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Annual Report and Accounts

2000 – 01

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

Annual Report and Accounts
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Cheapside House, 138 Cheapside, London EC2V 6BB
From 30 July 2001: Eastcheap Court, 11 Philpot Lane, London EC3M 8UD

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

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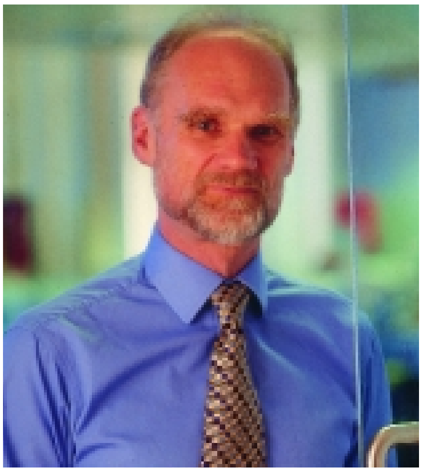
Chief Executive's Foreword

Success and Expansion



2000-01– the DMO's third full year of operation – was one of success and expansion.

Our operational responsibilities grew significantly with the transfer of responsibility for the Exchequer cash management functions from the Bank of England. The resources of the Office expanded to enable us to successfully meet our new challenges.

For the third year running the DMO successfully delivered the gilts remit and met substantially all our published targets – as detailed below. We also successfully completed our first year of Exchequer cash management in a period of rapidly rising government cash surplus.

I would like to put on record my thanks to market participants in both the gilts and money markets for the positive relationships we enjoy with them. We were also pleased to be able to participate fully in the Treasury Parliamentary Sub-Committee inquiry into the Government's debt and cash management arrangements.

The key event for the DMO in 2000 was the assumption of full responsibility for Exchequer cash management (including the responsibility for Treasury bill issuance) on 3 April 2000. This development coincided with the Government's finances moving substantially into surplus, greatly increased by the unprecedently large cash proceeds from the auction of third generation mobile telephone licences.

This created a major operational challenge over the past year and had a direct impact on a range of our activities. It reduced the need to issue gilts at a time of strong structural demand, and it required the DMO to manage a large and growing government cash surplus, including some very substantial daily cash movements. Following the inflow after the spectrum auction, we also developed the capability to manage the Government's short-term asset position as part of its planned reduction in net short-term debt.

In responding to these challenges, the DMO has expanded the range of its gilts market operations to include reverse gilt auctions. The purchases arising from these operations together with those from secondary market transactions added to the financing requirement and therefore facilitated greater issuance of gilts than would otherwise have been the case.

The DMO also extended the range of money market instruments in which it was able to transact on a bilateral basis for cash management purposes. This has additionally helped the management of the Government's short-term cash position, which operationally is an extension to the DMO's daily cash management function.

The new operational responsibilities, particularly those relating to the management of the Government's short-term cash position, the scale of which only became clear as the 2000-01 financial year got underway, represented formidable challenges for the DMO. IT and other resources were expanded to allow the DMO to meet its new responsibilities and to enhance its operational infrastructure; and this has also led to a significant increase in the recruitment of new staff. Indeed, we have now outgrown our existing premises and from 30 July 2001, we will be operational from new premises at Eastcheap Court, London EC3.

Throughout the year I have again been very grateful to all those in the DMO for their hard work, commitment and enthusiasm in helping us to meet our objectives in challenging times.

Mike Williams
Chief Executive

Background on the DMO

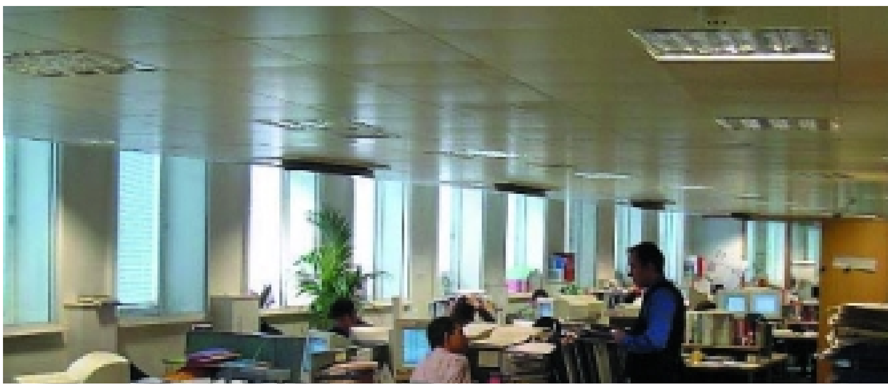
The DMO was established on 1 April 1998, with the aim '… to carry out the Government's debt management policy of minimising financing costs over the longer term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost effective way'.

'…to carry out the Government's debt management policy…

…in the most cost effective way'.

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

The separate responsibilities of the Chancellor and other Treasury Ministers, the Permanent Secretary to the Treasury and the DMO's Chief Executive are set out in a published Framework Document (available on the DMO web site at **www.dmo.gov.uk**), which also sets out the DMO's objectives and its Chief Executive's lines of accountability. The Chief Executive is accountable to Parliament for the DMO's performance and operations, both in respect of its administrative expenditure and the Debt Management Account.



Achievements against objectives and highlights of the year

HM Treasury Ministers have set the DMO and published in the Framework Document, a number of strategic objectives. The objectives for 2000-01 and the DMO's performance against them are summarised in the section below.

Objective 1.

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

Successfully achieved.

Gilt sales targets were met through the conduct of seven outright auctions (three conventional and four index-linked). Outright gilt sales were £10.0 billion (cash) as planned, split between £6.5 billion (long conventional) and £3.5 billion (index-linked).

The debt buy-back target was successfully met through a combination of six reverse gilt auctions and secondary market purchases. Buy-backs totalled £5.7 billion (cash) in 2000-01 (to which reverse auctions contributed £4.1 billion).

Objective 2.

To offset, through its market operations, the expected net cash flow into or out of the NLF, on every business day; and in a cost-effective manner.

