United Kingdom
Debt Management
Office

Annual Report and Accounts 2016-2017

of the United Kingdom Debt Management Office

and the Debt Management Account

United Kingdom Debt Management Office
Annual Report and Accounts 2016 – 2017

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and

Debt Management Account
Annual Report and Accounts 2016 – 2017

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What this document covers

This document presents the Annual Report and Accounts of the United Kingdom Debt Management Office (DMO) and the Annual Report and Accounts of the Debt Management Account (DMA) for the year ended 31 March 2017.

The **DMO** is an executive agency of HM Treasury. Its main aims are:

- to carry out the government's debt management policy of minimising its financing cost over the long-term, taking account of risk;
- to carry out the government's cash management policy of minimising the cost of offsetting the government's net cash flows over time, while operating within a risk appetite approved by ministers;
- to provide loans to local authorities for capital purposes;
- to manage the funds of selected public sector bodies; and
- to advise and support HM Treasury's financial stability measures and initiatives aimed at helping UK small businesses.

The **DMA** is one of the central Exchequer accounts (others include the National Loans Fund and the Consolidated Fund managed by HM Treasury and the Exchange Equalisation Account managed by the Bank of England for HM Treasury). The DMA records the assets, liabilities and other transactions that arise from the DMO's debt management (except for gilts issued by the DMO, which are liabilities of the National Loans Fund), cash management and other activities that support government initiatives.

The following sections of this document apply to both the DMO and the DMA:

The following sections are specific to the DMO:

The following section is specific to the DMA:

Performance report

The purpose of the overview is to provide sufficient information to understand the United Kingdom Debt Management Office and the Debt Management Account, their purposes, key risks to the achievement of their objectives and how they have performed during the year.

Overview

Chief Executive's statement

The DMO again successfully delivered the government's gilt financing remit in 2016-2017 against the backdrop of challenging financial market conditions. The EU referendum result on 23 June 2016 exerted a significant downward pressure on gilt and other government bond yields, which fell to record lows in August 2016. In addition, there was a sharp rise in the financing requirement at Autumn Statement 2016. Despite these challenges, the remit was delivered smoothly, perhaps in part reflecting the impact of a package of operational measures introduced in the 2016-2017 remit, which included significantly reduced auction sizes for short and medium conventional gilts. 2016-2017 also saw the resumption of secondary market gilt purchases through the Bank of England's Asset Purchase Facility.

The DMO raised £147.6 billion of gilt financing in 2016-2017, a rise of £19.9 billion compared to 2015-2016, and this was the ninth consecutive year that annual gross gilt sales had exceeded £100 billion. At the end of 2007-2008, as the financial crisis began, the size of the gilt portfolio was £479 billion. At the end of 2016-2017, it was over three times larger at £1,522 billion. Over the same period, the gilt market has developed significantly with a greater diversity of investors.

Auctions remain the government's primary and most important means of distributing gilts and accounted for £112.0 billion in 2016-2017, 76% of the overall gilt sales programme. I was pleased to see an increase in the average cover ratio at gilt auctions in 2016-2017, which rose to 1.98, up from 1.64 in 2015-2016.

The use of supplementary distribution methods, principally syndicated gilt offerings, again allowed the DMO to target its core domestic investor base directly, as part of a large programme of long-dated conventional and index-linked gilts.

Seven syndicated gilt offerings were held in 2016-2017, raising £33.0 billion. Such were the size and source of demand that five of these operations were increased in size above initial planning assumptions. Over the financial year, £3.2 billion of an initial £8.0 billion unallocated portion of financing was moved into the syndication programme, with £2.6 billion allocated to gilt tenders and £2.2 billion to the gilt auction programme. In all, the DMO held 58 gilt financing operations (including 48 auctions), 11 more than in the previous financial year.

I continue to be impressed by the efficiency with which the gilt market absorbed the level of gilt supply in 2016-2017. Planned gilt sales rose by £15.0 billion at Autumn Statement 2016, which led to a total gilt sales requirement of £40 billion in the final quarter of 2016-2017. The presence of a deep and well-functioning gilt market is critical to the DMO's ability to carry out its mandate successfully.

The DMO continued to perform strongly in carrying out its cash management function in 2016-2017, with all related objectives achieved, despite ongoing challenges in the money market, in particular reduced liquidity in the repo market.

Treasury bills continued to attract significant overseas investor interest, with around 48% of the market being held by such investors at the end of March 2017.

At 31 March 2017, the Public Works Loan Board held loan assets of £67.1 billion. 622 new loans totalling £3.6 billion were advanced during the year.

The DMO again successfully provided a cost-effective service to its clients through the fund management operations of the Commissioners for the Reduction of the National Debt. The market value of these funds was £29.4 billion at 31 March 2017.

Looking ahead, the DMO's remit for 2017-2018, was published on 8 March 2017. This saw a significant reduction in planned gilt sales to £115.1 billion and a remit structure broadly the same as in 2016-2017. A reduction in debt financing from Treasury bills of £ 9.5 billion is planned for 2017-2018.

Overall, the DMO has again performed strongly this year across its range of activities and operations. I want again to express my sincere appreciation to DMO staff, to colleagues at HM Treasury and at the Bank of England for their hard work and commitment in helping us to deliver our objectives. I am also grateful to our market counterparties for their professionalism and continued support throughout the year. The success of the DMO would not have been possible without them.

Sir Robert Stheeman
Chief Executive
4 July 2017

Purpose and principal activities of the United Kingdom Debt Management Office

The DMO aims to be a centre of excellence for HM Treasury in the provision of policy advice on and the delivery of the government's financing needs and to act as a key gateway for government to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objective of ensuring sustainable public finances.

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 responsibilities of the Chancellor and other HM Treasury ministers, the Permanent Secretary to HM Treasury and the DMO's Chief Executive are set out in a published Framework Document, available on the DMO website at www.dmo.gov.uk, which also sets out the DMO's objectives and 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.

HM Treasury has specific objectives for debt management and cash management. The DMO is given annual remits by HM Treasury for its debt management and cash management. The remits are published in the Debt Management Report, usually issued as part of the Budget announcement. The DMO conducts its operations for the forthcoming financial year within the scope of these remits and in order to meet its specified objectives and targets.

The DMO conducts all its activities within a formal risk management framework, which covers all its principal risks. An assessment of these is provided in the governance statement on page 38 to 48.

Debt management

The government's debt management objective 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'. The DMO advises HM Treasury on the development of an appropriate debt issuance strategy.

The government seeks to minimise the costs of servicing its debt over the long-term and tries to ensure that the chosen policy is robust in a wide range of economic conditions.

The composition of debt issued is the primary means by which the government adjusts the nature and maturity of its debt portfolio. In order to determine this composition, the government takes into account, among other things, investor demand for gilts, its own appetite for risk and the shape of the yield curves.

The DMO's main debt management activity is the issuance of gilt-edged securities (gilts) on behalf of the National Loans Fund. The DMO additionally issues Treasury bills for both debt and cash management purposes.

The financing remit set by HM Treasury ministers specifies the planned annual total of gilt sales in cash terms, the split between conventional and index-linked gilt sales and within conventional gilts the split by maturity band. The planned split of issuance by method is also set out. The DMO decides the size of gilt auctions and the choice of gilts to be auctioned, together with the size and choice of gilts to be issued via syndications and gilt tenders in accordance with the terms set out in the remit for the financial year. The DMO also decides the size and maturity breakdown of Treasury bill issuance.

The DMO publishes Operational Notices describing how it acts in the gilt and sterling money markets – copies of these documents are available on the DMO website at www.dmo.gov.uk.

In addition to gilt issuance, the DMO contributes to the development of an efficient and liquid secondary market for gilts, by means that include the stewardship of the Gilt-edged Market Makers (GEMMs) system.

Under an agreement with the DMO, GEMMs provide a secondary market in all gilts, and are the point of access for institutional investors who wish to take part in the DMO's gilt auctions.

For various operational reasons, the DMO may redeem gilt holdings bought from the market by selling them back to the National Loans Fund at market rates prior to maturity.

Cash management

The DMO's cash management objective is 'to minimise the cost of offsetting the government's net cash flows over time, while operating to the government's risk appetite.

Meeting these net cash flow requirements for the government is achieved through a combination of bilateral dealing with market counterparties and Treasury bill issuance.

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 Operational Notice (which is available on the DMO website at www.dmo.gov.uk).

Public Works Loan Board (PWLB)

The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

The DMO produces a separate annual report and accounts for the PWLB.

Commissioners for the Reduction of the National Debt (CRND)

The principal function of the CRND is managing the investment portfolios of certain public funds.

The DMO produces separate annual report and accounts for each of these funds.

Gilt purchase and sale service

The DMO offers a gilt purchase and sale service to those registered on the approved group of investors database, maintained by Computershare Investor Services PLC on behalf of the DMO. This service enables members of the public to undertake secondary market transactions in gilts.

Discount Window Facility

On 20 October 2008, the Bank of England launched the Discount Window Facility. The purpose of the Discount Window Facility is to provide liquidity insurance to the banking system. The DMO facilitates this operation by purchasing gilts issued by the National Loans Fund and lending them to the Bank of England when required.

National Loan Guarantee Scheme

On 29 November 2011, the government announced the National Loan Guarantee Scheme as part of a series of new initiatives aimed at helping UK small businesses. Under the scheme, HM Treasury guarantees debt issued by banks that meet prescribed criteria. Banks are then required to pass through the benefit of cheaper funding by way of loans to small businesses. The DMO administers this operation on behalf of HM Treasury. The financial guarantee liability and related fee income are recorded in HM Treasury's accounts.

The scheme closed on 2 May 2017 following the maturity of the last guarantee.

Funding for Lending Scheme

On 13 July 2012, the Bank of England and HM Treasury launched the Funding for Lending Scheme. The scheme was designed to reduce funding costs for banks and building societies so that they could make loans cheaper and more easily available to UK households and non-financial companies. The DMO facilitates this operation by purchasing Treasury bills issued by the National Loans Fund and lending them to the Bank of England when required.

Relationship of the Debt Management Account to the National Loans Fund

The National Loans Fund is the government's principal borrowing and lending account and is administered by HM Treasury. The DMA's principal role is to meet the financing needs of the National Loans Fund. These include long-term requirements (debt management), short-term requirements, and day-to-day cash needs (cash management).

In its debt management role, the DMA issues gilts on behalf of the National Loans Fund. This requires the DMA to purchase newly created gilts from the National Loans Fund, which it then sells to the market. In this way, gilts issued are liabilities of the National Loans Fund and the responsibility for paying gilt coupons and redeeming the debt on maturity lies with the National Loans Fund. The DMA regularly undertakes secondary market gilt transactions in small volumes.

The DMA issues sterling Treasury bills as part of both its debt and cash management operations. However, this type of financial instrument may also be issued by the National Loans Fund in certain circumstances, for example, to facilitate the Funding for Lending Scheme.

The DMA transacts with the financial markets, on behalf of the National Loans Fund, for the purpose of managing the government's cash requirements. In this role, the DMA undertakes day-to-day borrowing and lending with the market, largely in the form of Treasury bill issuance, sale and repurchase agreements (repos) and reverse sale and repurchase agreements (reverse repos). The repos and reverse repos of the DMA are usually collateralised with gilts. For this purpose the DMA holds a large gilt portfolio bought from the National Loans Fund.

Under the terms of the Finance Act 1998, the National Loans Fund made a cash advance of £6 billion to the DMA at inception in order to establish the account. Subsequent cash advances and repayments have been made from time to time as required so that at 31 March 2017, the advance was £93 billion (31 March 2016: £98 billion). The DMA pays interest at the Bank Rate on any advance from the National Loans Fund.

