Debt management report
2022-23

March 2022
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Chapter 1

Introduction

1.1 The ‘Debt management report’ is published in accordance with the ‘Charter for Budget Responsibility’. The Charter requires the Treasury to “report through a debt management report – published annually – on its plans for borrowing for each financial year” and to set remits for its agents. The Charter requires the report to include:

- the overall size of the debt financing programme for each financial year
- the planned maturity structure of gilt issuance and the proportion of index-linked and conventional gilt issuance
- a target for net financing through NS&I

1.2 The UK Debt Management Office (DMO) publishes detailed information on developments in debt management and the gilt market over the previous year in its ‘Annual Review’.

1.3 Chapters 2 and 3, along with Annexes A and B, contain information on the government’s wholesale debt management activities. Information about financing from NS&I is set out in Annex C. The Exchequer cash management remit for 2022-23 is contained in Annex D.

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2 www.dmo.gov.uk/publications/annual-reviews
Chapter 2
Debt management policy

Introduction

2.1 This chapter provides an overview of the government’s debt management framework and sets out medium-term considerations for debt management policy. The debt management framework is part of the overall macroeconomic framework, which includes the fiscal, macro prudential, and monetary policy frameworks. These are outlined in the Spring Statement 2022 document.¹

Debt management framework

2.2 The debt management framework includes:

• The debt management objective
• The principles that underpin the debt management policy framework
• The roles of HM Treasury and the Debt Management Office (DMO)
• The full funding rule

Debt management objective

2.3 The debt management objective, as set out in the ‘Charter for Budget Responsibility’,² is:

“to minimise, over the long term, the costs of meeting the government’s financing needs, taking into account risk, while ensuring that debt management policy is consistent with the aims of monetary policy.”

2.4 While decisions on debt management policy must be taken with a long-term perspective, specific decisions on funding the government’s gross financing requirement are taken annually. Remit decisions are announced in advance of the forthcoming financial year and are typically revised in April (a technical adjustment to reflect outturn data from the previous year) and as the Office for Budget Responsibility (OBR) publishes subsequent fiscal projections. The remits may also be revised at other times in exceptional circumstances. Any such in-year revisions will be announced transparently to the market.

Components of debt management objective

2.5 The costs of meeting the government’s financing needs arise directly from the interest payable on debt (coupon payments and the difference between issuance proceeds and redemption payments) and the costs associated with issuance. “Over the long term” means that the government expects to issue debt beyond the forecast period. This expectation is reflected in the government’s choice of debt management strategies.

2.6 A number of risks are taken into account when selecting possible debt management strategies. Five particularly important risks are:

- interest rate risk – interest rate exposure arising when new debt is issued
- refinancing risk – interest rate exposure arising when debt is rolled over, with an increase in refinancing risk if redemptions are concentrated in particular years
- inflation risk – exposure to inflation, given principal and coupon payments due on index-linked gilts are indexed to the Retail Prices Index (RPI)
- liquidity risk – the risk that the government may not be able to borrow from a particular part of the market in the required size at a particular time because that part of the market is insufficiently liquid
- execution risk – the risk that the government is not able to sell the offered amount of debt at a particular time, or must sell it at a large discount to the market price

2.7 These are the major risks that the government has taken into account in recent years and expects to take into account in the future. The weight placed on each risk can change over time. An explanation of how risk is taken into account in determining the DMO’s financing remit for 2022-23 is set out in Annex B.

Debt management policy principles

2.8 The debt management objective is achieved by:

- meeting the principles of openness, predictability, and transparency
- encouraging the development of a liquid and efficient gilt market
- issuing gilts that achieve a benchmark premium
- adjusting the maturity and nature of the government’s debt portfolio
- offering cost-effective retail financing through NS&I, while balancing the interests of taxpayers, savers, and the wider financial sector

2.9 The framework is underpinned by the institutional arrangements for debt management policy as established in 1998, in particular, the creation of the DMO with responsibility for the implementation and operation of debt management policy.3

3 More information about the DMO can be found here: www.dmo.gov.uk/about/who-we-are
Roles of HM Treasury and the DMO

2.10 The respective roles of HM Treasury and the DMO are set out in the DMO’s ‘Executive Agency Framework Document’.

2.11 In support of the government’s approach to debt management policy:
- the DMO will conduct its operations in accordance with the principles of openness, predictability, and transparency
- HM Treasury and the DMO will explain the basis for their decisions on debt issuance as fully as possible, in order to allow market participants to understand the rationale behind them
- the DMO will encourage the development of liquid and efficient gilt and Treasury bill markets

2.12 HM Treasury sets the annual financing remit using the projected financing requirement, which is calculated on the basis of the OBR’s forecasts for the government’s cash borrowing needs. The DMO has responsibility for pre-announcing the details of its issuance plans to the market, including a planned auction calendar (which sets out the operation dates and type of gilt to be issued as well as its approach to auction sizing).

The full funding rule

2.13 An overarching requirement of debt management policy is that the government fully finances its projected financing requirement each year through the sale of debt. This is known as the ‘full funding rule’. The government therefore issues sufficient wholesale and retail debt instruments, through gilts, Treasury bills (for debt financing purposes), and NS&I products, so as to enable it to meet its projected financing requirement in full.

2.14 The rationale for the full funding rule is:
- that the government believes that the principles of transparency and predictability are best met by the full funding of its financing requirement
- to avoid the perception that financial transactions of the public sector could affect monetary conditions, consistent with the institutional separation between monetary policy and debt management policy

2.15 The total amount of financing raised in a financial year will in practice differ from the projected financing requirement. This divergence normally occurs towards the end of the financial year and can be explained by a number of different factors. These include:
- the difference between the projected central government net cash requirement and its outturn

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• the difference between the projected net contribution to financing by NS&I and its outturn
• auction proceeds in the period following the Spring Statement that are different from those required to meet relevant financing targets
• the implementation of the syndication programme at year-end

2.16 The difference will be reflected in a change in the DMO’s cash balance at the end of the financial year. To meet the full funding rule, the government adjusts the projected net financing requirement in the following financial year in order to offset any difference; however, this does not affect the DMO’s cash management operations, which are intended to smooth the government’s cash flows across the financial year (see Annex D). The DMO’s flexibility to vary the stock of Treasury bills for cash management purposes is implemented with full adherence to the full funding rule.

Debt management considerations

2.17 Decisions on debt management policy are taken in advance of need, in order to achieve the debt management objective. Each year, the government assesses the costs and risks associated with different possible patterns of debt issuance, taking into account the most up-to-date information on market conditions and demand for debt instruments.

2.18 At present, annual debt management decisions are also made in the context of an elevated level of debt relative to gross domestic product. Consistent with the long-term focus of the debt management objective, the government takes decisions annually that enhance fiscal resilience by:
• mitigating refinancing risk; that is, the need to roll over high levels of debt continuously and to avoid concentrating redemptions in particular years, by taking decisions which spread gilt issuance along the maturity spectrum
• encouraging the liquidity and efficiency of the gilt market
• maintaining a diversity of exposure, both real and nominal, across the maturity spectrum, reflecting its preference for a balanced portfolio

2.19 As a result, subject to cost-effective financing, the government will:
• maintain a relatively long average maturity debt portfolio, in order to limit its exposure to refinancing risk
• issue an appropriate balance of conventional and index-linked gilts over a range of maturities, taking account of structural demand, the diversity of the investor base, and the government’s preferences for inflation exposure
• maintain the Treasury bill stock at a level that will support market liquidity and the cash management objective
Index-linked gilts

2.20 The UK’s stock of index-linked debt stood at around £493.2 billion at the end of 2021, making up 23.9% of the government’s debt portfolio (Chart A.10).5