Successfully achieved.

The DMO assumed full responsibility for Exchequer cash management on 3 April 2000 and has been fully operational every business day since.

A major operational challenge was to deal with the Government's sizeable cash surplus and some very substantial daily cash movements.

The DMO liaised successfully with the Bank of England, the Radiocommunications Agency and market participants to facilitate the smooth handling of the cash receipts from the third generation mobile phone licence auction. Total receipts from the auction were £22.5 billion.

Cost effectiveness was promoted. The DMO established effective dealing relationships with a wide range of counterparties and extended the range of instruments it may use in its money market operations.

Objective 3.

To advise Ministers on setting the remit to meet the Government's debt management objectives, and on any future modification to the Government's cash management objectives; and to report to Ministers on the DMO's performance against its remit, objectives and targets.

The DMO contributed specific advice in a number of areas of the 2000-01 remit:

- the extent to which gilt issuance should be split between conventional and index-liked gilts, the composition of conventional gilt issuance; and the range of contingencies in the event of changes in the Government's financing requirement (which were implemented as a result of the significantly increased cash surplus following the spectrum auction);
- size and timing of auctions;
- switch auction candidates;
- the scope for debt buybacks to increase the size of the financing requirement, thereby allowing greater gross issuance;

- the scope of an inaugural cash management remit;
- in the course of 2000-01, the establishment of a regime to manage the Government's short-term cash position, as an extension to cash management operations.

The DMO also contributed substantially to the preparation of the *"Debt and Reserves Management Report 2001-02"*.

The DMO reported performance against the remit to the Treasury on a monthly basis, and on developments in the gilt portfolio and compliance against individual published targets on a quarterly basis (see pages 8-10 below for a report on the DMO's compliance against targets in 2000-01).

The DMO submitted a number of memoranda to, and DMO officials appeared a number of times before, the House of Commons Treasury Select Committee Sub-committee inquiry "Government's Cash and Debt Management".

Objective 4.

To develop policy on and promote advances in new instruments, issuance techniques and structural changes to the debt markets that will help to lower the cost of debt management, liaising as appropriate with the Bank of England, Financial Services Authority, London Stock Exchange, and other bodies; and to provide policy advice to Treasury Ministers and senior officials accordingly.

The DMO published proposals for the conduct of reverse gilt auctions and a proposed extension to the scope of its secondary market purchase operations on 26 April 2000. Following consultation with the market, the DMO published its response on 14 June 2000 and the first reverse gilt auction was successfully held on 20 July 2000.

The DMO has continued to consult widely about the possible impact of electronic trading systems on the secondary market for gilts and how the DMO's relationship with the GEMMs might change as a consequence. On 23 June 2000 the DMO announced a proposal to introduce an inter-GEMM market with quote obligations in a designated set of stocks, but that it wished to consult further about the nature of the means of delivery of these obligations. Discussions have continued with the GEMMs and a decision is expected in the Summer of 2001.

The DMO also extended the range of financial instruments in which it may transact on a bilateral basis for cash management purposes – including selected commercial paper and bank bills and other high quality short-term debt instruments.

The DMO introduced a Standing Repo facility on 1 June 2000 for the purpose of managing actual or potential dislocations in the gilt repo market. The facility was used for the first time on 29 December 2000 and subsequently three times in early January 2001 and again in early March 2001.

On 12 March 2001, the DMO launched a consultation exercise on the introduction of index-linked switch auctions (the response document was published on 10 May 2001).

The DMO's new remit for 2001-02 was published with the Budget Statement on 7 March 2001. The DMO undertook to consult the market about a possible redesign of index-linked gilts – a decision to issue will depend on the outcome of the consultation, but the DMO would not envisage introducing any re-designed index-linked gilt before the 2002-03 financial year.

Achievements against objectives and highlights of the year

Objective 5.

To conduct its market operations, liaising as necessary with regulatory and other bodies, with a view to maintaining orderly and efficient markets and promoting a liquid market for gilts.

Given the Government's sizeable cash surplus in 2000-01 and the limited scope for issuance of new benchmark stocks, the DMO concentrated issuance where demand was strongest (for long dated stocks). Outright gilt auctions were supplemented by a series of three switch auctions out of 8% Treasury Stock 2015 into the new ultra-long benchmark $4^1/_4$ % Treasury Stock 2032.

The DMO conducts its market operations in accordance with its operational market notices. It published a revised gilts market operational notice in September 2000 (primarily to accommodate reverse auctions). Subsequent amendments to the gilt operational notice were made in November 2000 and March 2001 and updated on the electronic version published on the DMO's web site **www.dmo.gov.uk**.

Objective 6.

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

In order to further promote transparency in the gilts market, in September 2000 the DMO introduced a real-time benchmark gilt price screen on its wire services showing indicative mid-prices for a series of gilts derived from GEMMs published quotes.

The Royal Bank of Canada (RBC) became a Gilt-edged Market Maker (GEMM) in November 2000, taking the number of GEMMs to 17. The DMO also recognised RBC as a specialist index-linked gilt-edged market maker (IG GEMM). Later in November the DMO recognised UBS Warburg as an IG GEMM, taking their number to eleven. Société Générale ceased to be a GEMM in October 2000.

Objective 7.

To contribute to the Treasury's work on the development of the strategy for the debt portfolio.

Preliminary research on this project has tested a number of techniques that could be used to measure the risk/return trade-off between different issuance strategies. The DMO is planning the development and research work needed to take this forward.

Objective 8.

To make information publicly available on the Government's policies towards the debt markets where that contributes through openness and predictability to efficient markets and lower costs of debt issuance.

The DMO also expanded and restructured its web site: **www.dmo.gov.uk** on which all its publications appear. New areas covering retail involvement in the gilts market, index-linked gilts and the DMO's cash management operations were added to the site. The DMO has also used its web site to provide access for gilts market participants to Government issues which range wider than the DMO's own policy responsibility but impact on the gilts market (eg Minimum Funding Requirement and Myners Review announcements).