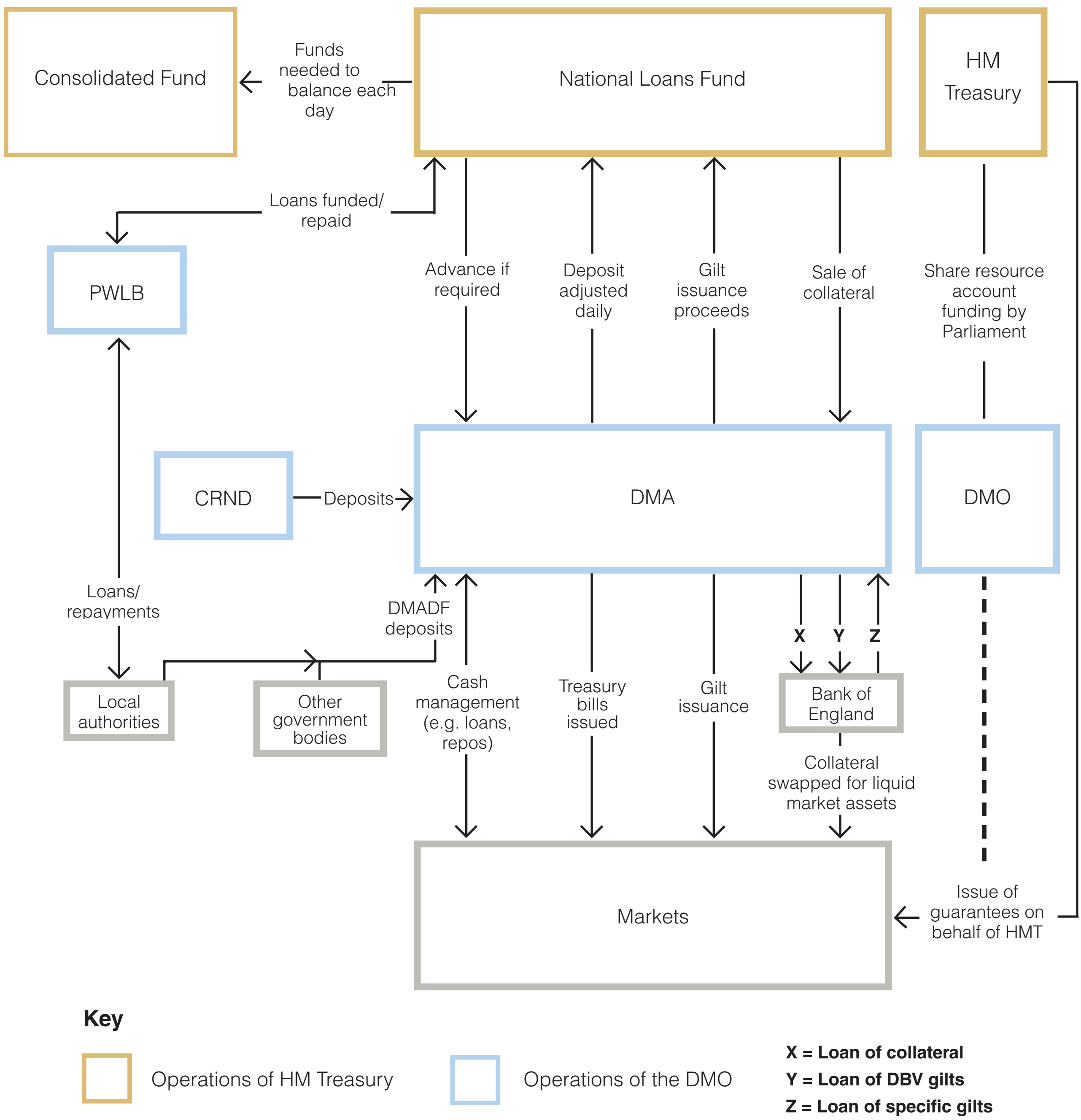
In order for the DMA to balance the daily financing needs of the National Loans Fund, the DMA actively manages its daily cashflows to ensure that the DMA is able to deposit sufficient funds with the National Loans Fund so that the National Loans Fund has a nil cash balance at the end of each day. The DMA receives interest at the Bank Rate on any daily deposit with the National Loans Fund.

Changes in the DMA's advance from the National Loans Fund or deposit with the National Loans Fund are transactions internal to the government and do not constitute part of overall government borrowing.

Retained surpluses and deficits of the DMA are assets or liabilities of the National Loans Fund. In the case of a retained surplus, HM Treasury may make a payment from the DMA to the National Loans Fund (equal to all or part of the surplus) thereby reducing the liability of the DMA. In the case of a retained deficit, HM Treasury may make a payment to the DMA from the National Loans Fund (equal to all or part of the deficit).

Key relationships of the DMO and DMA

This diagram sets out the principal relationships of the DMO and DMA with other organisations and funds. It is intended for illustrative purposes only.



Note:

1) The DMO also uses the Bank of England for custody and settlement functions.

Performance summary

2016-2017 was a successful year for the DMO, which met its debt and cash management remits.

Debt management

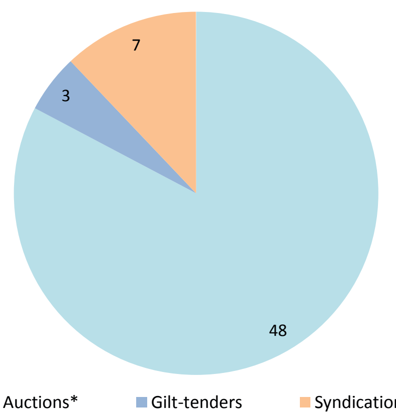
Debt issuance

In 2016-2017, the DMO successfully delivered a large gilt sales programme, as needed to meet the government's net financing requirement for the year. The DMO's gilt sales target started the year at £129.4 billion, as announced in the Budget on 16 March 2016. This was increased slightly to £131.5 billion, following the outturn for Central Government's Net Cash Requirement for 2015-2016 on 21 April 2016.

In the Autumn Statement on 23 November 2016, the DMO's net financing requirement rose significantly by £20.6 billion, with planned gilt sales rising by £15.0 billion to £146.5 billion and net sales of Treasury bills (for debt management purposes) rising by £5.6 billion. At the Spring Budget on 8 March 2017, the planned net sales of Treasury bills were reduced by £2.1 billion to £3.5 billion. Overall gilt sales in the financial year were £147.6 billion, successfully delivering the remit.

A total of 48 gilt auctions were held in 2016-2017, with an average release time for auction results of 4.3 minutes. Gilt auctions remained the core of the financing programme, raising £112.0 billion (75.9% of total gilt sales).

Figure 1: Issuance operations by type



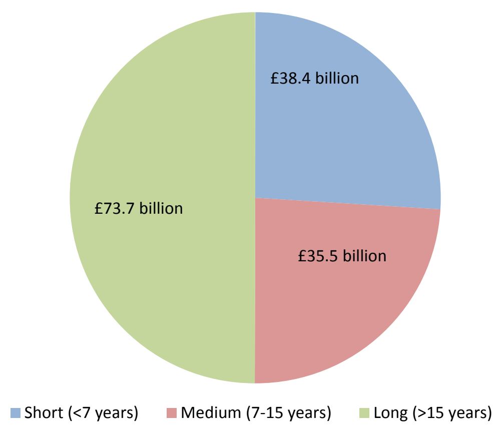
* The Post Auction Option Facility is available following each auction, as described above.

The auction programme was supplemented by a programme of seven syndicated offerings (three of long-dated conventional and four of index-linked gilts) which raised £33.0 billion (22.4% of total gilt sales). Such was the demand for this programme that five of the transactions were increased in size above initial planning assumptions. This resulted in £3.2 billion of the £8.0 billion initially unallocated supplementary issuance amount being allocated to the syndication programme to accommodate these increases.

The initially unallocated supplementary issuance amount was also allocated to the three gilt tenders held in 2016-2017, which raised £2.6 billion. The remaining £2.2 billion of the unallocated amount was used to increase auction sizes. In all, the DMO held 58 gilt financing operations in 2016-2017, 11 more than in 2015-2016.

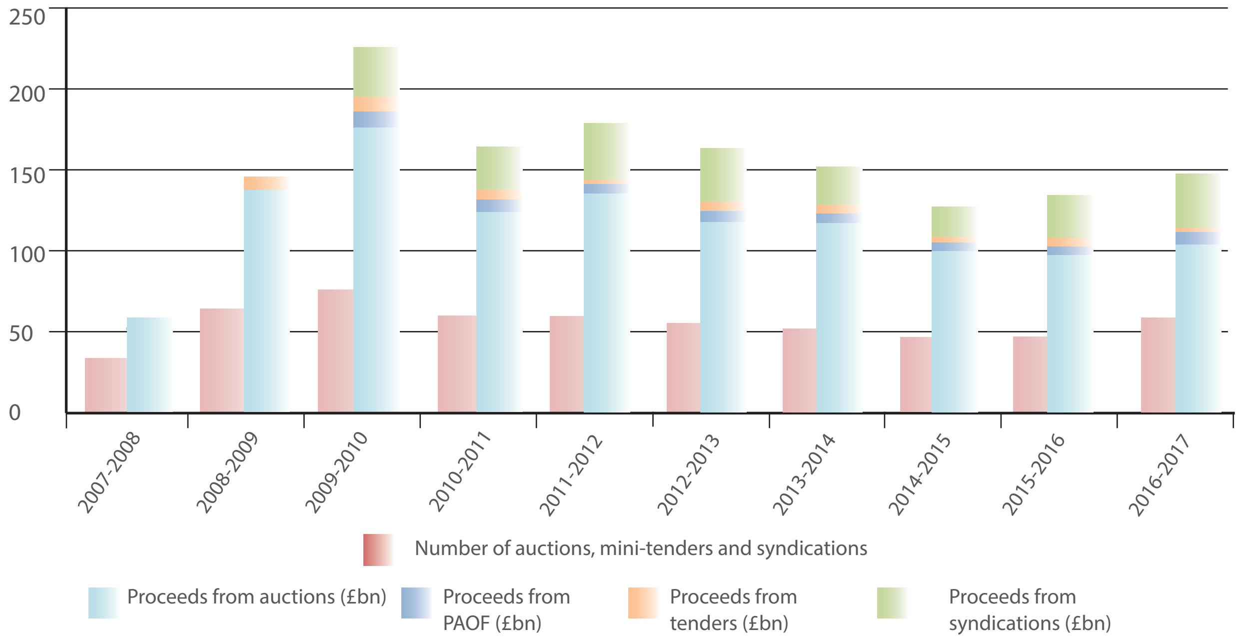
The Post Auction Option Facility, through which successful bidders at gilt auctions in 2016-2017 had the right to acquire up to an additional 15% of their auction allocation, was activated 32 times out of 48 auctions, raising £8.1 billion of the £112.0 billion raised by gilt auctions.

Figure 2: Maturity profile of conventional and index-linked gilts issued



The gilt issuance profile remained similar to that of the previous four years. Short-dated conventional gilt issuance was £38.4 billion (26.0% of sales),

Figure 3: Number of issuance operations and proceeds



medium-dated conventional gilt issuance was £29.5 billion (20.0% of sales), and long-dated conventional gilt issuance was £43.6 billion (29.5% of sales). Index-linked gilt issuance was £36.2 billion (24.5% of sales).

Average daily turnover in the gilt market in 2016-2017 was £28.6 billion, an increase of £2.4 billion from 2015-2016. Maintaining market liquidity is a key factor in addressing the needs of a diversified investor base.

The DMO also delivered a large Treasury bill sales programme comprising sales for both debt and cash management purposes. The stock of Treasury bills issued for debt management purposes rose by £3.5 billion during the year to £69.5 billion at 31 March 2017 to help meet the financing requirement.

The DMO received its financing remit for 2017-2018 in the Budget on 8 March 2017. Planned gross gilt sales of £115.1 billion were announced, a reduction of £31.4 billion (21.4%) on the total sold in 2016-2017. Planned gilt sales were reduced to £114.2 billion at the remit revision coinciding with the publication of the outturn Central Government Net Cash Requirement for 2017-2018 on 25 April 2017.

Gilt holdings

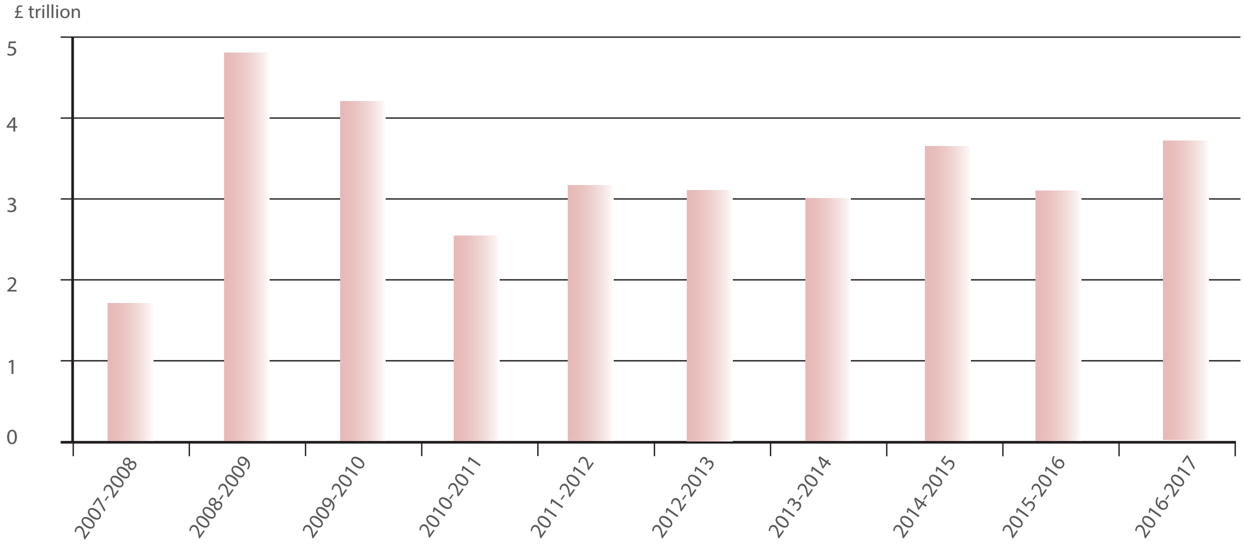
In addition to holding gilts for use as collateral in its cash management operations, as described in the section below, and for lending to the Bank of England to facilitate the Discount Window Facility, the DMA continues to hold relatively small portfolios of gilts for other purposes:

- Purchase and sale service (fair value of £13 million at 31 March 2017) - this portfolio of gilts is used for purchase and sale transactions with retail investors.
- Other tradable gilts (fair value of £398 million at 31 March 2017) - this portfolio comprises a residual from each gilt auction. A small amount of each gilt auction may be retained due to rounding the allotment of gilts to successful bidders. Gilts are also retained in the case of an uncovered gilt auction. The portfolio may additionally include any gilts bought by the DMO in the secondary market for other reasons.

