

DMO FINANCING REMIT 2010-11: 24 MARCH 2010

1. The DMO's financing remit for 2010-11 has been published today as part of the Budget 2010 announcements. The main points are summarised below.

a) Debt issuance by the DMO

The DMO plans to raise £185.4 billion in 2010-11 split as follows:

Gilt sales: £187.3 billion
Net Treasury bill sales: -£1.9 billion

b) Planned gilt sales

2. It is intended that the gilt sales plans will be met through a combination of:

- £148.1 billion in 52 outright auctions, and
- £39.2 billion via supplementary distribution methods, split:
 - i. £29.2 billion in a programme of up to 10 syndicated offerings; and
 - ii. £10.0 billion in a programme of sales by mini-tender.

3. The planned split of issuance by maturity and type of gilt is split as follows:

- Short-dated conventionals: £59.0 billion (31.5%) in 13 auctions.
- Medium-dated conventionals: £45.0 billion (24.0%) in 12 auctions.
- Long-dated conventionals: £45.3 billion (24.2%) via 12 auctions (aiming to raise £26.7 billion) and a combination of syndications and mini-tenders (aiming to raise £18.6 billion).
- Index-linked gilts: £38.0 billion (20.3%) via 15 auctions (aiming to raise £17.4 billion) and a combination of syndications and sales by mini-tenders (aiming to raise £20.6 billion).

4. The DMO attaches priority to meeting the individual targets for the different type and maturities of gilts above, but the composition of issuance methods to achieve these targets are current planning assumptions. In particular, total financing achieved by supplementary methods (and the split between methods) will be dependent on market and demand conditions at the time the transactions are conducted. The planning assumption is that supplementary distribution methods will be used to sell long-conventional and index-linked gilts.

c) The gilt auction programme

5. The expected timing of gilt sales at auction in 2010-11 is attached at Annex A. The DMO will publish planned average auction sizes (in cash terms) for each

maturity/instrument type in its April-June 2010 issuance calendar announcement and it may publish updated planned average auction sizes in subsequent calendar announcements.

d) Interaction between the gilt auction and syndicated offering programmes

6. In order to facilitate the optimal sizing of syndicated offerings the DMO may, at the margin, add gilt auctions to the calendar as part of the quarterly issuance announcements, following consultation with market participants in the quarterly consultation meetings. In the event of an auction being added, existing auction dates may be adjusted in order to ensure regularity of issuance across each of the maturity areas/instrument types.
7. In order to facilitate the scheduling of a syndicated offering, the DMO may, if required, alter the timing of an existing gilt auction. An auction may be moved to another day in the week in which it was originally scheduled, to the previous week or to the following week. Any such changes may occur after the publication of the relevant quarterly issuance calendar, and would normally be announced alongside an announcement about the likely timing of a syndicated offering with a minimum of one week's notice of the rescheduled operation.

e) Mini-tenders

8. The DMO envisages holding at least one mini-tender per month, with the weeks of the operations being announced in the DMO's quarterly issuance announcements. 12 mini-tenders are currently planned, aiming to raise a total of approximately £10 billion. Mini-tenders will generally be around half the size (in cash terms) of auctions of comparable bonds.
9. The DMO may add mini-tenders to the operations calendar with at least four week's notice, or it may remove them with a minimum of one week's notice,

f) Post-auction option facility (PAOF)

10. The PAOF will continue to be available with successful bidders at auctions having the option to purchase additional stock of up to 10% of the amount allocated to them at the auction. The option to buy (at the average accepted price for conventional gilt and at the strike price for index-linked gilt auctions) will be open from 12 noon to 2pm on the day of an auction.
11. The proceeds from PAOF will count towards the achievement of remit sales targets, but will be separately identified from amounts raised at auctions themselves, and sums raised by PAOF will not be included in the calculation of required average auction sizes in the period before any re-statement of the financing requirement (e.g. Pre-Budget Report (PBR) 2010).
12. At any re-statement of the financing requirement (e.g. at PBR) the proceeds from PAOF to that date will be factored into the financing arithmetic, and all other factors constant, the proceeds may be used to reduce auction sizes (or to reduce the number of required operations). Any use of PAOF in this way

would be communicated as part of a DMO announcement of any remit revision at PBR.