2.21 Issuing index-linked gilts has historically brought cost advantages for the government due to strong investor demand. Doing so has also built the UK’s financial resilience by supporting both the UK’s long average debt maturity and diversifying the investor base. Tying debt interest payments to RPI has historically helped to underscore the credibility of the government’s commitment to low and stable inflation, particularly during the period prior to central bank independence; however, the UK’s relatively large stock of index-linked debt also increases the sensitivity of the public finances to inflation shocks, as highlighted in the OBR’s 2017 ‘Fiscal risks report’.6

2.22 At Budget 2018 – and as part of the government’s responsible approach to fiscal risk management – the government announced that it would look to reduce the proportion of annual index-linked gilt issuance in a measured fashion over the medium term, as a means of reducing its inflation exposure in the debt portfolio. It has been doing so since. In the five years prior to 2018-19, index-linked gilts accounted for around 25% of the government’s annual debt issuance, for which both the principal and coupon payments are indexed to RPI. Since then, the government has made progress towards reducing inflation exposure in relative terms. Index-linked gilt issuance has accounted for around 15% (unweighted) of annual gilt issuance over the last four years (including 2021-22), while the proportion of index-linked gilts in the debt stock has also fallen from 28.4% at the end of 2019 to 23.9% at the end of 2021 (see Charts A.10 and A.11).

2.23 For the 2022-23 financing remit, index-linked gilts are planned to account for 14.9% of the government’s annual debt issuance (1.4 percentage points more than in 2021-22). The government is no longer looking to reduce index-linked gilt issuance as a share of total issuance on a year-on-year basis over the medium term.7 The government believes that the current level of annual index-linked gilt issuance is appropriate in the context of moderating the level of inflation exposure in the debt portfolio but keeps this under review.

2.24 Decisions on the precise levels of index-linked and conventional gilt issuance will continue to be taken as part of the annual financing remit and in consultation with market participants.

Sovereign Sukuk

2.25 In March 2021, the government issued its second UK sovereign Sukuk, raising £500 million. Sukuk are financial certificates, similar to bonds, but

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5 In nominal uplifted terms.
7 In the same manner as the policy laid out at Budget 2018 – ‘Budget 2018’, HM Treasury, October 2018.
which comply with the principles of Islamic finance. The Sukuk took an al-Ijara structure and will mature in 2026.

2.26 The UK has now issued a total of £700 million in sovereign Sukuk, following the first issuance of £200 million in 2014. The issuance of sovereign Sukuk is not part of the government’s regular debt management policy, but is instead intended to deliver wider benefits, including reinforcing London’s status as the leading centre for Islamic finance outside the Islamic world, supporting greater financial inclusion in the UK, and promoting greater trade and investment into the UK.

Green gilts and retail Green Savings Bonds

2.27 The government launched the UK’s Green Financing Programme last year, with the publication of the Green Financing Framework (‘the Framework’) in June 2021. Under this Programme, the government has raised £16.4 billion through the sale of green gilts, via the DMO, and retail Green Savings Bonds (GSB), via NS&I.

2.28 In September 2021, the DMO issued the UK’s inaugural green gilt, maturing in 2033, raising £10.0 billion. This is the largest inaugural green bond issuance by any country to date. This was followed by a second green gilt issuance in October 2021, raising a further £6.1 billion. This gilt, maturing in 2053, has the longest maturity of any outstanding sovereign green bond to date. Total green gilt proceeds for 2021-22 total £16.1 billion.

2.29 In 2022-23, the government plans to issue £10.0 billion of green gilts, subject to demand and market conditions, with the current expectation that this will be issued across both medium and long maturities.

2.30 The government also launched the world’s first sovereign retail GSB tied to the same framework as green gilts, through NS&I, in October 2021. The GSB are a three-year fixed-term savings product. Customers will benefit from the annual allocation reports planned for the wider Green Financing Programme, as set out below. The GSB were initially launched with an interest rate of 0.65% and were subsequently repriced to 1.30% in February 2022, in response to market developments. As of 15 March 2022, NS&I has raised £0.3 billion from the GSB since the initial October 2021 launch.

2.31 As a HM Treasury policy product, proceeds from the GSB do not contribute towards NS&I’s annual Net Financing remit, though they have been reported alongside the arithmetic in Chapter 3 and Annex C.

2.32 As specified in the Framework, the first allocation report – covering both green gilts and the GSB – will be published by September 2022. This will set out how the 2021-22 green proceeds have been allocated, in line with the expenditure selection criteria described in the Framework. The first impact report will be published by September 2023.

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**Borrowing by devolved administrations**

2.33 The Scottish and Welsh governments and the Northern Ireland Executive have the power to borrow for capital investment, as set out in the Scotland Act 1998, Wales Act 2006, and Northern Ireland (Loans) Act 1975, respectively. The Scottish and Welsh governments’ capital borrowing powers were updated in the ensuing Scotland Act 2016 and Wales Act 2017, with further detail set out in their respective fiscal frameworks. The Northern Ireland Executive’s borrowing powers were updated in the Northern Ireland (Miscellaneous Provisions) Act 2006.

2.34 Both the Scottish and Welsh governments also have the power to issue bonds to finance capital investment. The Scottish and Welsh governments will be solely responsible for meeting their liabilities and the UK government will provide no guarantee on any bonds issued by the Scottish and Welsh governments. If there is an increase in the Scottish or Welsh government’s borrowing limits, the UK government will also review devolved administrations’ powers to issue bonds. In addition, the Scottish and Welsh governments would need further approval from HM Treasury to issue in any currency other than sterling.

2.35 The Scottish and Welsh governments also have resource borrowing powers to manage their budgets, as set out in the Acts above. Further detail on the Scottish and Welsh governments’ resource borrowing powers are included in their respective fiscal frameworks. The Northern Ireland Executive has short-term resource borrowing powers to assist cashflow management in the Northern Ireland Consolidated Fund.

**Borrowing by local authorities**

2.36 Under the prudential code, each local authority is responsible for meeting its own liabilities, including those taken on through extending guarantees. The UK government provides no guarantee on local authority borrowing.

2.37 Local authority capital financing decisions are subject to prudential guidance as published by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Department for Levelling Up, Housing and Communities (DLUHC), the Scottish Government, and the Welsh Government. Taken together, these documents form the prudential framework. Following consultation in 2017, DLUHC and CIPFA have updated their respective elements of the framework. Local authorities are required by statute to have regard to this guidance. These changes, which came into force in April 2018:

- extended the requirement to consider security, liquidity, and yield in that order of importance to all investments, not just financial investments
- enhanced transparency requirements
- required authorities to demonstrate how they have ensured that those signing off commercial decisions understand the risks and opportunities

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• made it clear that borrowing more than, or in advance of, need solely to generate a profit is not prudential

• required local authorities to demonstrate that the level of debt taken on, and aggregate risk from, investments is proportionate to the size of the authority

• updated the guidance on calculating minimum revenue provision to make it clear that local authorities should not make imprudent assumptions to minimise their debt servicing costs

2.38 Local authorities undertake the bulk of their borrowing via the Public Works Loan Board (PWLB). On 24 February 2020, a governance change was implemented by Statutory Instrument, whereby the relevant borrowing powers vested in the former PWLB Commissioners were transferred to HM Treasury.

2.39 At Budget 2020, the government launched a consultation on a proposal to focus PWLB loans on service delivery, housing, and regeneration, as well as ensuring that this money is not diverted into financial investments that serve no direct policy purpose. The government introduced new lending terms to this effect in November 2020, alongside the Spending Review.

2.40 From summer 2021, local authorities will also be able to borrow from the UK Infrastructure Bank for strategic infrastructure projects.
Chapter 3

The Debt Management Office's financing remit for 2022-23

Introduction

3.1 The financing arithmetic sets out the components of the government’s net financing requirement (NFR) and the contributions from various sources of financing. The Debt Management Office’s (DMO) financing remit sets out how the DMO, acting as the government’s agent, will fund the projected NFR.