The DMO produced an e-strategy statement which includes the aim of making non-commercial information relating to its activities available electronically.

The DMO published its regular annual review of developments in the gilts market *"The Gilt Review 1999-2000"* on 4 August 2000; this was expanded to include references to the DMO's new cash management role. The DMO has also continued to publish and refine its Quarterly Review. There was a comprehensive revision of the Quarterly Review in the first quarter of the 2001 financial year.

The DMO liaised with Bank of England Registrar's Department on the production of a second edition of the booklet *"Investing in Gilts: the private investor's guide to British Government Stock"* which was published in February 2001.

Objective 9.

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

The DMO received *Investors in People* accreditation on 8 June 2000.

The DMO's annual report and audited accounts for 1999-2000 were published on 26 July 2000.

The DMO kept within its cash budget despite a major challenge to prepare for the management of the Government's surplus cash position.

An electronic records management system has been procured and operational implementation began in March 2001.

Objective 10.

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

A new structure of corporate governance was introduced to assist the Chief Executive in carrying out his responsibilities (see page 12 below).

A Risk Unit was established to develop best practice disciplines covering the DMO's credit, market, compliance, legal and operational activities.

Internal reporting arrangements were formalised to help the Chief Executive to meet his internal control responsibilities as required under the Turnbull Guidelines.

Charters were approved for the DMO's Audit Committee, internal audit and compliance functions.

The DMO's internal audit function was firmly established; an audit programme was produced to ensure appropriate audit coverage for the DMO's key business activities.

Performance against targets

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

Summary

The DMO had a successful third year, taking over full responsibility for Exchequer cash management on 3 April 2000, in addition to its gilts market responsibilities. The DMO's published targets were expanded accordingly to reflect the additional responsibilities. The number of targets increased from seven to ten. With the exception of a technical breach to target 6 (see below), the DMO met all its published targets in 2000-01.

Target 1:

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

The DMO complied fully with the remit for 2000-01.

As a result of the higher than anticipated proceeds from the mobile phone licences auction, a revised remit was published on 12 June 2000. A further update was published on 8 November 2000 in the Pre-Budget Report. In the June revision, the volume of planned gross gilt sales was reduced from £12.2 to £10.0 billion (cash) and the medium conventional gilt auction scheduled for September 2000 was cancelled. In the November 2000 revision, the volume of planned debt buybacks was increased from £3.5 to £5.0 billion.

Seven outright gilt auctions were held under the 2000-01 remit – three conventional (all of the new 4¼% Treasury Stock 2032) and four index-linked (of the 2013, 2016, 2020 and 2030 maturities). Gross gilt sales at the end of the financial year were £10.0 billion (£6.5 billion long conventional and £3.5 billion index-linked).

The DMO launched its schedule of reverse gilt auctions – as part of the plan to buy back debt from the market to the value of approximately £5.0 billion (cash). A total of £4.1 billion cash was bought back at six reverse auctions. In addition, £1.6 billion (cash) of gilts was bought-in through secondary market net purchases – taking the buyback total (with Treasury agreement) to £5.7 billion by the end of the financial year.

A series of three switch auctions were held from 8% Treasury Stock 2015 into 4¼% Treasury Stock 2032. £5.0 billion nominal of 8% Treasury Stock 2015 was switched in these operations, creating £6.8 billion (nominal) of 4¼% Treasury Stock 2032, and helping to increase the size of that stock to £13.58 billion (nominal) at the end of the financial year (the second largest gilt in issue).

Target 2.

To ensure that the maximum time taken to issue the results of gilt auctions and Treasury bill tenders does not exceed 40 minutes whilst achieving complete accuracy.

This was successfully achieved. The gilt auction result release times were:

3 May:	2 1/2 % IL 2020	26 minutes
24 May:	4 1/4 % 2032	30 minutes
22 June:	Switch auction	27 minutes
20 July:	Reverse auction	37 minutes
26 July:	2 1/2 % IL 2013	22 minutes
21 September:	Reverse auction	25 minutes
27 September:	switch auction	33 minutes
11 October:	reverse auction	32 minutes
25 October:	4 1/8 % IL 2030	26 minutes
21 November:	4 1/4 % 2032	37 minutes
23 November:	reverse auction	25 minutes
6 December:	switch auction	29 minutes
18 January:	reverse auction	22 minutes
24 January:	2 1/2 % IL 2016	27 minutes
22 February:	reverse auction	28 minutes
28 March:	4 1/4 % 2032	37 minutes

The release times for the results of the 52 structured bill tenders held during the financial year ranged from 7 to 20 minutes and averaged 13 minutes.

Target 3:

To ensure that the maximum time taken to issue the results of ad hoc Treasury bill or other tenders does not exceed 15 minutes.

This was successfully achieved.

The release times for the results of the 4 ad hoc and reverse repo tenders ranged from 5 to 13 minutes, and averaged 8 minutes.

Target 4.

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

All transactions going through the DMA have met the required standards.

The release times for the result of the 4 ad hoc and reverse repo tenders ranged from 5 to 13 minutes and averaged 8 minutes.

NLF balances are reconciled and agreed with the Treasury on a daily basis. The first account for the DMA will be prepared for the period November 1999 to March 2001 and will be subject to audit by the National Audit Office.

Target 5.

To acknowledge all letters and e-mail inquiries from the public within 8 working days and for at least 95 per cent to be sent a substantive reply within 3 weeks.

This was achieved.

76 inquires were received from the public by letter and e-mail in the year. The longest response time was 7 working days and average response time was 2 working days.

Performance against targets

Target 6.

To achieve less than 10 breaches of operational market notices (excluding any breaches which the Treasury accept were beyond the control of the Office).