13. At PBR, an assumption will be made that proceeds from PAOF will continue to accrue for the remainder of the auction programme in the same proportion per type and maturity of operation as before PBR and these amounts will be factored into the required average auction sizes to the end of the financial year. In the event that the degree to which PAOF is taken up after the PBR is different from that assumption, and this difference is not accommodated in the supplementary issuance programme, then the outturn will be reflected in changes to the end-year Treasury bill stock and/or the DMO's net cash position.

g) Treasury bill sales

14. The stock of Treasury bills in market hands at end-March 2010 is forecast to be £62.7 billion. The stock is scheduled to fall by £1.9 billion in 2010-11, reducing the planned stock at end-March 2011 to £60.8 billion. £0.7 billion of the planned reduction represents the run-down of the stock of bilateral bills currently expected to be in issue at end-March 2010.
15. The DMO has discretion to vary the Treasury bill stock over the end of the financial year in line with its cash management operational requirements. Any difference between the outturn and target for 2010-11 will be reported in April 2011, along with any wider implications for the DMO financing remit in 2010-11 arising from the publication of the outturn for the 2010-11 Central Government Net Cash Requirement (CGNCR).

h) Changes to the financing requirement

16. The Debt and Reserves Management Report (DRMR) 2010-11 includes revised forecasts for the CGNCR for 2009-10 and 2010-11 of £200.9 billion and £166.4 billion respectively. These are reductions of £22.4 billion and £7.6 billion respectively since PBR 2009.
17. The other main changes impacting on financing since PBR 2009 are:

2009-10

- the forecast contribution to financing from National Savings & Investments (NS&I) has increased by £2.0 billion from -£0.5 billion to +£1.5 billion;
- the outturn of gilt sales was £227.6 billion, £2.5 billion more than the £225.1 billion plan, primarily reflecting proceeds from the post-auction option facility; and
- a reduction of £2.9 billion in planned net Treasury bill sales (from a planned end March 2010 stock of £65.6 billion to £62.7 billion). This

comprises a reduction in sales at tenders of £3.6 billion offset by £0.7 billion of bilateral Treasury bill sales.

18. The combination of these factors with the lower CGNCR has led to a forecast net cash position for the DMO at end-March 2010 of £24.5 billion, relative to a £0.5 billion plan. As usual, the additional cash position will be run down in 2010-11 reducing the financing requirement in that year by £24.0 billion.

2010-11

- £4.0 billion has been added to the gross financing requirement to finance the foreign exchange reserves.
- NS&I's contribution to financing is forecast to be zero.

19. The revised financing arithmetic for 2009-10 and 2010-11 is published at Annex B. At Annex C are revised illustrative gross financing projections to 2014-15.