Cash management

The DMO successfully delivered its cash management remit for 2016-2017. The DMO monitored and assessed its performance using a range of key performance indicators, details of which

Figure 4: All DMA transactions by nominal value



will be reported in the DMO Annual Review 2016-17, which will be available on the DMO website at www.dmo.gov.uk.

During the year, the DMO continued to meet the government's net cash requirements primarily by raising and investing cash in the sterling repo market.

The DMO also used weekly Treasury bill tenders to support its daily cash management activities. Throughout the year, there remained a strong market demand to buy Treasury bills at tender and through bilateral agreement.

The Debt Management Account Deposit Facility (DMADF) continued to take cash deposits from local authorities and government agencies, which can place surplus funds with the DMA for up to six months. Deposit levels remained fairly stable throughout the year.

Additionally, the DMO traded a number of other money market instruments to ensure that the government's daily cash requirements were met.

Throughout 2016-2017, the DMA held gilts for use as collateral in repo transactions. The collateral is held on a continuing basis and has been purchased on various occasions since 3 February 2000. At 31 March 2017, gilts held specifically for use as cash management collateral had a carrying value of £101.1 billion.

PWLB

Throughout the year, the PWLB continued to provide local government capital finance and aimed to meet all local authorities' needs for long-term borrowing.

During this period, the PWLB advanced 622 new loans to borrowers totalling £3.6 billion (2016: £3.0 billion). This resulted in fee income for the DMO of £1.3 million (2016: £1.1 million). At 31 March 2017, the loan assets outstanding to the PWLB were £67.1 billion (31 March 2016: £65.3 billion).

Additional information on the PWLB's activities, including its Annual Report and Accounts and lending arrangements, can be found on the PWLB section of the DMO website at www.dmo.gov.uk.

CRND

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

This resulted in fee income for the DMO of £0.4 million (2016: £0.4 million). At 31 March 2017, the market value of funds under management was £29.4 billion (2016: £30.2 billion).

Additional information on the CRND's activities can be found on the CRND section of the DMO website at www.dmo.gov.uk.

Gilt purchase and sale service

The DMO continued to offer a gilt purchase and sale service to those registered on the approved group of investors database, maintained by Computershare Investor Services PLC, on behalf of the DMO.

During 2016-2017, this service transacted 754 gilt sales with a value of £22.4 million and 1,328 gilt purchases with a value of £66.7 million. This resulted in fee income for the DMO of less than £1 million (2016: less than £1 million).

Discount Window Facility

Under the Discount Window Facility, the DMO may lend gilt-edged securities to the Bank of England for a fee, so that it may swap them with participating banks for eligible collateral. Further information on this operation, including usage data, is available on the Bank of England website at www.bankofengland.co.uk.

National Loan Guarantee Scheme

The National Loan Guarantee Scheme was launched on 20 March 2012, aimed at helping businesses access cheaper finance by reducing the cost of bank loans. During the year, the DMO administered the scheme on behalf of HM Treasury.

The related assets, liabilities, income and expense arising from these guarantees are recorded in the accounts of HM Treasury.

The scheme closed on 2 May 2017 following the maturity of the last guarantee.

Funding for Lending Scheme

Under the Funding for Lending Scheme, the DMO may lend Treasury bills to the Bank of England for a fee. The DMO establishes, and subsequently refreshes monthly, the stock of Treasury bills available for this scheme by purchasing specially created Treasury bills from the National Loans Fund in quantities informed by the Bank of England's estimates of future demand. Held by the DMA, the Treasury bills earn interest from the National Loans Fund. Treasury bills loaned to the Bank of England are returned on or before the due date. By agreement with HM Treasury, stock lending fees received from the Bank of England, less recovery of costs to cover HM Treasury and DMO involvement in the scheme, are paid to the DMA.

As at 31 March 2017, the DMA held Treasury bills to facilitate this scheme with a value of £75.1 billion. Further information on this operation, including usage data, is available on the Bank of England website at www.bankofengland.co.uk.

Asset Purchase Facility

The DMO met the funding requirements of the part of the Bank of England's Asset Purchase Facility used to purchase high-quality private sector assets.

Also during 2016-2017, the Bank of England lent to the DMA specific gilts purchased via the Asset Purchase Facility in return for other gilts of the same value in delivery by value (DBV) transactions.

Further information on these operations, including usage data, is available on the Bank of England website at www.bankofengland.co.uk.

Forward look

Vision statement

The DMO aims to be a centre of excellence for HM Treasury in the provision of policy advice on and the delivery of the Government's financing needs and to act as a key gateway for Government to the wholesale financial markets. It performs these functions primarily to support HM Treasury's objectives.

The DMO's key business planning themes for 2017-2018

The key business planning themes for 2017-2018 remain consistent with previous years. The plan is primarily focused on the continued delivery of the DMO's debt management, cash management, fund management, local authority lending and other functions to the highest standards of quality and cost-effectiveness. We fully recognise that the effective delivery of these functions and services is our overriding objective and intend to allocate our resources, skills, systems and development activities accordingly.

The DMO's key themes for 2017-2018

1. Delivery of the 2017-18 financing remit – to be achieved primarily through gilt sales of £114.2 billion.

2. The DMO will continue to support HM Treasury in the development of and innovations associated with debt management policy.

3. Delivery of the cash management remit – which will require handling the cash consequences of, among other things, the gilt and Treasury bill programme in as an efficient and cost-effective way as possible.

4. Continuing to consult and liaise with key stakeholders – and in particular the Gilt-edged Market Makers - in the financial markets in which the DMO has a key interest; and to consider further developments, innovations and enhancements to facilitate the effective delivery of the debt and cash management remits.

5. Continuing to maintain close contact with the Bank of England on operational matters relating to the Asset Purchase Facility and also conditions and developments relating to the sterling markets more generally.

6. Progressing the DMO's strategic intention to withdraw in due course from the provision of daily end of day Gilt-edged Market Makers Association (GEMMA) and Treasury bill reference prices.

7. Continuing to support HM Treasury in progressing proposed changes to the governance framework for the Public Works Loan Board and, if applicable, prepare for the transition to any new arrangement.

8. Continuing to manage the administration of the National Loan Guarantee Scheme.

9. Continuing to minimise operational risk by ensuring the DMO's business operations are fully supported by resilient, efficient and secure systems and processes and a comprehensive business continuity plan.

10. The DMO intends to continue to review its core trading and transaction processing systems.

11. Continuing to seek out operational process efficiencies with the intention of further reducing cost and risk.

12. Continuing to monitor the resource and skills required to deliver the DMO's array of objectives within the budget settlement agreed with HM Treasury.

The DMO's objectives for 2017-2018

The DMO's objectives for 2017-2018 are set out in the published business plan which is available on the DMO website at www.dmo.gov.uk.

1. To develop, provide advice on and implement the Government's debt management strategy.

2. To develop, provide advice on and implement the Government's cash management requirements.

3. To provide advice and operational services to HM Treasury on issues relating to the management of the Government's balance sheet.

4. To provide advice and operational services to government departments on wholesale markets-related issues and activities.

5. To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.

6. To provide a cost-effective lending service to local authorities through the Public Works Loan Board.

7. To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.

8. To manage, operate and develop an appropriate risk and control framework.

The DMO's operational targets for 2017-2018

1. To ensure full compliance with HM Government's remit for the DMO (which is set out in the Debt Management Report 2017-18).

2. To aim to publish the results of gilt auctions, gilt tenders and Treasury bill tenders within 15 minutes of the close of offer whilst achieving complete accuracy.

3. To achieve accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and meeting the required deadlines for the publication and submission for audit of the annual report and accounts of the DMO, DMA, the PWLB and CRND.

4. To ensure that the DMO responds to enquiries under the Freedom of Information Act within the statutory timeframe.

5. To ensure that gilt and cash management activities are operated in accordance with their respective operational market notices.

6. To ensure that, for cash management purposes, target weekly balances and expected daily variations are notified according to the agreed schedule.

7. To ensure that settlement instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through settlement is effective, so that, where the DMO is responsible for delivering stock or cash, it settles at least 99% (by value) on the due date.

8. To ensure that all published data is materially accurate and that all market sensitive announcements are made in a timely manner.

9. To process all loan and early settlement applications from local authorities within two working days (between the date of the agreement and the completion of the transaction).

10. To ensure that the gilts purchase and sales service is operated according to its published terms and conditions.

11. To administer the National Loan Guarantee Scheme on behalf of HM Treasury in accordance with the Scheme's published rules.

Planning uncertainties

In view of the size and scale of the debt and cash management remits and market conditions, the DMO will need to retain the flexibility and capability to adapt quickly to changing market and other conditions, including those arising from the UK Government submitting its notification to leave the European Union in accordance with Article 50 of the Treaty of Lisbon on 29 March 2017, and, where necessary, re-order priorities in the plan.

Key issues and risks

The key issues and risks facing the DMO are considered in the governance statement on page 38 to 48.

Sir Robert Stheeman
Chief Executive
4 July 2017

Performance analysis

Achievements against objectives

HM Treasury ministers set the DMO's objectives, which are published in the DMO's annual business plan and its Framework Document. The objectives for 2016-2017 and the DMO's performance against them is summarised below.

1. To develop, provide advice on and implement the government's debt management strategy.

The DMO provided analysis and advice to HM Treasury in connection with the preparation of its financing remit for 2016-2017 ahead of Budget 2016. Once again the advice focussed on designing a debt issuance programme to deliver the government's debt management objective against the backdrop of an ongoing high forecast financing requirement in volatile market conditions.

The advice provided reflected the DMO's assessment that the gilt market environment remained challenging with continued volatility in international capital markets. In recognition of this and the constraints on primary dealer balance sheets, including as a result of regulatory changes, a package of measures were introduced for the remit in 2016-2017 designed to support smooth remit delivery. The most prominent of these measures was a significant reduction in the sizes of short and medium conventional gilt auctions.

Ongoing structural demand from the UK pension and insurance sectors for long-dated conventional and index-linked gilts continued to manifest itself, as did demand from banks and overseas investors for shorter-dated gilts. A broad based issuance strategy, comprising significant programmes in all maturities and types of gilt was again judged best to meet the debt management objective.

This backdrop led to a very similar split of issuance to the preceding three financial years. The total of planned gilt sales fell from an initial £133.4 billion in 2015-2016 to an initially planned total of £129.4 billion for 2016-2017. The planned split of issuance was broadly maintained compared with the previous financial year, although the proportion of initially unallocated issuance was increased from 3.0% to 6.2% to help increase the scope for smooth remit delivery by allowing a more responsive approach to issuance.

The auction programme remained the core means by which gilts were sold (accounting for 74% of total planned sales), but this programme was again supplemented by sales of long-dated conventional and index-linked gilts via syndicated offerings (20% of sales) and to a marginal extent the unallocated portion of issuance, which could be allocated to either syndications and/or gilt tenders and/or gilt auctions.

Planned gilt sales rose by £2.1 billion to £131.5 billion following the publication of the outturn Central Government Net Cash Requirement for 2015-2016 in April 2016. This increase was achieved via slightly higher average auction sizes. The increases were designed to maintain the planned split by maturity and type of gilt announced at Budget 2016.

Planned gilt sales rose by £15.0 billion to £146.5 billion at the Autumn Statement 2016, with the planned net contribution to financing from Treasury bill sales also rising from zero to £5.6 billion; this amount was subsequently reduced to £3.5 billion at the Spring Budget 2017.

The DMO successfully delivered the financing remit with gilt sales of £147.6 billion, £1.1 billion higher than the planned total, which was attributable to take-up of the Post Auction Option Facility at the final four auctions of the financial year. Net sales of Treasury bills for debt management purposes were also in line with plans at £3.5 billion, resulting in a stock (for debt management purposes) of £69.5 billion at 31 March 2017.