There was one technical breach of the gilt operational notice on 6 December 2000 when a switch auction from 8% Treasury Stock 2015 into 4¼% Treasury Stock 2032 was held 15 days after the outright auction of 4¼% Treasury Stock 2032. The gilt operational notice had said that the DMO would not hold a switch auction into a stock that had been auctioned outright less than 21 days earlier. This provision had been intended to reassure the market that the DMO would not decide to announce a switch into a newly auctioned stock at short notice. This issue did not arise in this case because the DMO had announced – in the 30 September 2000 auction calendar press release - its intention to auction the 2032 stock on 21 November 2000 and switch into it on 6 December 2000. The gilt operational notice was subsequently revised to bring the wording into line with the underlying policy intention.

Target 7.

To ensure that the qualifications that the NAO have made in respect of the Gilt-Edged Official Operations Account are satisfactorily addressed in the running and presentation of the Debt Management Account.

See response to target 4 above.

Target 8.

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

Achieved.

Target 9.

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

Achieved, All required notifications to the Bank of England have been made in due time.

Target 10.

To achieve a minimum of 99% (by value) successful settlement of agreed trades on the due date.

Achieved.

Exchequer cash management operations turnover in 2000-01 was some £475 billion. Trades totalling 0.2% of turnover (£0.945 billion) failed as a result of circumstances within (or partly within) the DMO's control. Successful settlement of trades by value over the year on this measure was therefore 99.8%. If trades which failed as a result of circumstances outside the DMO's control are included the total of fails rises to 0.96% of total turnover (to £4.540 billion).

1. Staff and recruitment

During the year staff numbers increased to 50 people. A small number of these are on loan or secondment from HM Treasury, and the Bank of England, and some are short-term contractors, but new staff have been predominantly recruited directly from the private sector.

In 2000-01 recruitment campaigns were held to fill the following 20 posts:

Compliance Officer	*Dealing Desk Assistant*	*IT Team Leader*
Portfolio Manager	*Treasury Officer*	*Middle Office*
Developer /Analyst	*IT Support*	*IT Support*
Market Risk Analyst	*Internal Auditor*	*Developer Analyst*
Economist	*Project Administrator*	*IT Support Manager*
Credit Risk Analyst	*Finance Officer*	*Research Assistant*
Facilities Manager	*Facilities Assistant*	

All recruitment to new posts was carried out on the basis of fair and open competition and selection on merit in accordance with the guidance laid down by the Civil Service Commissioners[1]. All candidates were selected in accordance with the DMO's equal opportunities policies – see below.

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

- ***Extension of short-term appointments beyond the initially publicised period, including conversion to permanency:*** *Extension of Cash Manager post to maintain specific expertise for the initial development of the cash management operations.*
- ***Secondments:*** *Senior member of staff on secondment from the Bank of England converted to a permanent appointment in May 2000.*
- ***Extensions to secondments:*** *Extensions of secondments of four Bank of England staff to maintain specific market related expertise during a period of development and change.*

1 The breakdown by category of the successful applicants for the 20 recruitments during 2000-01 was:

White	**14.**
Asian	**4.**
Black	**2.**
Male	**14.**
Female	**6.**
Disabled	**none.**

Mike Ness, who was away when the Managing Committee group picture was taken

The Managing Committee

Back row, left to right:
David Baskerville, David Cuthbert, Allison Holland, Hamish Watson, Simon Slack.

Front row left to right:
Robert Knight, Jo Whelan, Mike Williams, Jim Juffs.

Resources

2. Equal opportunities

The DMO is an equal opportunities employer. Policies are in place to ensure that no job applicant or member of staff receives less favourable treatment on grounds of sex, marital status, colour, racial origin, sexual orientation, age (except in relation to the retirement policy), religion or disability. The DMO attaches great importance to its equal opportunities policy, which it believes to be of benefit to itself and its employees

3. Manpower/employee relations

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

4. Corporate Governance

A new structure of corporate governance was introduced to assist the Chief Executive in carrying out his responsibilities. This comprises a high-level Advisory Board, advising the Managing Committee, which is in turn supported by a Credit and Risk Committee and strategy groups for each key business area (Debt, Cash, Investment). Two external non-Executive Directors, James Barclay and Colin Price have joined the Advisory Board, together with Paul Mills of HM Treasury; James Barclay also chairs the DMO's Audit Committee

The DMO established an Audit Committee in 1999 as part of its development of internal risk management and control arrangements in line with best private sector practice. The Audit Committee has an external independent chairman, James Barclay, a member of the DMO's Advisory Board.

5. Improving good practice and investment in people

The DMO received *Investors in People* accreditation on 8 June 2000 and has set in place procedures to maintain the accreditation. The DMO's training and development policy is central to ensuring that the right people with the right skills are in the right job at the right time; the DMO is also committed to improving the skills base of its employees, where developmental needs are identified.

6. Service Quality

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

7. Financial performance

The DMO's net expenditure in 2000-01 was £6.7 million. Within the total, expenditure on consultants was greater than planned – both on the cash management project (including IT support) and on accounting systems. This was financed by underspends on other services, including those from the Treasury and (for settlement services) from the Bank of England. Pay-related costs were broadly in line with provision. Auction-related costs were much less than expected, but that benefit flows directly through to the NLF. There was a significant increase in banking and custodial charges by comparison with 1999-2000 associated with the expansion of DMO cash management operations.

The DMO's work is distributed broadly across all strategic objectives; non-pay expenditure tends to support either office-wide infrastructure or market operations. Overall, the establishment of the cash management function absorbed a slightly higher proportion of the budget than anticipated.

8. HM Treasury services

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

9. Auditors' details

As specified by the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General is responsible for auditing the DMO's annual accounts.