Financing arithmetic

3.2 The Office for Budget Responsibility’s (OBR) forecast for the central government net cash requirement (excluding NRAM ltd, Bradford & Bingley, and Network Rail) (CGNCR (ex NRAM, B&B, and NR)) in 2022-23 is £94.3 billion. This is the fiscal aggregate that determines gross debt sales and is derived from public sector net borrowing (PSNB). The relationship between PSNB and CGNCR (ex NRAM, B&B, and NR) is set out in the OBR’s March 2022 ‘Economic and fiscal outlook’.

3.3 The forecast NFR in 2022-23 of £147.9 billion also reflects: projected gilt redemptions of £107.1 billion; and a planned short-term financing adjustment of £-46.8 billion resulting from unanticipated over funding in 2021-22.

3.4 Proceeds from NS&I are expected to make a £6.0 billion net contribution to financing in 2022-23 (excluding Green Savings Bonds, GSB), following a forecast net contribution of £4.0 billion in 2021-22. Additionally – and separately – NS&I has raised £0.3 billion from the GSB since the initial October 2021 launch, and this is reflected in the financing arithmetic for 2021-22. The projection for 2022-23 assumes gross inflows of £41.3 billion. Details of NS&I’s Net Financing Target are set out in Annex C.

3.5 Gilt issuance is the government’s primary means by which it meets the NFR. Treasury bill issuance (for debt financing purposes) will also make a net contribution to meeting the NFR in 2022-23.

3.6 In 2022-23, the NFR will be met by gross gilt issuance of £124.7 billion and net issuance of Treasury bills for debt financing purposes of £23.2 billion (i.e., it is planned that the stock of Treasury bills in issue for debt financing purposes at end-March 2023 will increase to £60.0 billion).

3.7 Table 3.A sets out details of the financing arithmetic for 2021-22 and 2022-23.
Table 3.A: Financing arithmetic in 2021-22 and 2022-23 (£ billion)

<table>
<thead>
<tr>
<th></th>
<th>2021-22</th>
<th>2022-23</th>
</tr>
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<tbody>
<tr>
<td>CGNCR (ex NRAM, B&amp;B, and NR)²</td>
<td>109.2</td>
<td>94.3</td>
</tr>
<tr>
<td>Gilt redemptions</td>
<td>79.3</td>
<td>107.1</td>
</tr>
<tr>
<td>Financing adjustment carried forward from previous financial years³</td>
<td>-58.8</td>
<td>-46.8</td>
</tr>
<tr>
<td><strong>Gross financing requirement</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>less:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NS&amp;I Net Financing</td>
<td>4.0</td>
<td>6.0</td>
</tr>
<tr>
<td>NS&amp;I Green Savings Bonds</td>
<td>0.3</td>
<td>-</td>
</tr>
<tr>
<td>Sale of UK sovereign Sukuk</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Other financing⁴</td>
<td>0.3</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Net financing requirement (NFR) for the Debt Management Office (DMO)</strong></td>
<td>124.6</td>
<td>147.9</td>
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DMO’s NFR will be financed through:

**Gilt sales, through sales of:**

<p>| | | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Short conventional gilts</td>
<td>52.7</td>
<td>37.1</td>
</tr>
<tr>
<td>Medium conventional gilts (including green gilts)⁵</td>
<td>55.2</td>
<td>26.5</td>
</tr>
<tr>
<td>Long conventional gilts (including green gilts)⁵</td>
<td>60.4</td>
<td>35.5</td>
</tr>
<tr>
<td>Index-linked gilts</td>
<td>26.3</td>
<td>18.6</td>
</tr>
<tr>
<td>Unallocated amount of gilts</td>
<td>0.0</td>
<td>7.0</td>
</tr>
<tr>
<td><strong>Total gilt sales for debt financing</strong></td>
<td>194.7</td>
<td>124.7</td>
</tr>
<tr>
<td><strong>Total net contribution of Treasury bills for debt financing</strong></td>
<td>-23.2</td>
<td>23.2</td>
</tr>
<tr>
<td><strong>Total financing</strong></td>
<td>171.5</td>
<td>147.9</td>
</tr>
<tr>
<td>DMO net cash position</td>
<td>49.1</td>
<td>2.3</td>
</tr>
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</table>

¹ Figures may not sum due to rounding.
² Central government net cash requirement (excluding NRAM Ltd, Bradford & Bingley, and Network Rail).
³ The £58.8 billion financing adjustment in 2021-21 carried forward from previous years reflects the 2020-21 outturn for CGNCR (ex NRAM, B&B, and NR), as first published on 23 April 2021. The £46.8 billion financing adjustment in 2022-23 is the amount required to reduce the estimated DMO cash position at end-March 2023, to £2.3 billion.
⁴ This financing item is typically comprised of estimated income from coinage and unhedged reserves.
⁵ Including green gilt sales of £10.0 billion in 2021-22, and planned green gilt sales in 2022-23.
⁶ Including green gilt sales of £6.1 billion in 2021-22, and planned green gilt sales in 2022-23.

Source: DMO, HM Treasury, NS&I, and OBR.
Other short-term debt

3.8 The Ways and Means facility functions as the government’s overdraft account with the Bank of England. Ordinary, a standing negative balance of around £0.4 billion is maintained at all times to support Exchequer cash management. It is planned to remain at around £0.4 billion in 2022-23.

3.9 The projected level of the DMO’s net cash balance at 31 March 2022 is £49.1 billion, £46.8 billion above the level projected at the Autumn Budget and Spending Review 2021. The level will be reduced to £2.3 billion during 2022-23, as shown by the planned short-term financing adjustment of - £46.8 billion, and this will in turn reduce the NFR in 2022-23 accordingly.

Gilt issuance by method, type, and maturity

3.10 Auctions will remain the government’s primary method of gilt issuance. In addition, the government will continue issuance via syndications and gilt tenders. Any type and maturity of gilts can be issued via syndication or gilt tender. Further details are set out in the DMO’s 2022-23 financing remit announcement.

3.11 The government currently plans to raise £10.0 billion by sales of green gilts in 2022-23, split between medium and long maturities.

3.12 The government plans gilt sales via auction of £96.7 billion (or 77.6% of total issuance) which is currently planned to be split by maturity and type as follows:

- £37.1 billion of short conventional gilts (29.8% of total issuance)
- £26.5 billion of medium conventional gilts (21.2% of total issuance)
- £22.5 billion of long conventional gilts (18.1% of total issuance)
- £10.6 billion of index-linked gilts (8.5% of total issuance)

3.13 The government is also currently planning to sell approximately £21.0 billion of gilts (16.8% of total issuance) via syndication. The DMO’s remit announcement sets out further detail about the planned syndication programme.

3.14 In addition, the DMO’s financing remit includes an initially unallocated portion of £7.0 billion (5.6% of total issuance), through which gilts of any type or maturity may be sold, via any issuance method.

3.15 The deployment of the unallocated amount of gilt sales is designed to facilitate the effective delivery of the gilt financing programme while remaining consistent with the debt management principles of openness, predictability, and transparency.

3.16 To maintain the operational viability of syndicated offerings at the end of each financial year, the overall size of the syndication programmes

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1 Automatic transfers from the government’s Ways and Means account at the Bank of England offset any negative end-of-day balances in the Debt Management Account.


3 Maturities are defined as follows: short (1-7 years), medium (7-15 years), and long (over 15 years).
(conventional and/or index-linked, but not green) may be increased by up to 10% at the time of the final syndicated offering of each type.

3.17 Gilt sales from either the syndication or auction programmes at any maturity sector may vary from a broadly even-flow delivery during the financial year. Proceeds raised following the final transaction of each syndication programme may also vary from the planned total for each programme. Any variations of this nature may lead to a minor adjustment to the type and maturity of gilts sold via any issuance method towards the end of the financial year.