2. To develop, provide advice on and implement the government's cash management requirements.

The DMO successfully delivered its cash management objectives for 2016-2017, despite ongoing challenging market conditions prevalent throughout the period.

The DMO monitored and assessed its overall performance in meeting the government's objectives in cash management using a number of key performance indicators. A full account of cash management performance will be included in the DMO Annual Review 2016-17, which will be available on the DMO website at www.dmo.gov.uk.

3. To provide advice and operational services to HM Treasury on issues relating to the management of the government's balance sheet.

The DMO has continued to provide advice and analysis to HM Treasury to support the management of the wider balance sheet for the government.

4. To provide advice and operational services to government departments on whole markets-related issues and activities.

The DMO has continued to provide market and operational advice to HM Treasury and other departments as requested.

5. To develop and deliver its fund management responsibilities and, in particular, to provide a cost-effective service for stakeholders.

The DMO continued to provide a cost-effective service to client funds through the Commissioners for the Reduction of the National Debt (CRND). The DMO charged £0.4 million in 2016-2017 for services relating to the management of these funds, which had a value of £29.4 billion at 31 March 2017.

The operating cost of CRND in 2016-2017 is disclosed in the fees and charges section on page 59.

6. To provide a cost-effective lending service to local authorities through the Public Works Loan Board.

The Public Works Loan Board (PWLB) agreed £3.6 billion of new loans to borrowers in 2016-2017. The DMO charged £1.3 million in 2016-2017 for services relating to this lending.

The operating cost of the PWLB in 2016-2017 is disclosed in the fees and charges section on page 59. Full details of the PWLB's operations appear in the PWLB Report and Accounts 2016-2017.

7. To resource, staff and manage the DMO efficiently and cost-effectively to ensure key responsibilities are achieved.

During 2016-2017, the DMO employed an average of 121 full-time equivalent staff, of which 95 were permanent civil servants and 26 were short-term contract staff.

The DMO was most recently re-accredited as an "Investor in People" in October 2014 and continues to work towards maintaining this status.

The DMO's training programme, complemented by additional specialist and individual training and support for ongoing professional studies, continues to maintain and enhance the skills base of its employees to the required level.

8. To manage, operate and develop an appropriate risk and control framework.

The DMO continued to operate an effective risk and control framework throughout the year as detailed in the governance statement on page 38 to 48.

Performance against targets

HM Treasury ministers set the DMO's operational targets, which are published in the DMO's annual Business Plan and its Framework Document. The targets for 2016-2017 and the DMO's performance against them are summarised below.

1. To ensure full compliance with HM Government's remit for the DMO (which is set out in the Debt Management Report 2016-17).

Achieved. The DMO complied fully with the financing remit in 2016-2017.

The gilt sales outturn was £147.6 billion (cash) relative to the revised target of £146.5 billion as restated at Autumn Statement 2016. The final gilts sales figure was £1.1 billion above the revised target; this reflects proceeds from the Post Auction Option Facility from the final 4 auctions in the year. Sales were achieved through the conduct of 48 auctions (36 conventional and 12 index-linked), 7 syndicated offerings and 3 gilt tenders. All syndications were of long-dated conventional or index-linked gilts; whereas all maturities and types of gilts continued to be eligible for sale via gilt tender in 2016-2017.

Outright gilt sales of £129.4 billion had initially been planned for 2016-2017, as announced at the Budget in March 2016. This comprised a gilt programme for raising £95.9 billion via 44 auctions. It was also intended that a minimum £25.5 billion (19.7% of total issuance) would be raised via the syndication programme and £8.0 billion (6.2% of total sales) via an initially unallocated portion of issuance, which could be used to issue any type or maturity of gilt via any issuance method. In addition, use of the Post Auction Option Facility continued, but the option rate was increased from 10% to 15%. The gilt sales requirement rose by £2.1 billion to £131.5 billion on 23 April reflecting the outturn Central Government Net Cash Requirement (CGNCR) for 2015-2016.

The net financing requirement was increased further by £20.6 billion as a result of the revision to the fiscal aggregates announced by the Office for Budget Responsibility at Autumn Statement in November 2016. Gilt sales were increased by £15.0 billion to £146.5 billion (the planned 31 March 2017 stock of Treasury bills used for debt management purposes was increased by £5.6 billion).

The evolution of planned and actual issuance by maturity and type through 2016-2017 is presented in the table below.

The auction results throughout the year were satisfactory against a backdrop of volatile market conditions. Cover, the ratio of the total amount of bids received to the amount of gilts on offer at an auction, ranged from 2.95 times at the auction of 0 1/8% Index-linked Treasury Gilt 2036 on 9 March 2017 to 1.37 times at the auction of 4¼% Treasury Gilt 2046 on 7 June 2016. Average cover ratios at gilt auctions in 2016-2017 rose to 1.98 times compared with 1.64 times in 2015-2016.

2016-2017 gilt sales

	Conventional gilts (£bn)			Index-linked gilts (£bn)	Unspecified gilts (£bn)*	Total (£bn)
	Short-dated	Medium-dated	Long-dated			
Planned gilt sales						
Budget (March)	30.4	24.8	36.2	30.0	8.0	129.4
April revision	31.0	25.2	36.8	30.5	8.0	131.5
Autumn Statement	37.8	28.7	43.0	35.4	1.6	146.5
Actual gilt Sales						
Outturn**	**38.4**	**29.5**	**43.6**	**36.2**	**-**	**147.6**

* The unspecified gilt sales were allocated to conventional and index-linked gilt operations throughout the year.

**Figures may not sum due to rounding.

2. To aim to publish the results of gilt auctions, gilt tenders and Treasury bill tenders within 15 minutes of the close of offer – with the aim of publishing within 10 minutes – whilst achieving complete accuracy.

Achieved.

The release times for the 48 auctions held during 2016-2017 ranged from 3 to 13 minutes and averaged 4.3 minutes (2015-2016: 5.0 minutes).

The average release time for the three gilt tenders held during 2016-2017 was 4.0 minutes (2015-2016: 4.0 minutes).

The release time for the 51 Treasury bill tenders conducted during 2016-2017 ranged from 4 to 9 minutes and averaged 5.9 minutes (2015-2016: 6.2 minutes).

Gilt operations		
Date	**Gilt**	**Release time (mins)**
5 Apr 2016	1½% Treasury Gilt 2021	4
7 Apr 2016	1½% Treasury Gilt 2026	3
13 Apr 2016	3½% Treasury Gilt 2045	5
20 Apr 2016	0 1/8% Index-linked Treasury Gilt 2026	3
4 May 2016	1½% Treasury Gilt 2021	5
5 May 2016	1½% Treasury Gilt 2026	3
10 May 2016	0 1/8% Index-linked Treasury Gilt 2058	4
18 May 2016	4¼% Treasury Stock 2036	4
1 Jun 2016	1½% Treasury Gilt 2021	3
7 Jun 2016	4¼% Treasury Gilt 2046	5
9 Jun 2016	0 1/8% Index-linked Treasury Gilt 2036	4
5 Jul 2016	1½% Treasury Gilt 2021	4
7 Jul 2016	1½% Treasury Gilt 2026	4
13 Jul 2016	0 1/8% Index-linked Treasury Gilt 2026	4
20 Jul 2016	4¼% Treasury Gilt 2039	4
2 Aug 2016	0½% Treasury Gilt 2022	4
11 Aug 2016	0 1/8% Index-linked Treasury Gilt 2036	5
17 Aug 2016	4¼% Treasury Gilt 2055	13
1 Sep 2016	0½% Treasury Gilt 2022	6
6 Sep 2016	1½% Treasury Gilt 2026	4
14 Sep 2016	0 1/8% Index-linked Treasury Gilt 2046	6
20 Sep 2016	1½% Treasury Gilt 2047	4
4 Oct 2016	0½% Treasury Gilt 2022	4
6 Oct 2016	1½% Treasury Gilt 2047	4
12 Oct 2016	0 1/8% Index-linked Treasury Gilt 2036	3
19 Oct 2016	1½% Treasury Gilt 2026	4
1 Nov 2016	0½% Treasury Gilt 2022	8
8 Nov 2016	1¾% Treasury Gilt 2037	7
17 Nov 2016	0 1/8% Index-linked Treasury Gilt 2026	4
22 Nov 2016	1½% Treasury Gilt 2026	4
1 Dec 2016	0½% Treasury Gilt 2022	3
6 Dec 2016	1½% Treasury Gilt 2026	4
7 Dec 2016	1½% Treasury Gilt 2047	3
14 Dec 2016	0 1/8% Index-linked Treasury Gilt 2036	4
5 Jan 2017	1¾% Treasury Gilt 2037	4
10 Jan 2017	0 1/8% Index-linked Treasury Gilt 2046	5
12 Jan 2017	2% Treasury Gilt 2025	4
18 Jan 2017	0½% Treasury Gilt 2022	3

Gilt operations		
Date	**Gilt**	**Release time (mins)**
31 Jan 2017	1½% Treasury Gilt 2026	3
7 Feb 2017	1¾% Treasury Gilt 2019	4
9 Feb 2017	1½% Treasury Gilt 2047	4
15 Feb 2017	0 1/8% Index-linked Treasury Gilt 2026	5
23 Feb 2017	1½% Treasury Gilt 2026	4
2 Mar 2017	0½% Treasury Gilt 2022	4
9 Mar 2017	0 1/8% Index-linked Treasury Gilt 2036	4
14 Mar 2017	1¼% Treasury Gilt 2027	3
22 Mar 2017	1½% Treasury Gilt 2047	3
28 Mar 2017	0½% Treasury Gilt 2022	3

3. To achieve accuracy, within agreed accounting tolerances, in the recording and reporting of transactions through the DMA, and meeting the required deadlines for the publication and submission for audit of the annual reports of the DMO, DMA, PWLB and CRND.

Achieved. Internal control procedures identified no significant errors. The Comptroller and Auditor General certified that the 2015-2016 annual report and accounts of the DMO, DMA, the PWLB, and the CRND accounts give a true and fair view.

The annual report and accounts of the DMO and DMA were laid before Parliament on 13 July 2016. The annual report and accounts of other entities were laid where relevant.

4. To ensure that the DMO responds to enquiries under the Freedom of Information Act within the statutory timeframe.

Achieved. All of the DMO's responses to Freedom of Information Act requests were within the statutory 20 working day limit.

5. To ensure that gilt and cash management activities are operated in accordance with their respective operational market notices.

Achieved. Gilt and cash management activities were operated in accordance with their respective operational market notices.

6. To ensure that, for cash management purposes, target weekly balances and expected daily variations are notified according to the agreed schedule.

Achieved. All weekly targets were notified to the Bank of England according to the agreed schedule.

7. To ensure that settlement instructions to counterparties, agents and external systems are complete, accurate and timely, and that monitoring of the progress of transactions through settlement is effective, so that, where the DMO is responsible for delivering stock or cash, it settles at least 99% (by value) on the due date.

Achieved. 99.5% of trades (by value) were successfully settled on the due date. The majority of failed trades were due to market counterparties having insufficient securities to meet their traded obligations.

8. To ensure that all published data is materially accurate and that all market sensitive announcements are made in a timely manner.

Not fully achieved.

There were three factual errors in material published by the DMO. There were three instances of material being published late by the DMO.

There was no consequential impact on financial markets. Appropriate steps have been taken to reduce the risk of such errors in the future.

9. To process all loan and early settlement applications from local authorities within two working days (between the date of the agreement and the completion of the transaction).

Achieved. All loan and early settlement applications from local authorities were processed within two working days between date of agreement with the respective borrower and completion of the transaction.

10. To ensure that the gilts purchase and sale service is operated according to its published terms and conditions.

Achieved. The gilt purchase and sale service during 2016-2017 was conducted fully in line with its terms and conditions. The pattern of sales and purchases is shown in the following table.

	Sales	Purchases	Aggregate retail sales	Aggregate retail purchases
	(transactions)	(transactions)	£m	£m
Apr-Jun 2016	191	148	4.8	3.8
Jul-Sep 2016	201	912	10.1	42.9
Oct-Dec 2016	262	110	4.6	13.6
Jan-Mar 2017	100	158	2.9	6.4
Total	**754**	**1,328**	**22.4**	**66.7**

11. To administer the National Loan Guarantee Scheme on behalf of HM Treasury in accordance with the Scheme's published rules.

Achieved. The DMO administered the National Loan Guarantee Scheme in accordance with the scheme's published rules.