Forward look

The DMO's strategic objectives for 2001-02

Looking to the 2001-02 financial year, the DMO has been given a revised set of strategic objectives; these are:

Strategic objective 1:

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

Strategic objective 2:

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

Strategic objective 3:

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

Strategic objective 4:

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

Strategic objective 5:

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

Strategic objective 6:

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

The DMO's strategic objectives for 2001-02

Strategic objective 7:

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

Strategic objective 8:

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

Strategic objective 9:

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

Strategic objective 10:

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

Strategic objective 11:

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

Strategic objective 12:

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

Characteristics needed to achieve the strategic objectives

Responsive and innovative

The Treasury's treasury

Internationally respected

An authoritative adviser

Providing information to the highest standards

A model executive agency

In order to successfully achieve its strategic objectives, the DMO believes that it needs to develop the following characteristics in the period ahead:

- *to be seen to run successfully HM Government's financing programme, within the given policy framework;*

- *to be seen as responsive and innovative by market customers, investors, counterparties, regulatory bodies and infrastructure providers, providing a high quality efficient service and dealing fairly and professionally;*

- *to act as the Treasury's treasury – balancing the NLF day by day, in a range of instruments, and promoting confidence in the Exchequer's cash flow forecasts;*

- *to be respected internationally for the conduct of its debt and cash management responsibilities, and giving high value to research, analysis and knowledge base;*

- *to manage HM Government's financial assets as required to high standards, and taking account of risk;*

- *to be seen as the key provider of advice to Ministers across relevant financing and related asset liability management issues. Offering capability to actively manage interest rate and credit risk exposure across whole balance sheet;*

- *to be seen as providing authoritative advice on financial markets and related policy issues to Government departments, with high credibility;*

- *for its publications and information to be widely seen as meeting highest standards, including internationally. Making information available publicly wherever possible and ensuring accessibility by a range of user-friendly means – including electronically;*

- *to be regarded as a model executive agency, and seen as an excellent place to work; discharging responsibilities efficiently, cost effectively, and innovatively; meeting its core values; and with a capability of bringing operations and activities in-house where appropriate. A market leader within HM Government in areas of risk management, maintaining unqualified accounts and meeting best corporate governance practice in relation to internal control.*

Strategies to enable the delivery of objectives

To meet these longer-term objectives the DMO is adopting a number of practical strategies for the year ahead; these are summarised below:

Consolidating and sustaining business performance

- *meeting high professional standards, and achieving zero error in operations;*
- *being sensitive to market requirements;*
- *maintaining the sustainability and flexibility of cash operations, including by extending the range of products and counterparties;*
- *developing the capability to manage the Government's net cash position;*
- *sustaining systems, policies and procedures (embedding project management skills, investment in systems, knowledge and people).*

Enhancing performance and meeting new challenges

- *underpinning policy and initiatives with strong research and analysis;*
- *taking forward policy design on eg auctions, new instruments, and MIS;*
- *upgrading performance measurement, internal and external;*
- *developing the training and knowledge base;*
- *consulting on the design of a new index-linked gilt instrument.*

Confirming corporate identity

- *enhancing external engagement;*
- *developing the DMO's profile in HM Government and internationally.*

Staffing and efficiency

- *leveraging on success and rewarding excellence;*
- *maintaining an open culture; promoting flexibility and teamworking;*
- *benchmarking practices and processes;*
- *maintaining Investors in People accreditation;*
- *improving business resilience – in the arrangements for cover, multi-skilling and succession planning;*
- *further developing the IT strategy.*

Targets for 2001-02

In taking forward its objectives for next year the DMO has been set the following published targets.

Target 1:

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

Target 2:

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

Target 3:

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

Target 4:

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

Target 5:

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

Target 6:

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

Target 7:

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

Target 8:

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

Target 9:

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

Target 10:

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

Annual Accounts Year ended 31 March 2001
Presented to Parliament 18 July 2001

Contents

Foreword to the Accounts

Preparation of accounts

The accounts have been prepared in accordance with a direction given by HM Treasury in pursuance of section 5 (1) of the Exchequer and Audit Departments Act 1921. The text of the direction is reproduced on page 41 of this document. The accounts and supporting notes relating to the UK Debt Management Office's activities for the year ended 31 March 2001 have been audited by the Comptroller and Auditor General.

History and statutory background

The United Kingdom Debt Management Office (DMO) was established on 1 April 1998 as an on-vote agency of HM Treasury. These accounts therefore cover its third year of operation. The agency is financed through the Treasury (Class 16, Vote 1, subhead B) and operates under gross running cost arrangements. Ministerial responsibility for the DMO is vested in the Chancellor of the Exchequer, who is supported by the Economic Secretary. The DMO's Chief Executive is also its Accounting Officer and is responsible to Treasury Ministers for the overall operation of the agency in accordance with its Framework Document.

Principal activities

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

Review of activities

2000-01 was another year of significant achievement for the DMO. Its objectives and, with the exception of a technical breach to one target, all its published targets were met in full (a full account of these is given on pages 4-10 of this report).

The key event for the DMO in 2000-01 was the assumption of full responsibility for Exchequer cash management on 3 April 2000, this completed the restructuring of Government cash and debt management announced on 6 May 1997. The major operational challenge over the past year has been to deal with the Government's sizeable cash surplus – accentuated by the unexpectedly large proceeds from the auction of third generation mobile phone licences. A number of strategies were successfully implemented to overcome this challenge, including the introduction of reverse gilt auctions to help support gilt issuance of £10 billion (cash) and expansion of the range of high quality short-term money market instruments in which the DMO can transact for cash management purposes.

The DMO was awarded *Investors in People* accreditation on 8 June 2000.

Foreword to the Accounts

Management of the DMO

The Chief Executive was initially appointed by HM Treasury for a three year fixed term to set the agency up and ensure its efficient and effective operation. (In the course of 2000 the appointment was extended by two years, ie to the end of 2002). A new structure of corporate governance has been introduced to assist the Chief Executive. A high level Advisory Board has been established which at 31 March 2001, in addition to the Chief Executive, comprised:

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

James Barclay was Chairman and Chief Executive of Cater Allen Holdings Ltd between 1985 and 1998. Colin Price was Finance Director of Shell Pensions Management Services Ltd 1991-2001 and a member of the Board of IMRO from 1996-2000.