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

3.19 The current planning assumption for gilt issuance in 2022-23 by type, maturity, and issuance method is shown in Table 3.B.

Table 3.B: Breakdown of currently planned gilt issuance in 2022-23 by type, maturity and issuance method (£ billion and % of total)\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>Auction</th>
<th>Syndication</th>
<th>Gilt tender</th>
<th>Unallocated</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short</td>
<td>37.1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>37.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(29.8%)</td>
</tr>
<tr>
<td>Medium (inc. green)(^2)</td>
<td>26.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>26.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(21.2%)</td>
</tr>
<tr>
<td>Long (inc. green)(^3)</td>
<td>22.5</td>
<td>13.0</td>
<td>-</td>
<td>-</td>
<td>35.5</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(28.5%)</td>
</tr>
<tr>
<td>Index-linked</td>
<td>10.6</td>
<td>8.0</td>
<td>-</td>
<td>-</td>
<td>18.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(14.9%)</td>
</tr>
<tr>
<td>Unallocated</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7.0</td>
<td>7.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(5.6%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>96.7</td>
<td>21.0</td>
<td>-</td>
<td>7.0</td>
<td>124.7</td>
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<tr>
<td></td>
<td>(77.6%)</td>
<td>(16.8%)</td>
<td></td>
<td>(5.6%)</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Figures may not sum due to rounding.

\(^2\) Including planned green gilt sales.

\(^3\) Including planned green gilt sales.

*Source: DMO.*

**Gilt auction calendar**

3.20 On the same day as the publication of the ‘Debt management report’, the DMO will publish a planning assumption for the gilt auction calendar that is consistent with the remit. The planned auction calendar may be adjusted during the year. The DMO will explain the parameters for this alongside the publication of the auction calendar.
Post-Auction Option Facility (PAOF)

3.21 In 2022-23, the DMO will continue to offer successful bidders at auction (both primary dealers and investors) the option to purchase additional stock. The details of how this facility works are set out in the DMO’s gilt market Operational Notice. The PAOF will not, however, be applicable to any auctions of green gilts.

The Standing Repo Facility

3.22 For the purposes of market management, the DMO may create and repo out gilts in accordance with the provisions (which are revised from time to time) of its Standing Repo Facility, as launched on 1 June 2000. Any such gilts created will not be sold outright to the market and will be cancelled on return.

Other operations

3.23 The DMO has no current plans for a programme of reverse or switch auctions, or conversion offers, in 2022-23.

Coupons

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

Purchases of short maturity debt

3.25 The DMO may buy in gilts that are close to their final maturity date, in order to help manage Exchequer cash flows.

Treasury bill issuance

3.26 It is currently planned that Treasury bill issuance for debt financing purposes will make a £23.2 billion net contribution to debt financing in 2022-23. The amount that Treasury bills have contributed to debt financing up to, and including, 2021-22 will be reported by the DMO shortly after the end of 2021-22.

New gilt instruments

3.27 There are no current plans to introduce new types of gilt instruments in 2022-23.

Revisions to the remit

3.28 In addition to planned updates to the remit, any aspect of this remit may be revised during the year in light of relevant new information. For example, this might include revisions in response to substantial changes in the following:

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4 https://www.dmo.gov.uk/media/17702/opnot200921.pdf
• the government’s forecast for the NFR
• the level and/or shape of the gilt yield curves
• market expectations of future interest and inflation rates
• market volatility

3.29 Any such in-year revisions will be announced transparently to the market.

Medium-term projections for annual financing requirements

3.30 The government has published projections for financing requirements in the fiscal forecast period. The financing requirements include the forecast path for CGNCR (ex NRAM, B&B, and NR) and the gilt redemption profile. Table 3.C sets out the financing requirement projections from 2021-22 to 2026-27.

Table 3.C: Financing requirement projections, 2021-22 to 2026-27 (£ billion)¹

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CGNCR (ex NRAM, B&amp;B, and NR)²</td>
<td>109.2</td>
<td>94.3</td>
<td>74.4</td>
<td>66.6</td>
<td>55.8</td>
<td>43.1</td>
</tr>
<tr>
<td>Redemptions</td>
<td>79.3</td>
<td>107.1</td>
<td>117.0</td>
<td>121.1</td>
<td>126.2</td>
<td>69.4</td>
</tr>
<tr>
<td>Financing adjustment carried forward from previous years</td>
<td>-58.8</td>
<td>-46.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Illustrative gross financing requirement</td>
<td>129.7</td>
<td>154.6</td>
<td>191.3</td>
<td>187.6</td>
<td>182.0</td>
<td>112.5</td>
</tr>
</tbody>
</table>

¹ Figures may not sum due to rounding.
² Central government net cash requirement (excluding NRAM ltd, Bradford & Bingley, and Network Rail).

Source: DMO, HM Treasury, and OBR.
Annex A

Debt portfolio

A.1 The total nominal outstanding stock of central government sterling wholesale debt excluding official holdings was £2,061.9 at end-December 2021.1 The components of this stock are set out in Table A.1.

A.2 Chart A.1 shows the composition of the government’s debt portfolio at end-December 2021.1 Conventional and index-linked gilts made up the largest proportion of government debt (totalling 89%).

Chart A.1 Composition of central government sterling debt in % and £ billion (end-December 2021)1

Figures may not sum due to rounding. Nominal uplifted values.

Source: DMO and NS&I.

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1 Official holdings of gilts comprise holdings by the Debt Management Office (DMO) of gilts created for use as collateral in the conduct of its Exchequer cash management operations (such gilts are not available for outright sale to the market). This also includes any DMO purchases of near-maturity gilts.

2 Maturities here are defined as follows: Treasury bills (0-12 months), short (1-7 years), medium (7-15 years) and long (over 15 years). The maturity ranges defined here represent the residual maturities of the relevant instrument categories.
Table A.1: Composition of central government wholesale and retail debt

<table>
<thead>
<tr>
<th>£ billion nominal value</th>
<th>End-December 2020</th>
<th>End-December 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conventional gilts</td>
<td>1,483.7</td>
<td>1,614.2</td>
</tr>
<tr>
<td>Less government holdings</td>
<td>106.9</td>
<td>95.9</td>
</tr>
<tr>
<td></td>
<td>1,376.8</td>
<td>1,518.3</td>
</tr>
<tr>
<td>Index-linked gilts</td>
<td>345.2</td>
<td>362.9</td>
</tr>
<tr>
<td>less government holdings</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>plus accrued inflation uplift</td>
<td>105.9</td>
<td>133.2</td>
</tr>
<tr>
<td></td>
<td>448.1</td>
<td>493.2</td>
</tr>
<tr>
<td>Treasury bills for debt management</td>
<td>62.0</td>
<td>50.5</td>
</tr>
<tr>
<td>Total wholesale debt</td>
<td>1,886.9</td>
<td>2,061.9</td>
</tr>
<tr>
<td>Retail</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NS&amp;I</td>
<td>208.0</td>
<td>205.2</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance on Ways and Means Advance</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Sovereign Sukuk</td>
<td>-</td>
<td>0.5</td>
</tr>
<tr>
<td>Total central government sterling debt</td>
<td>2,095.3</td>
<td>2,268.0</td>
</tr>
<tr>
<td>Other government debt less liquid assets</td>
<td>36.8</td>
<td>73.0</td>
</tr>
<tr>
<td>Public sector net debt</td>
<td>2,132.1</td>
<td>2,341.0</td>
</tr>
<tr>
<td>Public sector net debt to GDP (%)(^2)</td>
<td>95.7%</td>
<td>96.5%</td>
</tr>
<tr>
<td>Statistics: Wholesale debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale debt to GDP (%)(^2)</td>
<td>84.7%</td>
<td>85.8%</td>
</tr>
<tr>
<td>Average time to maturity (years)(^3)</td>
<td>14.8 years</td>
<td>14.7 years</td>
</tr>
<tr>
<td>Debt maturing in one year (%)</td>
<td>7.3%</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

\(^1\) Figures may not sum due to rounding.