Financial results of the United Kingdom Debt Management Office

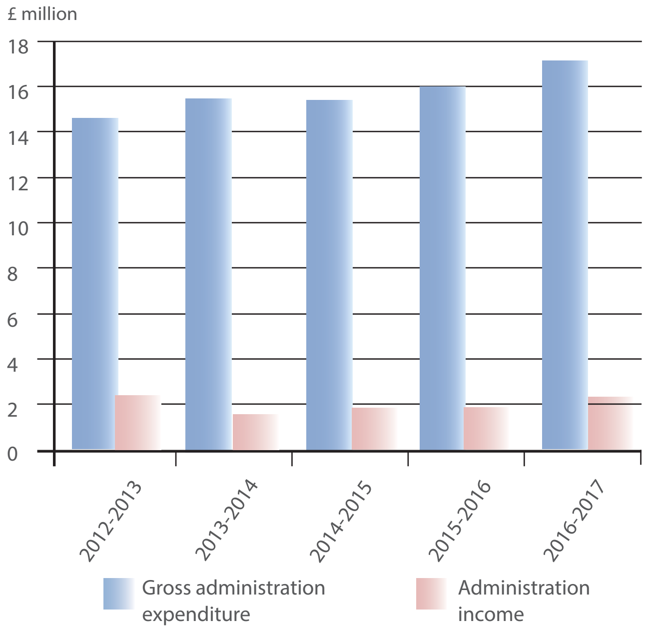
The DMO is financed through an allocation of HM Treasury's net funding approved by Parliament.

The DMO's net operating cost for 2016-2017 increased by £0.5 million to £18.0 million (2015-2016: £17.5 million). The main components of net operating cost are described below.

Administration costs

Administration expenditure primarily includes payroll and staff-related costs, IT infrastructure, accommodation, business services and depreciation.

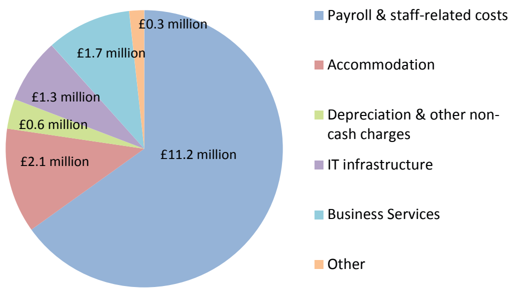
Figure 5: Administration expenditure and income



During 2016-2017, **gross administration expenditure increased by £1.1 million** to £17.1 million (2015-2016: £16.0 million). This increase was mainly due to increases in staff costs and professional service costs.

The £0.9 million increase in staff costs was due to the increased use of specialised, interim contract staff to assist with upgrade of the DMO's core systems and the delivery of key operational initiatives. Increased expenditure on legal services and consultancy also contributed to the overall increase, partially offset by reduced spending on IT and telecommunications.

Figure 6: Gross administration expenditure



Administration income

Income received by the DMO principally comprised fees charged for issuing new loans to PWLB customers and for the provision of fund management services to other government clients of CRND. In addition, the DMO recovered costs associated with various other activities it undertakes on behalf of others, including the provision of office accommodation and related IT and facilities services for other government entities and the recovery of administrative costs associated with lending Treasury bills to the Bank of England to facilitate the Funding for Lending Scheme (FLS).

During 2016-2017, **administration income increased by £0.3 million** to £2.2 million (2015-2016: £1.9 million).

The increase was mainly due to fee income arising from PWLB lending which increased due to a higher value of loans to local authorities. 622 new loans totalling £3.6 billion were lent in 2016-2017 (2015-2016: 621 loans, £3.0 billion).

Demand for new borrowing is influenced by factors including the need for capital finance, changes in prevailing interest rates, the expectation of future interest rate levels, borrowers' eligibility for a concessionary rate, and one-off initiatives. Additional information on PWLB activities can be found on the PWLB section of the DMO website at www.dmo.gov.uk.

Figure 7: Administration income

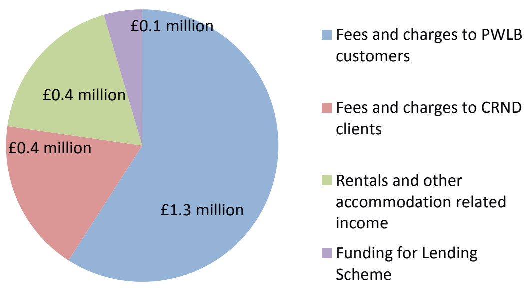
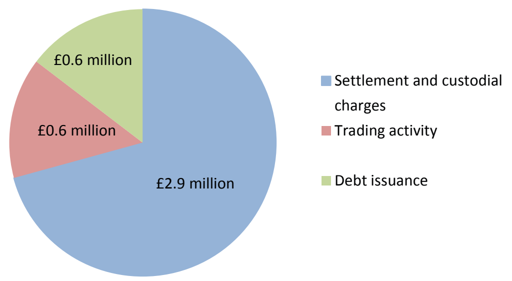


Figure 9: Gross programme expenditure



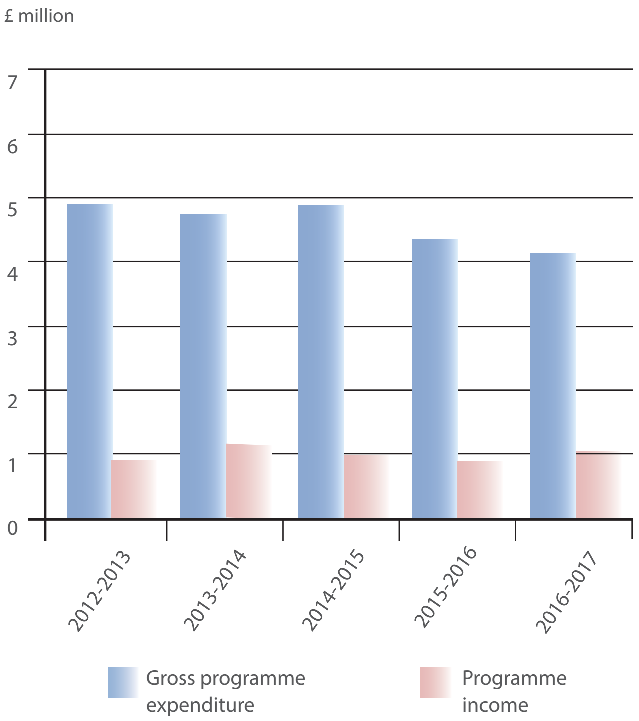
Programme costs

Programme expenditure covers the DMO's trading and gilt issuance activities. These include settlement and custodial charges, brokerage fees and the cost of acting as an agent for the National Loans Fund in issuing government backed securities.

During 2016-2017, **gross programme expenditure decreased by £0.2 million** to £4.1 million (2015-2016: £4.3 million).

This decrease resulted mainly from lower settlement and custodial charges due to lower trading activity being required to meet the DMO's debt and cash management remit.

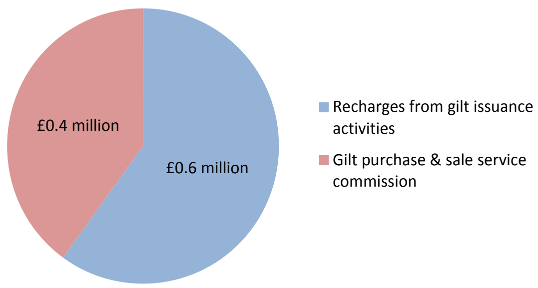
Figure 8: Programme expenditure and income



Programme income

During 2016-2017, **programme income increased by £0.1 million** to £1.0 million (2015-2016: £0.9 million). The increase resulted mainly from higher commission received from Computershare Investor Services PLC due to higher secondary market trading activity in the gilt purchase and sale service.

Figure 10: Programme income



Financial results of the Debt Management Account

Income statement

The DMA's operations for the financial year 2016-2017 gave rise to **net interest income of £4,316 million** (2016: £4,291 million), **other losses of £1 million** (2016: other losses of £1 million) and **fee income of £1 million** (2016: £1 million). This resulted in an income statement **surplus for the year of £4,316 million** (2016: £4,291 million). **Net unrealised gains on investment securities recorded in the revaluation reserve were £5,838 million** (2016: net unrealised losses of £485 million).

The below table is a breakdown of the DMA's **surplus for the year**, showing the gains and losses arising from the different asset and liability types held by the DMA during the year. *Income net of associated cost of funds* shows the net income from certain assets and liabilities, which have a measurable associated cost of funds: the advance from the National Loans Fund. *Other income* shows the gross income for the remaining assets in the DMA. *Other expense* shows the gross expense for the remaining liabilities in the DMA.

	£m
Income net of associated cost of funds	
Cash management	18
Facilitation of HM Treasury and Bank of England schemes:	
Window Facility	1,710
Treasury bills held for the Funding for Lending Scheme	159
Other income	
Collateral pool	2,578
Deposit at National Loans Fund (part not allocated as cost of funds)	74
Other	104
Other expense	
Deposits from CRND funds	(94)
Treasury bills (not part of cash management)	(233)
	4,316

Net interest income £4,316 million

Interest income was generated mainly by the DMA's holding of collateral gilts for cash management operations (£2,578 million) and involvement in the Discount Window Facility (£1,710 million). These holdings resulted in net interest income because interest income on gilts for use as collateral or for lending to the Bank of England to facilitate the Discount Window Facility was greater than the interest expense on the liabilities that funded these assets.

Interest income from the DMA's gilts reflected the yields available when they were purchased from the National Loans Fund. The Bank Rate was 4.50 per cent when the DMA purchased the majority of the Discount Window Facility gilts and was significantly higher than the present Bank Rate when the DMA purchased the majority of the collateral gilts, so their yields reflected relatively high prevailing market rates. These asset yields were greater than the average rates that the DMA paid on the corresponding, more short-term liabilities during 2016-2017.

Net interest income was earned on the DMA's holding of Treasury bills for lending to the Bank of England to facilitate the Funding for Lending Scheme. The yields on Treasury bills for the Funding for Lending Scheme reflected the relatively low market rates at the time of issue, but these asset yields were still greater than the average rates that the DMA paid on the corresponding, more short-term liabilities.

The DMA funds its purchase of such gilts and Treasury bills with an advance from the National Loans Fund, which incurs interest at the Bank Rate. The Bank Rate decreased to 0.5 per cent on 5 March

2009, and further decreased to 0.25 per cent on 4 August 2016.

The DMA did not seek to achieve a particular yield by timing its purchases of gilts and Treasury bills for use as collateral or for lending to the Bank of England to facilitate the Discount Window Facility or the Funding for Lending Scheme. Similarly, the DMA also did not seek to affect its funding rate – it incurred the Bank Rate on its advance from the National Loans Fund. As a result, the net interest income from these operations did not reflect the performance of the DMA. In addition, both the interest income and the interest expense which arose from these operations were internal to government, so the government incurred nil net interest income from these operations.

Interest income was also generated by the DMA's deposit at the National Loans Fund, which earned interest at the Bank Rate, and by loans and advances to banks, which yielded money market rates. Interest expense was also generated by deposits taken from other government departments, which incurred interest at rates related to the Bank Rate, by deposits by banks, and by Treasury bills in issue, which generally incurred money market rates.

Relative to the government's marginal cost of funds, cash management operations achieved a net interest surplus. Details of the DMO's cash management performance will be included in the DMO Annual Review 2016-17, which will be available on the DMO website at www.dmo.gov.uk.

Other gains and losses £1 million loss

Changes in the value of cash management assets resulted in net expense of £1 million (2016: net expense of £2 million).

Fee income £1 million

The DMA received a fee of £1 million (2016: £1 million) in relation to the Funding for Lending Scheme.

Unrealised gains on investment securities due to revaluation £5,838 million

Demand for gilts and Treasury bills increased, causing the price of these instruments, held by the DMA for use as collateral in its cash management operations and for use in the Discount Window Facility and Funding for Lending Scheme, to increase and their yields to fall.

Because of their classification as investment securities available-for-sale, changes in the fair value of the gilt collateral pool, Discount Window Facility gilts and Funding for Lending Scheme Treasury bills are not reflected as gains and losses in the income statement, but in the revaluation reserve. During 2016-2017, the revaluation reserve increased by £5,838 million due to the revaluation of investment securities available-for-sale (2016: decreased by £485 million).

Composition of the statement of financial position (see figure 11)

At 31 March 2017, the DMA held investment securities classified as available-for-sale, which comprised gilts held for use as collateral, gilts held to facilitate the Discount Window Facility (DWF) and Treasury bills held to facilitate the Funding for Lending Scheme (FLS). These assets had a fair value of £237,217 million at 31 March 2017 (31 March 2016: £238,595 million). This decrease was principally due to redemptions in the gilt collateral pool (£7,795 million nominal) and net redemptions in Treasury bills in relation to the Funding for Lending scheme (£11,418 million nominal), offset by the purchase of collateral for use in cash management operations (£11,238 million nominal) and unrealised gains on investment securities (£5,838 million).

These assets continued to be funded in part by the advance from the National Loans Fund to the DMA. As at 31 March 2017, the carrying value of the National Loans Fund advance was £93,020 million (31 March 2016: £98,046 million).