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

The DMO is not responsible for the remuneration of any Ministers. The Chief Executive is a member of the Senior Civil Service and his salary is set by HM Treasury. The salaries for the remaining members of the Advisory Board and Managing Committee are set internally or by the body from whom they are seconded. Information on their remuneration is given in the notes to the Accounts (2.3 and 2.4)

Supplier payment policy

All the DMO's invoices are processed for payment by HM Treasury, which is committed to the CBI code on prompt payment and aims to pay all valid invoices within 30 days of receipt. HM Treasury's payment performance for 2000-01 showed that this target was achieved in respect of 99% of invoices paid.

Equal opportunities policy

The DMO is an equal opportunities employer. Policies are in place to guard against discrimination on grounds of gender, marital status, race, colour, nationality, ethnic origin, disability, religion, sexual orientation, age or background and which aim to ensure that there are no unfair or unlawful discriminatory barriers to employment or advancement in the DMO.

Key performance targets

The DMO's key performance targets for 2000-01 and its performance against them can be found on pages 8-10 of this report and in annex C of its 2001-02 business plan, which can be obtained from the DMO or accessed via DMO's web site at **www.dmo.gov.uk**.

Mike Williams
Chief Executive
13 July 2001

Statement of Accounting Officer's responsibilities

Under section 5 of the Audit and Exchequer Departments Act 1921 the Treasury has directed the DMO to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction on page 41 of these financial statements. The accounts are prepared on an accruals basis and must give a true and fair view of the agency's affairs at the year end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing accounts the agency is required to:

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

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

MIKE WILLIAMS
Chief Executive and Agency Accounting Officer
13 July 2001

Statement on internal control

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

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

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Office's targets, policies and objectives, to evaluate the nature of and extent of those risks and to manage them efficiently, effectively and economically. This process, which is continuing to evolve, has been operational from October 2000 and accords with Treasury guidance.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The Office has established the following processes:

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

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

3. A compliance function that reviews key operations to assess the extent of compliance with plans, policies, procedures, and legislation. The compliance reviews have been focussed on set piece debt and cash management operations although the scope will be increased during 2001–2.

4. An organisation wide risk register has been produced following an assessment by Managing Committee of the Office's strategic and key operational risks. This has facilitated regular assessment of the adequacy and effectiveness of controls used to manage these risks. Risk workshops will also be held with staff to help ensure that all key operational risks have been identified, together with an assessment of the adequacy of controls in place to manage these risks.

5. Monthly reporting by heads of business units to Managing Committee assessing whether risks to their operation are being effectively managed. This includes identifying new risks or those risks where there is an increased likelihood that they will materialise, together with specifying actions required to ensure all risks will be effectively managed. This process is facilitated by the maintenance of exception logs, which identify control weaknesses and resultant actions to improve controls. Key exceptions are documented in a regular report for Managing Committee, together with statistics showing the number of exceptions by department.

6. Creation of a Risk Management Unit to expand the DMO's capability for risk reporting and the management of market and credit risk. Additional staff have been recruited to staff the Risk Management Unit during the second half of the financial year.

7. Raising awareness of risk in the Office. This includes inclusion of key risks within individual job descriptions and presentations to all staff on the DMO's risk management framework.

8. An enhanced mechanism for prioritising the DMO's programme of projects by Managing Committee and tracking and reporting progress. This has improved Managing Committee's ability to monitor progress and make decisions concerning the allocation of project resources. In addition, additional processes and controls have been introduced at individual project level and further enhancements will continue to be made for managing projects.

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

10. Production of procedure and control manuals covering the DMO's key operational activities, including all market operations. Further work is continuing to ensure manuals will also be available for all support operations.

11. Business continuity plans, including a disaster recovery site, to be activated in the event of any unanticipated hindrance to the DMO's ability to meet its objectives. The plans and the facilities available at the disaster recovery site are to be updated and tested during the coming year.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditor and management within the DMO who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

MIKE WILLIAMS
Chief Executive and Agency Accounting Officer
13 July 2001

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

I certify that I have audited the financial statements on pages 28 to 40 under the Exchequer and Audit Departments Act 1921. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 31 to 32.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 23 the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Exchequer and Audit Departments Act 1921 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purpose intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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

I review whether the statement on pages 24-25 reflects the Agency's compliance with Treasury's guidance "Corporate Governance: Statement on Internal Control". I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of Audit Opinion

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

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

Opinion

In my opinion:

The financial statements give a true and fair view of the state of affairs of the Debt Management Office at 31 March 2001 and of the net operating cost, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and directions made thereunder by Treasury; and

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

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
13 July 2001

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

Operating cost statement year ended 31 March 2001

	Note	2000-2001 £'000	1999-2000 £'000
Administration Costs			
Staff costs	**2**	1,948	1,474
Other administration costs	**3**	3,853	2,630
Depreciation	**6**	962	593
Gross Administration Costs		**6,763**	**4,697**
Operations related costs	**4a**	434	561
Gross Administration and Operations-Related Costs		**7,197**	**5,258**
Operating income	**5**	(523)	(583)
Net Administration and Operations-Related Costs before Notional Interest on Capital		**6,674**	**4,675**
Notional Interest on Capital	**4b**	83	74
Net Operating Cost		**6,757**	**4,749**

Statement of recognised gains and losses year ended 31 March 2001

	Note	2000-2001 £'000	1999-2000 £'000
Unrealised surplus on the revaluation of tangible fixed assets	**11**	–	22

All activities arise from continuing operations

The notes on pages 31 to 40 form part of these accounts

Balance sheet at 31 March 2001

	Note	31 March 2001 £'000	31 March 2001 £'000	31 March 2000 £'000
Fixed assets				
Tangible fixed assets	6		1,289	1,774
Current assets				
Debtors	7	432		261
Cash at Bank and in Hand	8	86		71
		518		332
Creditors (amounts falling due within one year)	**9**	**(765)**		**(386)**
Net current (liabilities)/assets			**(247)**	**(54)**
Total Net Assets			**1,042**	**1,720**
Represented by:				
Taxpayers' Equity				
General fund	10		1,017	1,695
Revaluation reserve	11		25	25
			1,042	**1,720**

