2007 | 10-Dec-2007 | 750 | 7.31 | 5.8049 | 98.5734 | 0 |
| 14-Sep-2007 | 17-Sep-2007 | 17-Dec-2007 | 750 | 8.04 | 5.7942 | 98.5760 | 1 |
| 21-Sep-2007 | 24-Sep-2007 | 24-Dec-2007 | 750 | 7.38 | 5.7163 | 98.5949 | 0 |
| 28-Sep-2007 | 1-Oct-2007 | 31-Dec-2007 | 750 | 9.15 | 5.6850 | 98.6025 | 1 |
| 5-Oct-2007 | 8-Oct-2007 | 7-Jan-2008 | 750 | 9.33 | 5.6757 | 98.6047 | 1 |
| 12-Oct-2007 | 15-Oct-2007 | 14-Jan-2008 | 750 | 6.48 | 5.7380 | 98.5896 | 1 |
| 19-Oct-2007 | 22-Oct-2007 | 21-Jan-2008 | 750 | 7.53 | 5.6770 | 98.6044 | 0 |
| 26-Oct-2007 | 29-Oct-2007 | 28-Jan-2008 | 750 | 5.25 | 5.6493 | 98.6111 | 1 |
| 2-Nov-2007 | 5-Nov-2007 | 4-Feb-2008 | 750 | 4.57 | 5.6739 | 98.6051 | 1 |
| 9-Nov-2007 | 12-Nov-2007 | 11-Feb-2008 | 750 | 4.07 | 5.6364 | 98.6142 | 1 |
| 16-Nov-2007 | 19-Nov-2007 | 18-Feb-2008 | 750 | 6.95 | 5.5711 | 98.6301 | 1 |
| 23-Nov-2007 | 26-Nov-2007 | 25-Feb-2008 | 750 | 4.37 | 5.4756 | 98.6532 | 2 |
| 30-Nov-2007 | 3-Dec-2007 | 3-Mar-2008 | 750 | 3.05 | 5.5183 | 98.6429 | 4 |
| 7-Dec-2007 | 10-Dec-2007 | 10-Mar-2008 | 750 | 4.69 | 5.4195 | 98.6669 | 0 |
| 14-Dec-2007 | 17-Dec-2007 | 17-Mar-2008 | 750 | 4.84 | 5.3891 | 98.6742 | 1 |
| 21-Dec-2007 | 24-Dec-2007 | 25-Mar-2008 | 750 | 3.34 | 5.3821 | 98.6616 | 2 |
| 28-Dec-2007 | 31-Dec-2007 | 31-Mar-2008 | 650 | 3.72 | 5.3081 | 98.6939 | 2 |
| 4-Jan-2008 | 7-Jan-2008 | 7-Apr-2008 | 650 | 5.56 | 5.2792 | 98.7009 | 2 |
| 11-Jan-2008 | 14-Jan-2008 | 14-Apr-2008 | 650 | 4.58 | 5.2786 | 98.7011 | 1 |
| 18-Jan-2008 | 21-Jan-2008 | 21-Apr-2008 | 650 | 4.97 | 5.1866 | 98.7234 | 1 |
| 25-Jan-2008 | 28-Jan-2008 | 28-Apr-2008 | 650 | 5.72 | 5.1203 | 98.7395 | 3 |
| 1-Feb-2008 | 4-Feb-2008 | 6-May-2008 | 650 | 5.56 | 5.0747 | 98.7370 | 3 |
| 08-Feb-2008 | 11-Feb-2008 | 12-May-2008 | 650 | 5.07 | 5.0718 | 98.7513 | 2 |
| 15-Feb-2008 | 18-Feb-2008 | 19-May-2008 | 650 | 6.11 | 5.0901 | 98.7469 | 3 |
| 22-Feb-2008 | 25-Feb-2008 | 27-May-2008 | 650 | 4.52 | 5.1248 | 98.7248 | 2 |
| 29-Feb-2008 | 3-Mar-2008 | 2-Jun-2008 | 650 | 5.47 | 5.0397 | 98.7591 | 0 |
| 7-Mar-2008 | 10-Mar-2008 | 9-Jun-2008 | 650 | 5.13 | 4.9733 | 98.7753 | 3 |
| 14-Mar-2008 | 17-Mar-2008 | 16-Jun-2008 | 650 | 5.66 | 4.8662 | 98.8013 | 3 |
| 20-Mar-2008 | 25-Mar-2008 | 23-Jun-2008 | 650 | 8.11 | 4.7371 | 98.8454 | 11 |
| 28-Mar-2008 | 31-Mar-2008 | 30-Jun-2008 | 650 | 3.36 | 4.8264 | 98.8110 | 7 |