The lending and borrowing that the DMA engaged in, as part of its cash management operations, varied in response to the funding requirements of the National Loans Fund, which reflected the government's daily cash flows. Loans and advances to banks, securities held for trading, and deposits by banks were actively managed to meet these funding requirements. This resulted in significant daily variations in the DMA's deposit at the National Loans Fund. As at 31 March

2017, securities held for trading were £1,041 million (31 March 2016: £265 million), loans and advances to banks were £32,406 million (31 March 2016: £19,801 million), deposits by banks were £19,196 million (31 March 2016: £7,493 million), and the DMA deposit at the National Loans Fund was £13,061 million (31 March 2016: £18,679 million).

During the year, the DMA issued Treasury bills (excluding Funding for Lending Treasury bills) with a nominal value of £252,330 million (see figure 12) (2016: £252,158 million) of which £69,500 million was still in issue at 31 March 2017 (31 March 2016: £78,317 million). The Treasury bills still in issue had a carrying value of £69,552 million (31 March 2016: £78,299 million). The change in Treasury bills in issue was planned in order for the DMO to meet its debt and cash management remit for 2016-2017.

The DMA also received deposits from government customers throughout the year. This liability due to government customers was £30,848 million at 31 March 2017 (31 March 2016: £30,992 million). The decrease was primarily due to a net decrease of £801 million in deposits from the CRND, partially offset by an increase of £657 million in deposits from other government counterparties.

Figure 11: Assets and liabilities of the DMA

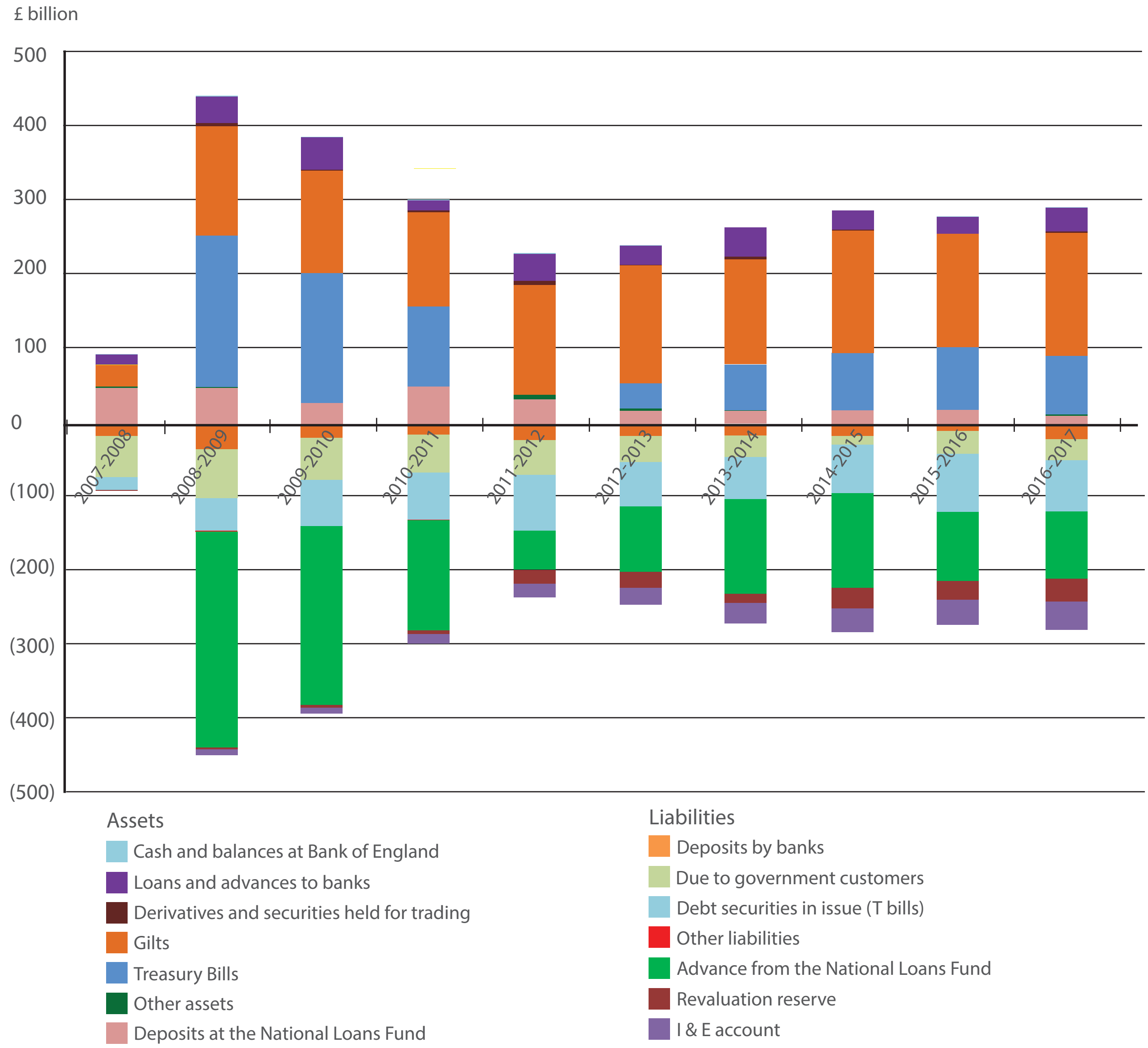
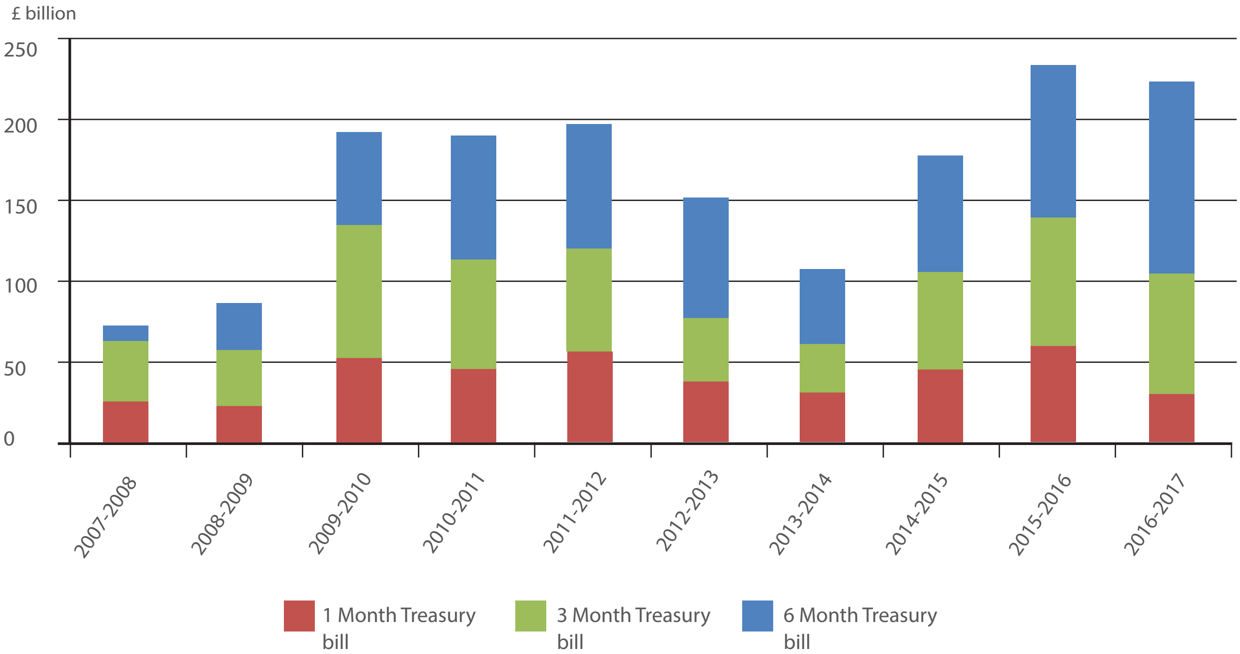


Figure 12: Treasury bill issuance by weekly tender



Long-term expenditure trends

Since the function of the DMA is primarily to manage the government's debt and cash requirements, it has no long-term expenditure trends, only expenses from interest payments related to liabilities for funding the debt and cash needs of the government.

Accountability report

The accountability report comprises three sections: a corporate governance report, a remuneration and staff report, and a parliamentary accountability and audit report. The corporate governance report includes the following information: the responsibilities of the Accounting Officer; the composition, responsibilities and actions of the Managing Board and Audit Committee and how they have supported the Accounting Officer and enabled the objectives of the DMO; the key risks faced by the DMO and how it seeks to manage them. The remuneration and staff report states the remuneration of the members of DMO's Managing Board, details of the DMO's remuneration policy and information on the overall staffing profile and cost. The parliamentary accountability and audit report includes a formal opinion by the DMO's external auditor to certify that the financial statements give a true and fair view of the state of the DMO's and DMA's affairs for the year and that they have been prepared in accordance with all relevant rules.

These three sections contribute to the DMO's accountability to parliament and comply with best practice in relation to corporate governance norms and codes. In particular, the corporate governance report seeks to do so by describing the key mechanisms the DMO employs to ensure it maintains high standards of conduct and performance. This includes the statement of Accounting Officer's responsibilities which describes his accountability to Parliament for the DMO's use of resources and compliance with rules set by HM Treasury to ensure best practice in financial management. The governance statement reflects the applicable principles of the Corporate Governance Code for Central Government Departments. The remuneration and staff report complies with best practice in remuneration reporting, including the recommendations of the Hutton review of fair pay as adopted for Government reporting by HM Treasury. The parliamentary accountability and audit report confirms that expenditure and income of the DMO and borrowings and investments of the DMA have been applied to the purposes intended by Parliament and confirms that information in the parliamentary accountability disclosures has been audited and approved by external auditors.

Corporate governance report

Directors' report

Name of Chief Executive and Managing Board

The members of the DMO's Managing Board are considered to be its directors. The authority and responsibilities of the Managing Board are set out in the governance statement on page 38.

- **Sir Robert Stheeman**
  Chief Executive
- **Jo Whelan**
  Deputy Chief Executive and Co-Head of Policy and Markets
- **Jim Juffs**
  Chief Operating Officer
- **Jessica Pulay**
  Co-Head of Policy and Markets
- **Richard Hughes ***
  Non-executive HM Treasury representative (from 1 August 2016)
- **Brian Larkman** (to 31 December 2016)
  Non-executive director
- **Brian Duffin**
  Non-executive director
- **Paul Fisher** (from 1 December 2016)
  Non-executive director

* Richard Hughes replaced James Richardson, who resigned on 31 March 2016.

Sir Robert Stheeman
Chief Executive
4 July 2017

Directors' conflicts of interest

In 2016-2017, no material conflicts of interest have been declared by Managing Board members.

Reporting of personal data related incidents

The DMO had no protected personal data related incidents during 2016-2017.

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the DMO to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction on page 79.

Under Schedule 5A of the National Loans Act 1968, HM Treasury has directed the DMO to prepare for each financial year a statement of accounts for the DMA in the form and on the basis set out in the accounts direction on page 119.

Both accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the DMO and the DMA, and of their income and expenditure, changes in taxpayers' equity / net funding by the National Loans Fund, and cash flows for the financial year.

In preparing both accounts, the Accounting Officer is required to:

- observe the relevant accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the annual report and accounts as a whole are fair, balanced and understandable, and take responsibility for the judgements required for determining they are fair, balanced and understandable;
- 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 accounts; and
- prepare the accounts on a going concern basis.

In addition, in preparing the accounts of the DMO, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM). The Accounting Officer is required to prepare the DMA accounts in accordance with applicable accounting standards and be consistent with the relevant requirements of the FReM.

HM Treasury has appointed the Chief Executive as Accounting Officer of the DMO and the DMA.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the DMO's and DMA's assets, are set out in Managing Public Money published by HM Treasury.

Disclosure to auditors

The Comptroller and Auditor General is responsible for auditing the DMO and DMA accounts, as specified by the Government Resource Accounts Act 2000 and the National Loans Act 1968 respectively.

The Accounting Officer confirms that, as far as he is aware, there is no relevant audit information of which the DMO and DMA's auditors are unaware, and that he has taken all the steps that he ought to have taken as Accounting Officer in order to make himself aware of any relevant audit information and to establish that the DMO and DMA's auditors are aware of that information.


EASTCHEAP BUILDINGS

Governance statement

Scope of responsibility

From May 2015, ministerial responsibility for the United Kingdom Debt Management Office (DMO) was vested in the Economic Secretary to the Treasury, Harriett Baldwin. In July 2016 ministerial responsibility passed to Simon Kirby and in June 2017 to Stephen Barclay. As the DMO's Chief Executive and Accounting Officer, I am responsible to HM Treasury ministers for the overall operation of the Agency in accordance with its Framework Document.