Mike Williams
Chief Executive
13 July 2001

The notes on pages 31 to 40 form part of these accounts

Cash Flow Statement year ended 31 March 2001

	Note	2000-2001 £'000	1999-2000 £'000
Net cash outflow from operating activities	**12**	**(5,509)**	(3,742)
Capital expenditure and financial investment	**13**	**(413)**	(1,831)
Net cash outflow before financing		**(5,922)**	**(5,573)**
Financing			
Vote Financing	**14**	(5,937)	5,571
		5,937	**5,571**
Increase/(Decrease) in cash in the period		15	(2)

The notes on pages 31 to 40 form part of these accounts

Notes to the Accounts

1. STATEMENT OF ACCOUNTING POLICIES

1.1 Basis of preparation

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

1.2 Accounting Convention

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

1.3 Tangible fixed assets

Tangible fixed assets with a purchase cost in excess of £500 are capitalised. All assets acquired on an individual or grouped basis (for similar items or those used together) for ongoing use falling above this threshold will be shown as tangible fixed assets.

These are revalued each year to the net current replacement cost by reference to appropriate indices included within *Price Index Numbers for Current Cost Accounting*, published by the Government Statistics Service. Revaluation surpluses and deficits arising from temporary changes in value are credited or charged to the revaluation reserve. Permanent diminutions in value are charged to the operating cost statement, except to the extent that a revaluation surplus exists in respect of the same asset.

Profits or losses arising on the disposal of tangible fixed assets are calculated by reference to the carrying value of the asset.

1.4 Depreciation

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

Computer equipment	3 to 4 years
Office and other non IT equipment	5 years
Furniture, fixtures and fittings	10 years
Leasehold improvements	Over lease term

1.5 Operating leases

Rental payable under operating leases is charged to the operating cost statement on a straight-line basis over the term of the lease. Operating leases are accounted for in accordance with SSAP 21. The DMO's commitments are disclosed in note 17.

Notes to the Accounts

1.6 Notional charges

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

1.7 Value added tax

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

1.8 Operating Income

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

1.9 Pensions Costs

Pension contributions paid or payable are included within the Operating Cost Statement. DMO staff and staff on loan from HM Treasury and other government departments, but not those on short-term contracts, are members of the Principal Civil Service Pension Scheme (PCSPS).

The PCSPS is non-contributory and unfunded. Although it is a defined benefits scheme, liability for the payment of future benefits is a charge to the PCSPS. Agencies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis.

Staff on loan from the Bank of England are members of the Bank's pension scheme. For them, contributions to the relevant pension scheme are recharged to the DMO.

2. Staff numbers and costs

2.1

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

	2000-2001 Number	1999-2000 Number
	37	31

2.2

Aggregate staff payroll costs were:

	2000-2001 £'000	1999-2000 £'000
Wages and salaries	1,657	1,256
Social security costs	124	86
Other pension costs	190	132
	1,971	1,474

A total of £23,243 of staff payroll costs has been capitalised in 2000-01 as development expenditure in the creation of software assets. These will be depreciated over four years.

2.3

The Chief Executive's remuneration for the year, excluding employer's pension contributions, was £82,406

	Age	Salary at 31/03/2001	Real increase in pension at 60	Total accrued pension At 60 on 31/03/2001
Mike Williams Chief Executive	53	82,406	1,588	27,737

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

The other members of the Executive Board have not given their consent for the above information to be disclosed. This represents a departure from the disclosure requirements of the Resource Accounting Manual in force for the 2000-2001 accounts. However, the agency consider that the requirements of the RAM in this area may conflict with existing legislation.

Notes to the Accounts

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

	2000-2001 Number	**1999-2000 Number**
£30,000 to £34,999	1	1
£45,000 to £49,999	1	-
£50,000 to £54,999	1	1
£55,000 to £59,999	2	-
£60,000 to £64,999	-	1
£65,000 to £69,999	1	1
£70,000 to £74,999	2	2
£75,000 to £79,999	1	-
£80,000 to £84,999	1	1
£95,000 to £99,999	1	-

During the financial year 2000-01 senior managers David Curtis and Paul Mills left the agency while David Baskerville, David Cuthbert, Allison Holland, Jim Juffs, Robert Knight and Simon Slack joined the senior management team.

James Barclay and Colin Price have joined the DMO during 2000-2001 as Non-Executive Directors. Their salary and allowances are £11,000 for James Barclay and £12,500 for Colin Price. The other members of the DMO's Advisory Board were Mike Williams, Jo Whelan, Jim Juffs and Paul Mills (an employee of HM Treasury and not remunerated by the DMO).

In addition, David Courts has been a member of the senior management team during 2000-2001 but has not been an employee of the DMO. He was engaged on a consultancy basis and not directly remunerated by the DMO.

3. Other administration costs

Other administration costs include the following:

	2000-2001 £'000	1999-2000 £'000
Rents and Rates	272	243
Consultants & Professionals	890	1,213
IT Current	605	329
Banking and Custodial Charges	1,309	104
HM Treasury Notional Costs	38	33
Auditors Fee	17	16
Travel, Subsistence & Hospitality	12	30
Legal Services	176	126
Training	78	58
Printing & Stationery	87	86
Other Costs	324	242
Deficit on Revaluation	45	150
	3,853	2,630

4. Operations-related costs and notional interest on capital

4a Operations-Related Costs

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

4b Notional Interest on Capital

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

5. Operating income

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

	2000-2001 £'000	1999-2000 £'000
Recharges to the National Loans Fund (stock listing and other fees)	402	561
Recharges to GEMMs (regarding trading system costs)	101	-
Other income	20	22
	523	583