Annex A: Gilt auction calendar 2010-11

Date	Type
Wed 07 April 2010	Conventional
Tue 13 April 2010	Conventional
Thu 15 April 2010	Index-linked
Thu 22 April 2010	Conventional
Tue 27 April 2010	Index-linked
Wed 05 May 2010	Conventional
Tue 11 May 2010	Conventional
Thu 13 May 2010	Index-linked
Thu 20 May 2010	Conventional
Wed 02 June 2010	Conventional
Thu 03 June 2010	Conventional
Tue 08 June 2010	Index-linked
Wed 09 June 2010	Conventional
Thu 17 June 2010	Conventional
Thu 01 July 2010	Index-linked
Tue 06 July 2010	Conventional
Wed 14 July 2010	Conventional
Thu 15 July 2010	Index-linked
Tue 20 July 2010	Conventional
Tue 03 August 2010	Conventional
Tue 10 August 2010	Conventional
Thu 12 August 2010	Conventional
Thu 19 August 2010	Index-linked
Thu 02 September 2010	Conventional
Tue 07 September 2010	Index-linked
Wed 15 September 2010	Conventional
Thu 16 September 2010	Conventional
Tue 05 October 2010	Index-linked
Wed 13 October 2010	Conventional
Thu 14 October 2010	Conventional
Tue 19 October 2010	Index-linked
Thu 21 October 2010	Conventional
Tue 02 November 2010	Conventional
Tue 09 November 2010	Index-linked
Thu 11 November 2010	Conventional
Thu 18 November 2010	Conventional
Thu 02 December 2010	Conventional
Tue 07 December 2010	Conventional
Wed 15 December 2010	Conventional
Thu 16 December 2010	Index-linked
Thu 06 January 2011	Conventional
Tue 11 January 2011	Index-linked
Wed 19 January 2011	Conventional
Thu 20 January 2011	Conventional
Tue 01 February 2011	Conventional
Thu 03 February 2011	Conventional
Tue 08 February 2011	Index-linked
Thu 17 February 2011	Conventional
Tue 01 March 2011	Conventional
Thu 03 March 2011	Conventional
Tue 08 March 2011	Index-linked
Thu 17 March 2011	Conventional

Auction dates are subject to confirmation depending on the dates of the General Election, and the Budgetary timetable.

Annex B: Gilt financing arithmetic 2009-10 and 2010-11

(£bn)	2009-10	2010-11
Central Government Net Cash Requirement	200.9	166.4
Gilt redemptions	16.6	39.0
Financing for Phase 1 of the Bank's Asset Purchase Facility	-1.0	0.0
Financing for reserves	4.0	4.0
Buy-backs	0.1	0.0
Planned short-term financing adjustment ¹	-0.6	-24.0
Financing requirement	220.0	185.4
Less		
Contribution to financing from NS&I	1.5	0.0
Net financing requirement	218.5	185.4
Financed by		
1. Debt issuance by the DMO		
a) Treasury bills²	18.7	-1.9
b) Gilt sales	227.6	187.3
Short-dated conventionals	75.4	59.0
Medium-dated conventionals	71.3	45.0
Long-dated conventionals	51.6	45.3
Index-linked gilts	29.3	38.0
2. Other planned change in short term debt		
Ways and Means	-3.8	0.0
3. Change in short term cash position³	24.0	0.0
Total financing	242.5	185.4
Short-term debt levels at end of financial year		
Assumed Treasury bill stock (in market hands)	62.7	60.8
Ways and Means	0.4	0.4
DMO net cash position	24.5	0.5
<p>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.</p>		
<p>2. The stock change shown here is a planning assumption. The DMO may finish the financial year with a higher or lower Treasury bill stock than assumed above, depending on the extent to which the DMO uses other short term cash instruments to raise finance and the extent to which there is a deviation from plan on proceeds from supplementary methods of issuance.</p>		
<p>3. The zero change for the short-term cash position in 2010-11 assumes that the DMO's planning assumption for the end-year Treasury bill stock is met. To the extent that the DMO uses alternative short-term cash instruments to raise finance within year, this will be reflected (as a negative number) in this line in the Table above. A negative (positive) number here indicates an increase in (reduction in) the financing requirement for the following financial year.</p>		

Annex C: Illustrative financing projections

20. The table below shows annual illustrative gross financing projections from 2011-12 to 2014-15 using updated projections of the CGNCR plus the latest estimate of gilt redemptions in these years. These are not gilt sales forecasts and, in particular, make no assumption about any contribution to financing from NS&I and the sales of Treasury bills.

Illustrative gross financing projections (£bn)				
	2011-12	2012-13	2013-14	2014-15
CGNCR projections	138	111	94	74
Gilt redemptions	49	48	47	43
Gross financing requirement	187	159	141	117
CGNCR change since PBR 2009	-8	-7	-7	-7
Redemption change since PBR 2009	0	4	0	9