\(^2\) Adjusted to ONS public sector finances data revisions in September 2021 and GDP centred on end-December.

\(^3\) Calculated on a nominal weighted basis, excluding government holdings, including accrued inflation uplift and Treasury bills for debt management purposes.

Source: DMO, NS&I, OBR, and ONS.

A.3 Chart A.2 shows the evolution of the gilt stock over time. Conventional gilts continue to make up the largest share of the gilt stock. In recent years, as part of the government’s responsible approach to fiscal risk management, the relative balance of the central government wholesale debt stock has shifted more towards conventional gilts. Reducing the proportion of the total debt stock held in index-linked gilts has, in relative terms, reduced the government’s inflation exposure in the debt portfolio. Further details of the
government’s current index-linked gilt issuance strategy can be found in Chapter 2.

Chart A.2 Composition of central government wholesale debt stock (end-December 2021 values)

![Chart A.2 Composition of central government wholesale debt stock](image)

*Source: DMO.*

A.4 Chart A.3 shows the government’s gilt redemption profile as of end-February 2022. Following the extension of the maturity of the conventional gilt curve from 2071 to 2073 in 2021-22, the longest maturity gilt in issue is due to redeem in the 2073-74 financial year. The index-linked gilt curve was also extended this year, with the longest maturity index-linked gilt now maturing in 2072-73, too. While the majority of gilts in issue are conventional, particularly at shorter maturities, the split between conventional and index-linked gilts becomes more balanced at longer maturities.

Chart A.3 Gilt redemption profile (as of end-February 2022)

![Chart A.3 Gilt redemption profile](image)

*Source: DMO.*


Maturity and duration of the debt stock

By end-December 2021, the average maturity of the total stock of gilts was 15.1 years, as shown in Chart A.4. The average maturity of the stock of conventional gilts is unchanged from end-2020 to end-2021, at 14.0 years, with the average maturity of index-linked gilts falling from 19.2 to 18.4 years. The average maturity of the government’s wholesale marketable debt remains consistently longer than the average across the G7 group of advanced economies, as shown in Chart A.5.

Chart A.4 Average maturity of UK gilt stock (end-December 2021 values)¹

酯算 on a nominal weighted basis, excluding official holdings, including accrued inflation uplift.

Source: DMO.

Chart A.5 Average maturity of the debt stock by country (end-December 2021)¹

酯算 on a nominal weighted basis, excluding inflation uplift, including Treasury bills.

Source: Bloomberg L.P.
A.6 A long average maturity of debt significantly reduces the UK government’s exposure to refinancing risk, by enabling gilt issuance to be spread along the maturity spectrum. Chart A.6 shows the expected gross financing requirement as a share of GDP for all G7 countries in 2020 and 2021. This illustrates the supportive impact that the long average maturity of the UK’s debt stock has on the UK’s annual gross financing requirement, which thereby lowers refinancing risk. Nonetheless, even within a long average maturity, it is possible to have a relative concentration of redemptions in certain years.

Chart A.6 Annual gross financing requirement as % of GDP

![Chart showing annual gross financing requirement as % of GDP for all G7 countries in 2020 and 2021.]


Debt Interest

A.7 Net debt interest spending continued to fall in 2020-21, as shown in Chart A.7. This is due to the historically low interest rates for new issuance and relatively low Retail Prices Index (RPI) inflation (affecting the accrued interest due on index-linked gilts). Debt interest spending is forecast to reach £83 billion in 2022-23, which is nearly £42 billion above the October forecast – the highest nominal spending ever – and nearly four times the amount spent on debt interest last year (£23.6 billion in 2020-21). Going forward, while debt interest on conventional gilts is forecast to remain broadly flat in nominal terms over the five-year forecast period, an increase in inflation is forecast to raise the accrued interest payments due on index-linked gilts, contributing to an increase in total debt interest over the period (Chart A.8). As set out in the updated ‘Charter for Budget Responsibility’ published at Autumn Budget and Spending Review 2021, the government is focused on monitoring and assessing the affordability of servicing public debt, in order to support the achievement of its fiscal objectives.  

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The debt interest presented in this chart is net of interest and dividends, reflecting the use of debt liabilities to purchase financial assets which in turn provide a rate of return.

Source: ONS.

Gross debt interest reflects the instruments issued as outlined in the outturn financing remits and forward projections. This aggregate does not include any negative debt interest from the Asset Purchase Facility nor from any financial assets held by government.

Source: HM Treasury calculations and OBR.

Gilt holdings by sector

A.8 At end-September 2021, the 3 largest investor groups of gilt holdings continued to be Bank of England’s Asset Purchase Facility (33.3%), insurance companies and pension funds (27.4%), and overseas investors (28.0%), as shown in Chart A.9.
The introduction of quantitative easing through the Bank of England’s Asset Purchase Facility has caused the largest change to gilt holdings by sector over time, as shown in Chart A.9. Since its introduction in 2009, the market value of holdings in the Asset Purchase Facility has increased: as of end-September 2021 (the latest data published), gilt holdings in the facility stood at around £842 billion. In December 2021, the Asset Purchase Facility completed its final gilt purchase, concluding the Bank of England’s quantitative easing scheme. Domestic insurance companies and pension funds have frequently been the largest holders of gilts in aggregate, though the share of gilts held by overseas investors has increased over time, to now comprise a similar share of the investor base.

Gilt issuance

The central government net cash requirement (excluding NRAM Ltd, Bradford & Bingley, and Network Rail) (CGNCR (ex NRAM, B&B, and NR)), gilt redemptions, and the volume of gilt sales for each financial year since 2008-09 are shown in Table A.2.
Table A.2: Central government net cash requirement, redemptions and gilt sales (£ billion)

<table>
<thead>
<tr>
<th>CGNCR (ex NRAM, B&amp;B, and NR)</th>
<th>Redemptions</th>
<th>Gross gilt sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>162.4</td>
<td>18.3</td>
</tr>
<tr>
<td>2009-10</td>
<td>198.8</td>
<td>16.6</td>
</tr>
<tr>
<td>2010-11</td>
<td>139.6</td>
<td>38.6</td>
</tr>
<tr>
<td>2011-12</td>
<td>126.5</td>
<td>49.0</td>
</tr>
<tr>
<td>2012-13</td>
<td>98.6</td>
<td>52.9</td>
</tr>
<tr>
<td>2013-14</td>
<td>79.3</td>
<td>51.5</td>
</tr>
<tr>
<td>2014-15</td>
<td>92.3</td>
<td>64.5</td>
</tr>
<tr>
<td>2015-16</td>
<td>78.5</td>
<td>70.2</td>
</tr>
<tr>
<td>2016-17</td>
<td>71.1</td>
<td>69.9</td>
</tr>
<tr>
<td>2017-18</td>
<td>40.7</td>
<td>79.5</td>
</tr>
<tr>
<td>2018-19</td>
<td>36.9</td>
<td>66.7</td>
</tr>
<tr>
<td>2019-20</td>
<td>55.8</td>
<td>99.1^4</td>
</tr>
<tr>
<td>2020-21</td>
<td>334.5</td>
<td>97.6</td>
</tr>
<tr>
<td>2021-22^3</td>
<td>109.2</td>
<td>79.3</td>
</tr>
<tr>
<td>2022-23^3</td>
<td>94.3</td>
<td>107.1</td>
</tr>
</tbody>
</table>

\^1 Central government net cash requirement (excluding NRAM, Bradford and Bingley, and Network Rail).
\^2 Figures are in cash terms.
\^3 Spring Statement 2022 projections.
\^4 Includes £0.2 billion for the redemption of the 2014 sovereign Sukuk in 2019-20.