As Accounting Officer I am responsible for the Debt Management Account (DMA) and the DMO. My accountability is subject to the overall responsibility of the Permanent Secretary of HM Treasury in his capacity as Accounting Officer for that organisation. In exercising my responsibilities for the DMA I pay due regard to the consequences for the National Loans Fund and will consult the Permanent Secretary if I consider that any actions taken could have implications for him in his role as National Loans Fund Accounting Officer.

The Public Works Loan Board (PWLB) and the Commissioners for the Reduction of the National Debt (CRND) are separate business entities within the DMO. Responsibility for the reports and accounts of the PWLB and CRND lies with the Secretary of the PWLB and the Secretary and Comptroller General of CRND respectively. The Secretary of the PWLB and the Secretary and Comptroller General of CRND are each responsible for maintaining a sound system of internal control that supports the delivery of each entity's agreed policies, objectives and targets. As Accounting Officer, I am responsible for the wider DMO control framework within which both the CRND and the PWLB are managed. The Secretary of the PWLB and the Secretary and Comptroller General of CRND take assurance from me as to the continued sound maintenance of this framework in relation to their own control responsibilities.

I pay due regard to the objectives set by HM Treasury ministers for the government's debt and cash management in exercising my specific responsibilities for debt and cash management. This includes ensuring that all activities of the DMA are conducted in a manner that provides value for money. I have put arrangements in place to ensure there is a proper evaluation of the balance between cost and risk in the DMO's operations, taking into account any cost, risk or other strategic objectives, parameters or guidelines agreed with HM Treasury.

I am responsible to the Chancellor of the Exchequer and accountable to Parliament for the DMO's use of resources in carrying out its functions as set out in the Framework Document and Managing Public Money.

During the period under review I have been responsible for activities in relation to a number of schemes and initiatives including the National Loan Guarantee Scheme (NLGS), in which the DMO operated as agent for HM Treasury, and the Funding for Lending Scheme (FLS) for which the DMO provides support to the Bank of England (BoE).

The DMO is committed to the highest standards of corporate governance and is guided by the Corporate Governance Code for central government departments (the Code) and the principles laid down in that Code. I confirm that the DMO has complied with the principles which cover:

- Parliamentary accountability;
- The role of the Board;
- Board composition;
- Board effectiveness; and
- Risk management.

The DMO does not conduct any part of its business with, or through, arm's length bodies (ALBs) and therefore has not applied principle six which covers departmental governance arrangements with ALBs.

Managing Board

The Accounting Officer was supported during 2016-2017 by a Managing Board (the Board) which, in addition to the Accounting Officer, comprised

- Jo Whelan
  Deputy Chief Executive and Co-Head of Policy and Markets
- Jim Juffs
  Chief Operating Officer
- Jessica Pulay
  Co-Head of Policy and Markets
- Richard Hughes* (appointed 1 August 2016)
  Non-executive HM Treasury representative

* Richard Hughes replaced James Richardson, who resigned on 31 March 2016.

- Brian Larkman (resigned 31 December 2016)
  Non-executive director – Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006.
- Brian Duffin
  Non-executive director – Brian Duffin was Chief Executive of Scottish Life from 1999 to 2007 and Executive Director of Royal London Mutual from 2001 to 2007. He is currently chairman of the GEC 1972 Pension Plan.
- Paul Fisher (appointed 1 December 2016)
  Non-executive director - During a 26 year career at the Bank of England, Paul Fisher served as a member of the Monetary Policy Committee from 2009 to 2014, the interim Financial Policy Committee from 2011 to 2013 and the PRA Board from 2015 to 2016. He has a number of current roles including Chair of the London Bullion Market Association.

Non-executive directors are appointed by the Accounting Officer following a formal process and have fixed terms defined in their contracts of service. All non-executive Board members receive an induction on joining and have access to additional information and training where it is considered necessary for the effective discharge of their duties.

The primary role of the Board is to advise the Accounting Officer on any key decisions affecting the DMO. Specifically the Board's responsibility, as defined within its written Terms of Reference, is to advise the Accounting Officer in order to:

- Secure the aims, objectives and targets laid down by ministers for the DMO;
- Set and advise on the strategic framework for all areas of the DMO's business, including meeting the DMO's strategic objectives and advising on the development of key policies and business initiatives taking account of risks;
- Oversee implementation of the strategic objectives, policies and initiatives, and, as part of this, to advise on appropriate prioritisation and allocation of resources;
- Monitor and advise on the DMO's control environment and financial position taking due account of the role and recommendations of the Audit Committee;
- Support the DMO's core values, and to promote policies and activities that are fair and command respect both internally and externally;
- Ensure that the decision-making and risk management processes in the DMO are fit for purpose and are robust; and
- To consider and approve the pay system and strategy and the annual pay proposals.

An executive sub-committee of the Board generally meets weekly and supports the Accounting Officer on operational decisions.

The Board has put in place a formal process to self-evaluate its performance on a regular basis. The Board undertook a self-evaluation of its performance in June 2015 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference, and that the information used by the Board was accurate and relevant. The Terms of Reference subsequently underwent a review by the Board in 2017.

2016-2017 Board activities

Board meetings were held regularly throughout 2016-2017. In addition to regular agenda items, including progress against the remit, risk management, staffing and progress against the operational business plan, the Board paid particular attention to the following matters during the year:

- Market conditions, in the context of the DMO's financing operations;
- The impact of ongoing regulatory change to both the gilt and money markets;
- Potential impacts of the EU referendum result;
- Provision of gilt reference prices;
- Review of the gilt issuance strategy;
- Proposed reforms to the governance of PWLB;
- Investment in upgrade of the DMO's core systems; and
- IT and data security including key supplier data controls.

Board and Audit Committee attendance is outlined in the table below:

	Managing Board		Audit Committee	
	Possible	Actual	Possible	Actual
Sir Robert Stheeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	8	7*		
Richard Hughes	5	3		
Brian Larkman	6	4	3	0**
Brian Duffin	8	7	4	4
Paul Fisher	3	3	1	0
Caroline Mawhood	n/a	n/a	4	4

* Absence owing to travel on UK DMO business

** Not present, comments were received

Audit Committee

The Accounting Officer was supported during 2016-2017 by the Audit Committee on matters relating to risk, internal control and governance. The Audit Committee covers the activities of the DMO, DMA, CRND and PWLB. The members of the Audit Committee during 2016-2017 were:

- Brian Duffin (Chairman);
- Brian Larkman (resigned 31 December 2016);
- Paul Fisher (appointed 1 December 2016);
- Caroline Mawhood – Caroline Mawhood was an Assistant Auditor General at the National Audit Office until 2009 and President of the Chartered Institute of Public Finance and Accountancy for 2008-2009. She is a non-executive member of the Audit Committees of the Department of Energy and Climate Change (until June 2016) and the Corporation of London and one of two external members of the Audit Progress Committee of the European Commission. She is also the Honorary Treasurer of Breast Cancer Now charity (until September 2016) and a trustee of the Wimbledon Guild charity.

Audit Committee meetings are typically attended by the Accounting Officer, either or both of the Co-Heads of Policy & Markets, the Chief Operating Officer, the Head of Internal Audit and the National Audit Office.

The Audit Committee applies the five good practice principles set out in HM Treasury's Audit and Risk Assurance Committee Handbook. The Committee's overall objective is to give advice to the Accounting Officer and, as appropriate, to the Secretary and Comptroller General of the CRND and to the Secretary of the PWLB on:

- The overall processes for risk, control and governance and the governance statement;
- Management assurances and appropriate actions to follow from internal and external audit findings, risk analysis and reporting undertaken;
- The financial control framework and supporting compliance culture;
- Accounting policies and material judgements, the accounts and the annual report and management's letter of representation to the external auditors;
- Whistle-blowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the DMO's business;
- Processes to protect against money laundering, fraud and corruption; and
- The planned activity and results of both internal and external audit.

During the period under review the Audit Committee paid particular attention to the following areas:

- Business continuity management;
- Operational risk management;
- SWIFT Alliance Security;
- IT access controls;
- Auction and syndication processes;
- Cash flow forecasts;
- Staff development and retention;
- IT resilience, recovery and security environment;
- Trading system interface control;
- Effectiveness of whistleblowing arrangements;
- Anti-money laundering arrangements.

The Audit Committee covers a regular programme of agenda items, together with other current topics, through an annual schedule of four meetings. All scheduled meetings were held and no additional meetings were deemed necessary.

The Accounting Officer and the Board have also been informed by the following operational committees throughout the period under review:

- Debt Management Committee

The Debt Management Committee meets to commission and review the DMO's advice and recommendations to HM Treasury on the debt financing remit at Budget and any revisions at the Autumn Statement. The Committee also ensures that sound evidence is available for the setting of the DMO's quarterly issuance strategy.

It is the main forum used to commission and review advice on debt management policy or market-related issues as they arise during the year.

The Debt Management Committee met fifteen times in 2016-2017.

- Cash Management Committee

The Cash Management Committee meets to agree the cash management strategy, taking account of: the Exchequer forecast; the DMO's remit; market conditions; the house view on interest rates; risk limits; and any dealing parameters for the Treasury bill programme.

The Cash Management Committee also reviews performance measures relating to dealing.

The Cash Management Committee met regularly (typically every fortnight) throughout 2016-2017.

- Fund Management Review Committee

The Fund Management Review Committee reviews the performance of the government funds under the management of the CRND, including any reporting on compliance activities undertaken in relation to the funds.

The Fund Management Review Committee met four times in 2016-2017.

- Business Delivery Committee

The Business Delivery Committee reviews the status of the delivery of DMO's business and work plan as a collective cross functional body, resolving emerging issues in a timely way, and agreeing priorities to ensure the plan stays on track.

The Business Delivery Committee met regularly (typically weekly) throughout 2016-2017.

- Risk Committees

The Accounting Officer is informed by three risk committees covering credit and market risk, operational risk and risk controls. More detail on the roles, responsibilities and activities of these committees can be found in the sections below.

Risk management and internal control

The Accounting Officer is responsible for maintaining a sound system of internal control that supports the achievement of the DMO's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which he is personally responsible, in accordance with the responsibilities assigned to him in Managing Public Money.

The system of internal control is based upon what the Accounting Officer, with the support of the Board, considers to be appropriate taking account of the DMO's activities, the materiality of risks inherent in those activities and the relative costs and benefits of implementing specific controls to mitigate those risks. The Board has determined a formal risk appetite statement which sets out the amount of risk that the DMO is currently willing to accept and is aligned to its capacity to bear risk. The DMO's position differs from that of a commercial organisation in that it must always be in a position to transact the underlying business required to meet its remit. As a result, the risks associated with this activity cannot be avoided and the system of internal control can only provide reasonable assurance against failure to achieve aims and objectives.

The Risk and Control Framework

The Board has designed and put in place a formal risk management framework covering all the activities conducted and overseen by the DMO. This framework helps ensure that the Accounting Officer is appropriately informed and advised of any identified risks and also allows the management of risks to be monitored. The framework covers both regular operations and new business initiatives, and evolves as the range and nature of the DMO's activities change. The framework is supported by a clear 'three lines of defence' model:

- First line of defence

Day-to-day management of risk is the responsibility of management staff within business areas. The DMO considers effective risk management to be central to its operations and fosters a risk aware culture in which all members of staff, including Board members, are encouraged to understand and own the risks that are inherent in those operations. In particular the DMO seeks to promote an environment in which staff feel comfortable to identify new risks and changes in previously identified risks, as well as weaknesses, so that these may be assessed and appropriate mitigating actions put in place.

Mitigating actions typically include segregation of duties, staff training, clear lines of management delegation and reporting and robust business continuity arrangements.

The DMO employs certain business critical models which enable it to perform market analysis and model the impact of different issuance strategies on the government's debt portfolio. The DMO has put in place a robust quality assurance framework for the models that it uses which extends to cover validation of results and any changes in approach.

- Second line of defence

Oversight of risk is provided by the Board and risk committees, whose role is to provide regular and systematic scrutiny of risk issues which lie within their remit and to support the Accounting Officer in exercising his overall responsibility for risk management.

The DMO considers that the principal risks it faces arise in three broad areas: credit risk, market risk and operational risk. It has established committees to meet regularly to review the changing risk pattern for each of these areas and to set up appropriate responses. The work of these committees is described in more detail below.

Credit and Market Risk Committee

The Credit and Market Risk Committee (CMRC) meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. The CMRC monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, and instruments held as collateral as well as setting absolute limits on net daily flows across the DMA.

The CMRC has advised the Accounting Officer and the Board, during the year, on significant current and emerging risk issues and actions to mitigate such risks, including adjustments to the risk policy to support management of historically high gilt redemption cash flows in a relatively less liquid market environment. The Committee also paid particular attention to the performance of fixed income trading amongst major banks and the potential benefits and risks of new counterparties and products. The CMRC met eleven times during 2016-2017.