Notes to the Accounts

6. Tangible fixed assets

Cost or valuation	IT £'000	Telecoms £'000	Furniture & Fittings £'000	Other £'000	Leasehold Improvements £'000	Total £'000
At 1 April 2000	1,836	127	104	9	388	2,464
Additions	431	59	24	1	10	525
Disposals	(11)	-	-	-	-	(11)
Surplus/(deficit) on revaluation	(117)	(8)	1	-	-	(124)
At 31 March 2001	2,139	178	129	10	398	2,854
Depreciation						
At 1 April 2000	555	51	18	3	63	690
Charge for the year	577	35	13	2	335	962
Disposals	(8)	-	-	-	-	(8)
Backlog Depreciation	-	-	1	-	-	1
Adjustment on revaluation	(78)	(2)	-	-	-	(80)
At 31 March 2001	1,046	84	32	5	398	1,565
Net book value						
At 31 March 2001	1,093	94	97	5	-	1,289
At 31 March 2000	1, 281	76	86	6	325	1,774

Note: leasehold improvements have been written down to zero net book value as at 31 March 2001 due to the expected relocation of the agency in the second quarter of 2001-2002.

7. Debtors : Amounts falling due within one year

	31 March 2001 £'000	31 March 2000 £'000
Amounts receivable from NLF	236	113
Prepayments and accrued income	184	140
Other Debtors	12	8
	432	261

8. Cash at Bank and In Hand

	31 March 2001 £'000	31 March 2000 £'000
Balances with the Bank of England	86	71
	86	71

9. Creditors: Amounts falling due within one year

	31 March 2001 £'000	31 March 2000 £'000
Trade creditors	165	53
HM Treasury and Departmental creditors	86	71
Accruals and deferred income	514	262
	765	386

10. Taxpayers' Equity

Reconciliation of Net Operating Cost to changes in General Fund

		2000-2001 £'000	1999-2000 £'000
Net operating cost		(6,757)	(4,749)
Net Vote funding		5,937	5,571
Add: Movement in other debtors funded by vote		4	(2)
Add: Non-Cash Charges:			
Notional Interest on Capital	83		74
Auditors Fee	17		16
HM Treasury Notional Costs	38		33
		138	123
Net (decrease)/increase in General Fund			
General Fund at 1 April 2000		(678)	943
General Fund at 31 March 2001		(1,695)	752
		1,017	1,695

Notes to the Accounts

11. Revaluation Reserve

	£'000
Opening Balance at 1 April 2000	25
Movement on revaluation during the year	-
Balance at 31 March 2001	25

12. Reconciliation of Operating Costs to Operating Cash Flows

	2000-2001		1999-2000
	£'000	£'000	£'000
Net operating cost		6,757	4,749
Adjust for non-cash transactions:			
Depreciation	962		593
Notional Interest on Capital	83		74
HM Treasury Notional Costs	38		33
Auditors Remuneration	17		16
Deficit on Revaluation	45		150
Loss on Disposal of Asset	3		1
		(1,148)	(867)
Adjustments for movements in working capital other than cash			
Increase in debtors	167		40
(Increase) in creditors	(379)		(180)
(Increase) in capital creditors	112		-
		(100)	(140)
Net Cash outflow from operating activities		**5,509**	**3,742**

13. Analysis of Capital Expenditure and Financial Investment

	2000-01	1999-2000
	£'000	£'000
Purchases of tangible fixed assets	525	1,831
Capital creditors	(112)	-
Net cash outflow from investing activities	**413**	**1,831**

14. Analysis of Financing

	2000-2001 £'000	1999-2000 £'000
Vote Financing	5,937	5,571
Consolidated Fund Extra Receipts	(4)	-
CFER paid over	4	-
Net cash requirement	**5,937**	**5,571**

15. Reconciliation of Cashflow to Appropriation Account

	2000-2001 £'000	1999-2000 £'000
Net Cash outflow from operating activities	5,509	3,742
Net Capital Expenditure	413	1,831
Movement in deposit funded by Vote	15	(2)
Net Vote Expenditure	**5,937**	**5,571**

16. Appropriation Account Class XVI Vote 1 2000-2001

The DMO operates in accordance with Government Accounting on a Treasury Vote (Class 16, Vote1, Subhead B).

The receipts and payments of the DMO for 2000-2001 are as follows:

		2000-2001 £'000	1999-2000 £'000
Gross Expenditure			
Current:	Running Costs	5,490	3,783
	Other	434	561
Capital		413	1,831
		6,337	6,175
Appropriations-in-Aid		(400)	(604)
Net Vote Expenditure		**5,937**	**5,571**

Notes to the Accounts

17. Operating Leases

At 31 March 2001 commitments under operating leases were as follows:

	Land and Buildings £'000
Operating leases which expire beyond five years: premises lease	970

18. Pension Arrangements

The majority of the DMO's employees are civil servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. (Those on secondment from the Bank of England are subject to the Bank's pension arrangements; where appropriate, those on short-term contracts make their own arrangements.)

For 2000-2001, contributions of £190,306 were paid to the Paymaster General at rates determined from time to time by the Government Actuary and advised by the Treasury. For 2000-2001, the rates used were 12% to 18.5%, depending on salary.

19. Capital Commitments

The DMO has no capital commitments contracted but not provided at 31 March 2001.

20. Contingent Liabilities

The DMO had no contingent liabilities at 31 March 2001.

21. Related Party Transactions

The DMO is an executive agency of HM Treasury, which is therefore regarded as a related party. During the year the DMO has had various transactions with HM Treasury for which notional charges of £37,800 are made.

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

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

22. Key Financial Performance Targets

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

Accounts Direction given by the Treasury in accordance with Section 5(1) of the Exchequer and Audit Departments Act 1921

1. When preparing its accounts for the financial year ended 31 March 1999 and subsequent financial years the UK Debt Management Office shall comply with the accounting principles and disclosure requirements of the edition of the *Resource Accounting Manual* which is in force for the financial year for which the accounts are prepared.

2. In addition to the requirements of the Manual, the *Foreword* shall include a brief history of the UK Debt Management Office and its statutory background.

Jamie Mortimer
Treasury Officer of Accounts
22 July 1999

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