Source: DMO, HM Treasury, ONS, and OBR.

Index-linked gilts

A.11 The stock of index-linked gilts has increased over time and stood at around £493.2 billion in nominal uplifted terms at the end of 2021. Index-linked gilts make up 23.9% of the government’s debt portfolio in nominal uplifted terms (Chart A.10). The proportion of index-linked debt in the government’s wholesale debt portfolio remains consistently higher than across the G7 group of advanced economies and is around twice as large as the second highest G7 country. This is largely owing to the large level of structural demand for such instruments in the UK, from the domestic pensions sector in particular.
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Chart A.10 Index-linked proportion of the debt stock

The term ‘nominal value’ refers to the nominal amount of gilts in issue; the term ‘nominal uplifted’ refers to the nominal amount in issue multiplied by the known inflation uplift on the gilts to date.

Source: DMO.

A.12 Details on the government’s current policy position in relation to index-linked gilt issuance, as well as the specific decisions in respect of the 2022-23 remit, are provided in Chapter 2 of this document.

Chart A.11 Annual index-linked gilt issuance

Data up to, and including 2021-22, are actual outturn data. For 2022-23: (i) data are based on initial planned issuance, which is subject to change as the initially unallocated amount of gilts is distributed over the year; and (ii) no assumption is made about in-year transfers from the initially unallocated portion of issuance.

Source: DMO.
Annex B

Context for decisions on the Debt Management Office's financing remit

Introduction

B.1 This annex provides the context for the government’s decisions on gilt and Treasury bill issuance in 2022-23, setting out the qualitative and quantitative considerations that have influenced them.

B.2 The government's decisions on the structure of the financing remit, which are taken annually, are made in accordance with the debt management objective, the debt management framework, and wider policy considerations (see Chapter 2).

B.3 In determining the overall structure of the financing remit, the government assesses the costs and risks of debt issuance by maturity and type of instrument. Decisions on the composition of debt issuance are also informed by an assessment of investor demand for debt instruments by maturity and type as reported by stakeholders, and as manifested in the shape of the nominal and real yield curves, as well as the government's appetite for risk.

B.4 Alongside these considerations, the government takes into account the practical implications of issuance (for example, the scheduling of operations throughout the year).

Demand

B.5 The DMO conducts regular surveys of Gilt-Edged Market Makers (GEMMs) and investor consultations, in order to inform its assessment of demand for gilts and Treasury bills.

B.6 Both GEMMs and investors have reported ongoing demand for all instrument types. In shorter maturities, demand has been expressed both for shorter-dated gilts and for a rebuild of the Treasury bill stock, given the reduction in the Treasury bill stock in 2021-22, and the size of upcoming gilt redemptions.

B.7 While medium-dated conventional gilts remain the most liquid and traded part of the gilt curve, market feedback supported a reduction in issuance in this sector.

B.8 Demand is reported to remain firm for long-dated gilts, in both conventional and index-linked format, from long-term savings institutions. It was reported
that overseas investor demand is expected to remain strong across a range of instruments.

B.9 There is also good investor appetite for further green gilt issuance, following the successful introduction of these instruments last year, which saw record levels of investor demand at issuance.

Cost

B.10 This section provides an overview of cost considerations. These analyses complement the qualitative demand feedback and help inform evaluations of the relative cost effectiveness of different types of gilt issuance. Chart B.1 reports the evolution of nominal spot rates for several maturities since the beginning of 2021-22. It shows that after a period of slow decline, there have been marked changes since the second half of September, with yields now above the levels seen at the beginning of 2021-22, especially at the short and medium sectors of the curve. The chart also illustrates that outturn yields during the remit year may differ from observations made at the time of setting an annual remit. Hence, immediately observable cost factors must be weighed carefully against other considerations.

Chart B.1 Nominal spot yield dynamics (to end-February 2022)

1Daily spot rates for selected maturities from 1 April 2021 to end-February 2022.

Source: DMO.

B.11 This increase in the level of yields has been accompanied by a flattening of the yield curve, as shown in Chart B.2.

1 The spot rate for any maturity is defined here as the yield on a theoretical zero-coupon gilt which gives a single payment at that maturity. The spot rate reflects the current yield at a particular point in time.
Chart B.2 Differences across spot rates of different maturities (to end-February 2022)\(^1\)

\[\text{Chart B.2 Differences across spot rates of different maturities (to end-February 2022)}\]

\[\text{Source: DMO.}\]

B.12 The changes described above, together with current demand conditions, have resulted in an upward shift in – and flattening of – the nominal yield curve, with 10-year gilts now yielding above several longer maturity gilts. This can be seen in Chart B.3, which displays the shapes of both the nominal and real spot yield curves as of end-February 2020, 2021, and 2022.

Chart B.3 Nominal and real spot yield curves (as of end-February 2020, 2021, and 2022)\(^1\)

\[\text{Chart B.3 Nominal and real spot yield curves (as of end-February 2020, 2021, and 2022)}\]

\[\text{Source: DMO.}\]
B.13 Understanding the market pricing of gilts can be a useful consideration in determining the appropriate composition of maturities to issue. To illustrate, yields of a long-term, zero-coupon gilt can be decomposed into two components: a 'risk neutral' yield and a risk premium (also called a term premium). The former corresponds to the average expected future short-term interest rates over the life of the gilt. The latter is normally thought of as the additional return that risk-averse investors demand as compensation for the possibility of capital loss if a gilt is sold before maturity and, in the case of conventional gilts, the risk of the bond value being eroded by inflation.

B.14 The risk premium may also be determined by supply and demand imbalances for a specific instrument. All else being equal, cost considerations would tend to prompt a government to issue at maturities where the risk premium demanded by investors is lowest relative to other maturities.

B.15 Risk premia are typically maturity-specific and time-varying. Several factors contribute to the variation and trends in risk premia, among which are changes in investors’ risk preferences and expectations, and unanticipated macroeconomic shocks.

B.16 Chart B.4 displays the term structure of risk premia, with each individual panel showing averages over a selected time period. The top left panel focuses on the period before the financial crisis, when yields and risk premia were higher than today. Risk premia increased during the global financial crisis (top right panel). Since then, there has been a steady decline and risk premia are currently at historically low levels across all maturities (bottom right panel) despite a modest rise in the past few months. This analysis suggests that issuance of conventional gilts across the maturity spectrum is currently more cost-effective than has historically been the case.

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2 More generally, the risk premium can be decomposed into several components, including: (i) a premium which compensates investors for duration risk that increases for longer maturity investments; (ii) a credit and default risk premium; (iii) a liquidity discount or premium owing to the different levels of liquidity in some bonds or maturities, which enhances or restricts investors’ ability to hedge; and (iv) an inflation risk premium to compensate investors in nominal bonds for uncertainty owing to inflation.
Chart B.4 The term structure of risk premia in the UK conventional gilt market over selected sample periods

B.17 The government also undertakes an evaluation of the relative cost-effectiveness of index-linked gilts (ILGs), in addition to its analysis of conventional gilts. ILGs differ from conventional gilts as both the principal and coupon payments are indexed to the value of the Retail Prices Index (RPI). One cost consideration for issuing ILGs is whether investors are typically willing to pay an additional premium for the protection from inflation that these securities provide.

B.18 One way to take account of the cost-effectiveness of ILGs against conventional gilts is to evaluate the break-even inflation rate (BEIR). It is typically calculated as the difference between the yield of a nominal gilt and the yield of an ILG of the same maturity. The BEIR can be seen as the average rate of inflation, over the life of a gilt, at which an issuer should be indifferent on cost grounds between issuing either a conventional or an ILG.