Table F3
## Six-month tender results

| Tender date | Issue Date | Redemption Date | Nominal Amount £mn | Cover | Avg Yield | Avg price | Yield tail (bps) |
|---|---|---|---|---|---|---|---|
| 20-Apr-2007 | 23-Apr-2007 | 22-Oct-2007 | 750 | 8.13 | 5.6411 | 97.2641 | 1 |
| 18-May-2007 | 21-May-2007 | 19-Nov-2007 | 750 | 5.13 | 5.7127 | 97.2304 | 1 |
| 15-Jun-2007 | 18-Jun-2007 | 17-Dec-2007 | 750 | 7.09 | 5.8281 | 97.1760 | 1 |
| 13-Jul-2007 | 16-Jul-2007 | 14-Jan-2008 | 750 | 5.70 | 5.9700 | 97.1092 | 0 |
| 10-Aug-2007 | 13-Aug-2007 | 11-Feb-2008 | 750 | 1.77 | 6.0065 | 97.0920 | 1 |
| 7-Sep-2007 | 10-Sep-2007 | 10-Mar-2008 | 750 | 8.55 | 5.7920 | 97.1930 | 2 |
| 5-Oct-2007 | 8-Oct-2007 | 7-Apr-2008 | 750 | 10.19 | 5.6252 | 97.2716 | 2 |
| 2-Nov-2007 | 5-Nov-2007 | 6-May-2008 | 750 | 6.31 | 5.6102 | 97.2642 | 1 |
| 30-Nov-2007 | 3-Dec-2007 | 2-Jun-2008 | 750 | 4.59 | 5.4220 | 97.3676 | 2 |
| 4-Jan-2008 | 7-Jan-2008 | 7-Jul-2008 | 750 | 5.79 | 5.1423 | 97.5000 | 2 |
| 25-Jan-2008 | 28-Jan-2008 | 28-Jul-2008 | 750 | 3.93 | 4.9932 | 97.5707 | 1 |
| 22-Feb-2008 | 25-Feb-2008 | 26-Aug-2008 | 750 | 6.57 | 4.9695 | 97.5690 | 2 |
| 28-Mar-2008 | 31-Mar-2008 | 29-Sep-2008 | 750 | 4.08 | 4.7442 | 97.6891 | 6 |

# G: Treasury bill tender performance

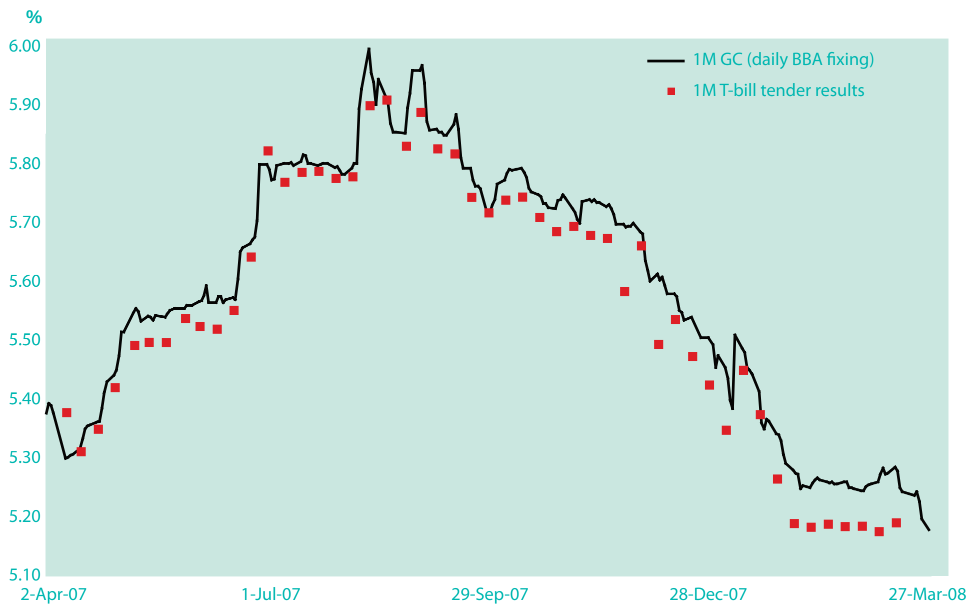
Table G1 and Charts G1-3 compare the results (in terms of the average yield) of all Treasury bill tenders in 2007-08 with the average fixing of the relevant GC repo rate on the day of the settlement of the tenders. On average over the financial year the yields at tenders of bills at all maturities out-performed the average of GC repo fixings by 4.9 to 5.6bps.