B.19 The BEIR can be decomposed into an expected inflation component and two additional factors: the additional premium investors are willing to pay for protection against inflation, and the discount they require for holding less liquid bonds. Consequently, one possible way to assess the cost-effectiveness of an ILG relative to a conventional gilt is to compare actual inflation outturn over the life of the gilt with market-implied BEIR.

Source: DMO.
B.20 Chart B.5 illustrates potential costs or savings from ILG issuance relative to conventional issuance under different RPI inflation scenarios. Note that these are purely illustrative and not forecast scenarios. The analysis is expressed in £ millions notionally saved per £ billion of each gilt issued. The analysis shows that issuing an ILG is cost-effective at any maturity relative to its conventional equivalent in scenarios where RPI does not exceed (on average) 3% over the life of the gilt. Similarly, ILGs with a maturity of up to 32 years remain cost-effective in scenarios where RPI remains below or equal (on average) to 3.5% over this time period. In scenarios with higher average levels of RPI, conventional issuance has higher cost-effectiveness than ILG issuance according to this analysis.

Chart B.5 The cost effectiveness of index-linked gilts relative to conventional gilts under different RPI scenarios (as of end-February 2022)

![Chart B.5](chart.png)

1Data markers in each line on the chart represent results from specific index-linked gilts maturing at that point in time. Gilts that have higher coupons have a greater sensitivity to the Index Ratio (i.e., the change in the price index since the gilt was first issued) and, therefore, generate either a greater saving or cost in comparison to a gilt with the same maturity but a smaller coupon. Chart B.5 illustrates these bigger changes on redemption dates for higher coupon gilts which become even more striking in scenarios with higher average levels of RPI.

Source: DMO.

B.21 This analysis can be complemented by one which factors in the planned reform to RPI which will take place in 2030, when the methodology and data sources of CPIH will be brought into RPI. To take this into account, for each RPI scenario, a simple adjustment can be made to illustrate the effect if RPI were one percentage point lower from 2030 onwards. This simplified assumption is for illustrative purposes and not a forecast. As shown in Chart B.6, with these changes, ILG issuance would be more cost-effective than conventional gilts in scenarios where RPI stayed below approximately 4.5% (on average) during the period up to 2030.
Risk

B.22 In the context of the long-term focus of the debt management objective, the other key determinant in the government’s decisions on debt issuance by maturity and type of instrument is its assessment of risk. In reaching a decision on the overall structure of the remit, the government considers the risks to which the Exchequer is exposed through its debt issuance decisions, and assesses the relative importance of each risk in accordance with its risk appetite.

B.23 The government places a high weight on minimising near-term exposure to refinancing risk. This exposure is managed partly by maintaining a sizeable proportion of long-dated debt in the portfolio, which reduces the need to refinance debt frequently. Relatedly, all else equal, this also reduces exposure to interest rate risk in the near term. The government places importance on avoiding, when practicable, large concentrations of redemptions in any one year. To achieve this, the government will issue debt across a range of maturities, smoothing the profile of gilt redemptions.

B.24 The government is mindful of the long-term inflation exposure in the public finances and gives due consideration to ensuring inflation risk is prudently managed. The government will manage this exposure through its decisions on the appropriate balance between index-linked and conventional gilts in its debt issuance in the coming years.

B.25 Prudent debt management is also served by promoting sustainable market access, which the remit is designed to support. The government places significant importance on encouraging the development of a deep, liquid,
and efficient gilt market, and a diverse investor base, in order to maintain continuous access to cost-effective financing in all market conditions.

B.26 Promoting these features of the gilt market will also serve to minimise debt costs to the government over the long term, because investors reward an issuer for providing a continuous and ready market and a globally recognised benchmark product.

Gilt distribution

B.27 Auctions will remain the primary method of issuance in 2022-23. The use of syndications will continue in 2022-23. Any type and maturity of gilt can be sold through syndication and the DMO will announce on a quarterly basis its planned syndication programme.

B.28 Gilt tenders may be used in 2022-23 to issue any type and maturity of gilt. Further details are set out in the DMO’s 2022-23 financing remit announcement.

B.29 The scheduling of gilt operations throughout 2022-23 will, as usual, take into account the timing of gilt redemptions in the financial year.

B.30 The government remains committed to the GEMM model to distribute gilts through auctions, syndications, and gilt tenders, and the government recognises that GEMMs play an important role in helping to facilitate liquidity in the secondary market.

Gilt issuance by maturity and type in 2022-23

B.31 In determining the split of gilt issuance, the government has considered its analysis of the relative cost-effectiveness of the different gilt types and maturities, its risk preferences (including for the portfolio as well as the issuance programme), and the market feedback it has received.

B.32 Continuing strong demand for short conventional gilts is anticipated, which has been balanced against managing the government’s near-term exposure to refinancing risk. Relative to 2021-22, a 2.7 percentage point proportional increase in the issuance of short-dated conventional gilts is planned in 2022-23 (at 29.8%).

B.33 In deciding the proportion of medium conventional gilts to issue, the government recognises the important role that medium-dated conventional gilts (particularly at the 10-year maturity) play in facilitating the hedging of a wide range of gilt market exposures through the futures market, which helps to underpin liquidity in the sector. Relative to 2021-22, a 7.2 percentage point proportional decrease in the issuance of medium-dated conventional gilts is planned in 2022-23 (at 21.2%).

B.34 Market feedback also suggests ongoing demand exists for long conventional gilts from domestic investors in particular. Additionally, in determining the amount of long-dated conventional gilts to issue, the government has taken into account the role of long conventional issuance in mitigating its near-term exposure to refinancing risk. Relative to 2021-22, a 2.6 percentage
point proportional decrease in the issuance of long-dated conventional gilts is planned in 2022-23 (at 28.5%).

B.35 Issuing index-linked gilts has historically brought cost advantages for the government due to strong demand from the domestic pensions sector in particular, and market feedback suggests that this is ongoing.

B.36 Relative to 2021-22, a 1.4 percentage point proportional increase in the issuance of index-linked gilts is planned in 2022-23 (at 14.9%). Details on the government’s current policy position in relation to index-linked gilt issuance, as well as the specific decisions in respect of the 2022-23 remit, are provided in Chapter 2.

B.37 A 5.6% proportion and £7.0 billion absolute amount of issuance will be initially unallocated in 2022-23. The existing purposes of the unallocated portion of issuance will continue to apply – namely, to give increased flexibility to the DMO to issue any type or maturity of gilt by any issuance method, while remaining consistent with the principles of openness, predictability, and transparency.

Treasury bill issuance in 2022-23

B.38 Treasury bills are used for both debt and cash management purposes. With regard to the former, changes to the Treasury bill stock have historically offered an efficient way to accommodate in-year changes to the financing requirement.

B.39 The government does not have a target for the planned end-year total Treasury bill stock (i.e., including Treasury bills issued for cash management purposes). Information on the outstanding stock of Treasury bills will continue to be published monthly in arrears on the DMO’s website.³

B.40 It is expected that net issuance of Treasury bills will make a contribution to debt financing in 2022-23 of £23.2 billion, in order to rebuild the debt-related Treasury bill stock following the exceptional reduction (of the equivalent amount) in 2021-22.

³ www.dmo.gov.uk/data/treasury-bills
Annex C

NS&I's financing remit for 2022-23

C.1 This annex sets out information on the activities of NS&I in 2021-22 and 2022-23. NS&I is both a government department and an executive agency of HM Treasury. Its activities are conducted in accordance with its remit, which is to provide cost-effective finance now, and in the future, for the government. It does this by raising deposits and investments from retail customers. This will remain the case in 2022-23.

C.2 NS&I’s contribution to financing is agreed with HM Treasury each year, and is based on the government’s gross financing requirement, conditions in the retail financial services market, and NS&I’s ability to raise the funding without distorting the market.

C.3 As a HM Treasury policy product, proceeds from Green Savings Bonds (GSB) do not contribute towards NS&I’s Net Financing targets, though they have been reported alongside the arithmetic for 2021-22.

Volume of financing in 2021-22

C.4 NS&I's contribution to financing in 2021-22 is projected to be £4.3 billion, with gross inflows (including reinvestments and gross accrued interest) of approximately £45.2 billion. This is against a 2021-22 target range of £6.0 billion to +/- £3.0 billion, set in April 2021.¹ Table C.1 shows changes in NS&I’s product stock during 2021-22. With uncertainty and volatility in the savings market, NS&I has experienced predominantly downside pressures on Net Financing during 2021-22.

Table C.1: Changes in NS&I’s product stock in 2021-22 (£ billion)¹

<table>
<thead>
<tr>
<th></th>
<th>2020-21</th>
<th>2021-22²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable rate</td>
<td>168.5</td>
<td>176.6</td>
</tr>
<tr>
<td>Fixed rate</td>
<td>15.9</td>
<td>11.8</td>
</tr>
<tr>
<td>Index-linked</td>
<td>18.5</td>
<td>18.6</td>
</tr>
<tr>
<td>Green Savings Bonds</td>
<td>-</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>203.0</td>
<td>207.3</td>
</tr>
</tbody>
</table>

¹ Figures may not sum due to rounding.
² Projections.

Source: NS&I.

¹ NS&I Net Financing target does not include the projected £0.3 billion inflows from GSB.
Volume of financing in 2022-23

C.5 Gross inflows (including reinvestments and gross accrued interest) of NS&I’s products are projected to be around £41.3 billion in 2022-23. After allowing for expected maturities and withdrawals, NS&I will have a 2022-23 Net Financing target of £6.0 billion, within a range of £3.0 billion to £9.0 billion.

C.6 Further details of NS&I’s activities in 2021-22 and 2022-23 will be included in its 2021-22 Annual Report and Accounts, which is scheduled to be laid in Parliament in 2022, and which will be published on www.nsandi.com.
Annex D

The Exchequer cash management remit for 2022-23

Exchequer cash management objective

D.1 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 net cash surplus, to ensure this is used to best advantage. Cash management operations are intended to work alongside debt management activities so that the government can always rely on sufficient funds being available to finance its activities. HM Treasury and the Debt Management Office (DMO) work together to ensure a suitable framework is in place to achieve this.

D.2 HM Treasury’s role is to make arrangements for a forecast of the daily net flows related to revenue and expenditure into or out of the central Exchequer funds (and its objective in so doing is to provide the DMO with timely and accurate forecasts of the expected net cash position over time).

D.3 The DMO’s role is to make arrangements for funding and for placing the net cash positions, primarily by carrying out market transactions in light of the forecast (and its objective in so doing is to minimise the costs of cash management while operating within the risk appetite approved by ministers).

D.4 The government’s preferences in relation to the different types of risk-taking inherent in cash management are defined by a set of explicit limits covering four types of risk which, taken together, represent the government’s overall risk appetite. The risk appetite defines objectively the bounds of appropriate government cash management activities, in accordance with the government’s policy for cash management; that is, as a cost minimising – rather than profit maximising – activity, and one that plays no role in the determination of interest rates. The DMO may not exceed this boundary, but, within it, the DMO will have discretion to take the actions it judges will best achieve the cost minimisation objective.

DMO’s cash management objective

D.5 The DMO’s cash management objective is to minimise the cost of offsetting the government’s net cash flows over time, while operating within the

1 The four types of risk for cash management are liquidity risk, interest rate risk, foreign exchange risk, and credit risk. An explanation of these risks, and the government’s cash management operations more generally, is set out in Chapter 5 of the ‘DMO Annual Review 2004-05’, which is available at: www.dmo.gov.uk/media/14483/gar0405.pdf.
government’s risk appetite. In so doing, where possible, the DMO will seek to avoid actions or arrangements that would:

- undermine the efficient functioning of the sterling money markets
- conflict with the operational requirements of the Bank of England for monetary policy implementation

**Instruments and operations used Exchequer cash management**

D.6 The range of instruments and operations that the DMO may use for cash management purposes, including the arrangements for the issuance of Treasury bills, is set out in the DMO’s Exchequer cash management Operational Notice.²

D.7 Treasury bills may be used for both cash and debt management purposes. In relation to the latter, any positive or negative net contribution to the government’s debt financing plans that is attributable to changes in the stock of Treasury bills is set out in the financing arithmetic table (Table 3.A).

D.8 For cash management, the DMO uses Treasury bills to help manage fluctuations in the government’s cash flow profile throughout the year and does so by varying the amount raised through Treasury bills, with reference to the forecast net cash position. In order to provide flexibility for the DMO to use Treasury bills across the financial year-end for cash management, no end-year target stock of Treasury bills is set. Information on the total stock of Treasury bills is published monthly on the DMO’s website.³

D.9 As a contingency measure, the DMO may issue Treasury bills to the market at the request of the Bank of England and, in agreement with HM Treasury, assist the Bank of England’s operations in the sterling money markets, for the purpose of implementing monetary policy, while meeting the liquidity needs of the banking sector as a whole. In response to such a request, the DMO may add a specified amount to the size(s) of the next Treasury bill tender(s) and deposit the proceeds with the Bank of England, remunerated at the weighted average yield(s) of the respective tenders. The amount being offered to accommodate the Bank of England’s request will be identified in the DMO’s weekly Treasury bill tender announcement. Treasury bills may also be issued bilaterally to the Bank of England, in order to support intervention schemes. Treasury bill issuances made at the request of the Bank of England will be identical in all respects to Treasury bills issued in the normal course of DMO business. The DMO may also raise funds to finance advances to the Bank of England and would, in conjunction with HM Treasury, determine the appropriate instruments through which to raise those funds.

**DMO collateral pool**

D.10 Gilts and/or Treasury bills may be issued to the DMO to help in the efficient execution of its cash management operations. The amounts will be chosen to have a negligible effect on any relevant indices. This will normally be on

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² The DMO’s Exchequer cash management Operational Notice is available at: https://dmo.gov.uk/media/17701/cmopnot200921.pdf

³ Information on the Treasury bill stock is available at: www.dmo.gov.uk/data/treasury-bills
the third Tuesday of April, July, October, and January. Any such issuances to the DMO will be used as collateral and will not be available for outright sale. The precise details of any such issuances to the DMO will be announced at least two full working days in advance of the creation date. If no issuance is planned to take place in a particular quarter, the DMO will announce that this is the case in advance.

D.11 In the event that the DMO requires collateral to manage short-term requirements, it may create additional gilt and Treasury bill collateral at other times. Any such issuances to the DMO will only be used as collateral and will not be available for outright sale by the DMO.

D.12 The DMO’s collateral pool may also be used to support HM Treasury’s agreement to provide gilt collateral for the purpose of the Bank of England’s Discount Window Facility. The gilt collateral will be held by the DMO and lent to the Bank of England on an ‘as needed’ basis; gilts created for this purpose will not be sold or issued outright into the market.4

Active cash management

D.13 The combination of HM Treasury’s cash flow forecasts and the DMO’s market operations characterises an active approach to Exchequer cash management. Since 2007-08, a performance measurement framework for active cash management – in which discretionary decisions that are informed by forecast cash flows are evaluated against a range of indicators – has been in place. These include qualitative measures as well as measures quantifying returns to active management, after deducting an interest charge representing the government’s cost of funds. Performance against these key indicators is reported in the DMO’s Annual Review.5

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4 More information about the Discount Window Facility can be found on the relevant section of the Bank of England’s website at: www.bankofengland.co.uk/markets/the-sterling-monetary-framework

5 For the latest report, see Annex B of the ‘DMO Annual Review 2020-21’, Debt Management Office, November 2021. This is available at: https://dmo.gov.uk/media/17809/gar2021.pdf