Table G1
**Comparison of average tender yields with GC repo fixings in 2007-08**

**Average Treasury bill tender yields compared to average GC fixings on settlement of tenders in 2007-08**

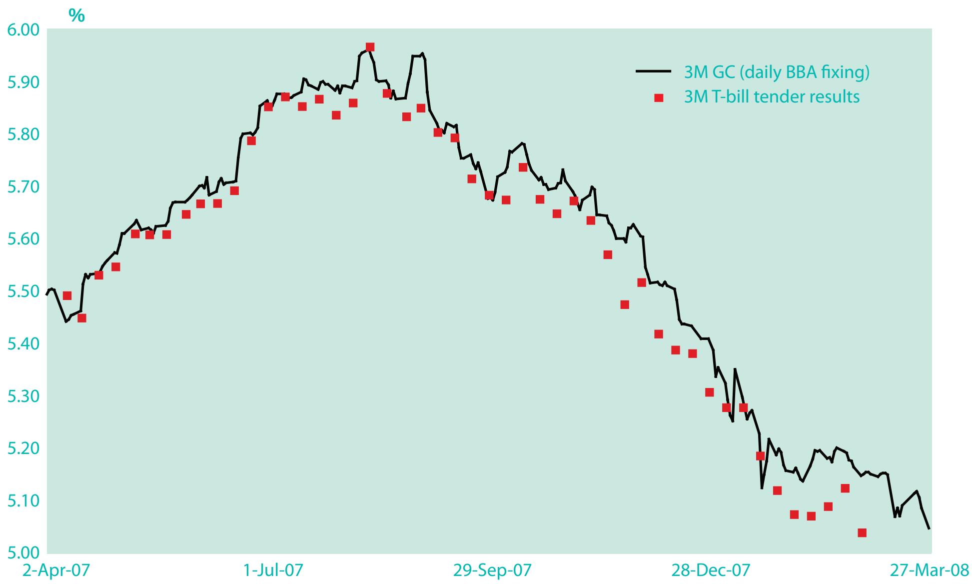
| Maturity | Average tender yield | Average GC fixing | Tender relative performance (bps) |
|---|---|---|---|
| One-month | 5.425 | 5.474 | –4.9 |
| Three-month | 5.403 | 5.458 | –5.6 |
| Six-month | 5.497 | 5.551 | –5.5 |

Chart G1
**One-month tender yields vs GC repo fixings in 2007-08**



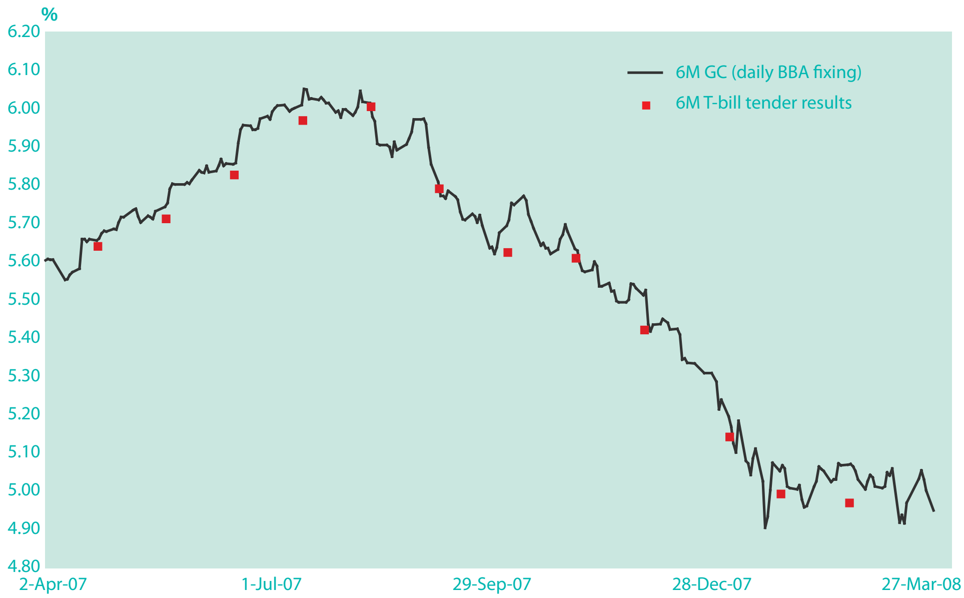

*Source: DMO/BBA*

Chart G2
**Three-month tender yields v GC repo fixings in 2007-08**




*Source: DMO/BBA*

Chart G3
**Six-month tender yields v GC repo fixings in 2007-08**




*Source: DMO/BBA*

## H: The DMO website: www.dmo.gov.uk


In September 2006 the DMO launched its current website, consolidating its three websites (DMO, PWLB and CRND) into one. This represented the delivery of an earlier commitment to the Treasury Sub-Committee to bring the site of its main constituent business functions into a single rationalised structure.

The website provides users with an interactive database and reporting service and allows access to all of the DMO's publications, including:

- the DMO Annual Review, which covers the main developments across the range of the DMO's activities each financial year;
- the Quarterly Review, which highlights more recent developments in the DMO's gilt and cash market activities;
- the DMO's annual Report and Accounts for its administrative expenditure and also for the operation of the Debt Management Account;
- press releases, gilt and cash market announcements; and
- market consultation documents.

A wide range of current and historical data are also available including;

- gilt and Treasury bill prices and yields;
- details of gilt auction and Treasury bill tender results;
- details of the DMO's annual financing remits;
- characteristics of the gilt and Treasury bill portfolios; and
- interest rates for loans from the Public Works Loan Board.

Many of the website reports give users the option for automatic downloads of data. The website also provides users with analytical tools and calculators, enabling them to estimate the redemption payment on an index-linked gilt or the repayment cost of a fixed interest loan from the PWLB.

*United Kingdom*
**Debt Management Office**

*Eastcheap Court*
*11 Philpot Lane*
*London EC3M 8UD*