Operational Risk Committee

The Operational Risk Committee (ORC) meets regularly to monitor operational risks and to review significant risk issues. The ORC is responsible for reviewing risk incidents identified through the DMO's risk incident reporting process, and considering whether planned mitigating action is appropriate. It also reviews and tracks the progress of actions identified by Internal Audit. The ORC's scope includes issues relating to information risk, IT security and business continuity.

The ORC has advised the Accounting Officer and the Board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The Committee has focused this year on transaction processing risks and controls, IT and data security, and business continuity planning. The ORC met nine times during 2016-2017.

Controls Group

The Controls Group meets periodically to review issues affecting the DMO's system of internal control and to analyse material changes to the control environment. The Group recommends actions to management to implement changes where appropriate. The Controls Group consists of representatives from Finance, Risk, Compliance and Internal Audit.

The Controls Group has advised the Accounting Officer, the Board and senior management on significant risk concerns stemming from the introduction of new business activities as well as risks relating to other change management activities. The Group has also advised the Accounting Officer on suitable mitigating action where appropriate.

During the year the Controls Group review work has covered the DMO's core trading system, project work to strengthen changes to the control environment, enhancements to transaction processes and improvements in IT change management processes.

Risk Management Unit

The risk committees are supported by the DMO's

Risk Management Unit (RMU) which ensures key risk issues arising from these committees are communicated to the Accounting Officer and senior management on a regular basis, with additional ad hoc reporting if an emerging issue requires it. The RMU also supports the formal risk reporting processes with defined outputs, including regular detailed risk reports which are reviewed by the Board and senior management.

As well as supporting the risk committee structure, the RMU provides control advice on risks. As part of the second line of defence the RMU is separate from and independent of the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risk is facilitated by the RMU via quarterly consultations with heads of business units and functional teams. Significant risk issues are assessed for materiality and probability of occurrence. New risks, and risks to which exposure is increasing, are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls.

- Third line of defence

The Internal Audit function is the third line of defence and provides the Accounting Officer with independent and objective assurance on the overall effectiveness of the DMO's system of internal control. It does this through a risk based work programme which is approved by the Audit Committee at the start of each year. All audits make a series of findings relating to control weaknesses. Remedial actions once agreed with management, are monitored for implementation. Progress against treatment actions is monitored on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the Accounting Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

Risk policies and procedures

The DMO's risk policies reflect the high standards and robust requirements which determine the way in which risks are managed and controlled. The Accounting Officer, with the support of the Board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2016-2017, this included the DMO's Anti-Fraud Policy, the Data Protection Policy and Whistleblowing Policy.

Staff are required to confirm that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies on whistle-blowing, fraud and anti-money laundering and information security. The DMO ensures that this exercise is undertaken on an annual basis which helps staff to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage.

Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

Risk profile

The Accounting Officer and the Board believe that the principal risks and uncertainties facing the DMO are outlined in the table below together with the key actions taken to manage and mitigate them:

Principal risks and uncertainties	Mitigation and management
Economic and market conditions Economic and market conditions, including those arising from the result of the referendum held on 23 June 2016, which was in favour of the UK leaving the European Union, could adversely affect the DMO's ability to deliver HM Treasury's financing Remit or its cash management objective.	The DMO continually monitors conditions in the gilt and cash markets as well as wider economic conditions. Since these factors are outside of the DMO's control, mitigating activities are intended to anticipate potential impacts and be in a position to respond appropriately. The DMO maintains regular contact with its primary dealers, known as the Gilt- edged Market Makers (GEMMs), and end investors which helps it to gather market intelligence on an ongoing basis. In addition, the DMO's Investor Research function has the objective of developing a more detailed understanding of the investor base and potential demand for gilts. The DMO also receives information on market conditions through its quarterly consultation meetings at which representatives from GEMMs and end-investors are invited to give their views on the market's preference for the issuance of individual gilts in forthcoming quarters. Furthermore, the DMO gains valuable market insights from other major sovereign issuers through bilateral relationships and through its membership of intergovernmental forums on public debt. In 2016, the DMO continued to focus on the impact of financial market regulation on the gilt and cash markets, including a perceived deterioration in market liquidity. The DMO actively tracks relevant regulatory initiatives and maintains close contact with regulators and HMT, often providing expert advice on the potential impacts of regulation on its markets and operations. To help ensure that liquidity in the gilt market is maintained in all market conditions, the DMO's GEMMs are required to make effective two-way prices in those gilts in which they have committed to deal. To ensure competitive pricing in its cash operations, the DMO maintains relations with a wide range of money market counterparties and cash management is conducted through a diversified set of money market instruments in order to minimise cost whilst operating within agreed risk limits.
IT systems and infrastructure The DMO relies on a number of IT and communications systems to conduct its operations effectively and efficiently. In particular, certain systems are central to	During the year the DMO has undertaken a review of its most significant IT systems in the context of current and anticipated business requirements.

Principal risks and uncertainties	Mitigation and management
the DMO achieving its internal target for the release of accurate data, including auction results, to the market. Failure to achieve these targets could result in markets acting on inaccurate information and cause significant reputational damage. A number of the operational systems and services on which the DMO relies are provided or supported by third party suppliers.	The DMO has strengthened the resilience of systems and is working to enhance and improve transaction processing systems including increased automation of certain business critical processes. These improvements include the technology contingency processes and the ease of operating from alternative sites. The DMO has in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations. Arrangements to support auctions were in place throughout the year with support teams working from the disaster recovery site during auctions. Assessment of business continuity needs is also a specific requirement for new projects and major business initiatives. To mitigate the risk of failure of a key third party the DMO undertakes a corporate risk assessment of each potential supplier in order to assess financial strength and operational capacity. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed Service Level Agreements.
Transaction processing The DMO relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes the DMO to operational risk arising from process breakdown and human error.	A key component of the DMO's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally. The DMO's RMU conducts regular control and compliance testing, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas. The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure. This promotes early identification and resolution of risk incidents and provides visibility to the Accounting Officer and Board.

Principal risks and uncertainties	Mitigation and management
	The DMO has successfully undertaken a review of activities to ensure that a controlled environment was maintained on the extension of Real-time Gross Settlement closing times in June 2016. DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.
People risk The DMO relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives. The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time. Competition for skilled staff is generally against employers from the private financial services sector which is not subject to public sector remuneration policies and which have historically offered higher remuneration than either the private sector in general or the public sector.	The DMO's Training and Development policy is designed to help ensure that staff have the right skills to meet its objectives. The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates. The DMO has put in place a formal performance appraisal process and all staff are given clear and achievable objectives. Staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure. Salaries are benchmarked annually to equivalent private sector pay levels in order to keep management aware of any significant disparities that are developing. During the year, particular consideration has been given to the issues faced by staff working increased hours and weekends on the programme to strengthen IT infrastructure. The DMO has a policy to recognise those staff who have performed well in their roles through the payment of one-off performance related awards. Any awards are assessed annually by the DMO Pay Committee, are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay. A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit

Principal risks and uncertainties	Mitigation and management
	for wider communication and consultation with all staff. On an annual basis all DMO staff are given the opportunity to take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, are considered by the Accounting Officer and Board. The DMO was reaccredited as an Investor in People in 2014.
IT and data security Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information. The DMO seeks to ensure the highest standards of data protection and information management. The DMO is exposed to the risk of an external attack on its IT systems and infrastructure.	The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security and is particularly aware of the growing threat posed by cyber security risk. IT and data security risks continue to be a specific area of focus in 2016-2017 and the DMO's IT team have been enhancing the security environment and appropriateness of transaction systems and processes. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO is a member of the Board and provides advice to Board members on the management of information risks. The DMO has put in place several layers to defend against external and internal attack and its infrastructure undergoes an annual penetration test. This year particular attention has been paid to the auction process and systems used to ensure the control environment remains robust.

Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of the DMO's aims and objectives has been in place throughout 2016-2017. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and the executive managers within the DMO who have been delegated 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.

In my role as Accounting Officer I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee.

In 2016-2017 no ministerial directions were given and no material conflicts of interest have been declared by Board or Audit Committee members in the Register of Interests.

In my opinion, the DMO's system of internal control was effective throughout the financial year and remains so on the date I sign this statement.

Sir Robert Stheeman
Chief Executive
4 July 2017


HM TREASURY
Debt and
report
United Kingdom
Debt
Management
Office

Remuneration report and staff report

The DMO has a Pay Committee, which during 2016-2017 comprised:

- **Sir Robert Stheeman**
  Chief Executive (Chair)
- **Jo Whelan**
  Deputy Chief Executive and Co-Head of Policy and Markets
- **Jim Juffs**
  Chief Operating Officer
- **Jessica Pulay**
  Co-Head of Policy and Markets
- **Brian Larkman**
  Non-executive director (to 31 December 2016)
- **Brian Duffin**
  Non-executive director
- **Paul Fisher**
  Non-executive director (from 1 December 2016)

The Pay Committee is responsible for overseeing the DMO's delegated pay arrangements and ratifying the DMO's Pay Remit submission to HM Treasury and its subsequent implementation. Pay progression takes into account individual performance, job size, external market comparators and public sector pay policy and affordability.

Remuneration policy

Senior DMO staff

The Chief Executive is a member of the Senior Civil Service, employed by HM Treasury and included in HM Treasury's appraisal arrangements. Remuneration is set by HM Treasury in accordance with the Senior Salaries Review Body's Report.

Further information about the work of the Review Body can be found at www.gov.uk/government/organisations/office-of-manpower-economics.

Salaries of the Deputy Chief Executive, Chief Operating Officer and Co-Head of Policy and Markets are set internally in accordance with DMO's delegated pay arrangements by the Chief Executive and the non-executive director members of the Pay Committee.

Non-executive directors

The Chief Executive, in discussion with the Deputy Chief Executive, Chief Operating Officer and Co-Head of Policy and Markets, determines the remuneration of the non-executive directors. Remuneration is reviewed annually taking account of external market comparators and public sector pay policy and affordability, but the DMO reserves the right not to make adjustments.

Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments that are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

Senior DMO staff

The Chief Executive's contract is for a fixed term period to 31 December 2017. The contract may be extended for further fixed term periods and is subject to a 3 month notice requirement.

The appointments of the Deputy Chief Executive, the Chief Operating Officer and Co-Head of Policy and Markets have been made in accordance with the provisions of the Civil Service Commissioners' Recruitment Code. The employment contract for each requires a 3 month termination period.

Non-executive directors

Brian Larkman was contracted for an initial 3 year period from 1 January 2005. His contract was extended for three further 3 year periods and ended on 31 December 2016.

Brian Duffin was contracted for an initial 3 year period from 1 January 2010. His contract has been extended for two further 3 year periods and is due to end on 31 December 2018.

Paul Fisher was contracted for an initial 3 year period from 1 December 2016 and is due to end on 30 November 2019.

The employment contracts for Brian Duffin and Paul Fisher are subject to a 5 week early termination notice period. Contracts will automatically terminate on the date stated unless an extension has been agreed. As office holders there is no provision for compensation for early termination.

Remuneration received including pension benefits

In accordance with the requirements of the Companies Act 2006 and Statutory Instrument 2013 No. 1981, the following table includes pension benefits.

		Salary £000	Performance related payments £000	Pivotal role allowance* £000	Total payments £000	Accrued pension benefits** £000	Total including pension benefits £000
Senior DMO staff							
Sir Robert Stheeman - Chief Executive	2017	145 - 150	10 - 15	25	180 - 185	38	220 - 235
	2016	145 - 150	10 - 15	25	180 - 185	54	235 - 240
Jo Whelan - Deputy Chief Executive and Co-Head of Policy and Markets***	2017	105 - 110	10 - 15	-	120 - 125	27	145 - 150
Full-time equivalent		*145 - 150*	*15 - 20*	-	*165 - 170*	*38*	*205 - 210*
	2016	105 - 110	10 - 15	-	115 - 120	38	155 - 160
Full-time equivalent		*145 - 150*	*15 - 20*	-	*165 - 170*	*53*	*215 - 220*
Jim Juffs - Chief Operating Officer	2017	140 - 145	15 - 20	-	160 - 165	35	195 - 200
	2016	140 - 145	15 - 20	-	160 - 165	41	200 - 205
Jessica Pulay - Co-Head of Policy and Markets	2017	130 - 135	15 - 20	-	150 - 155	53	200 - 205
(from 30 July 2015)	2016	85 - 90	-	-	85 - 90	34	120 - 125
Full-year equivalent		*130 - 135*	-	-	*130 - 135*	*51*	*180 - 185*
Non-executive directors							
Brian Larkman (to 31 December 2016)	2017	15 - 20	-	-	15 - 20	-	15 - 20
Full-year equivalent		*20 - 25*	-	-	*20 - 25*	-	*20 - 25*
	2016	20 - 25	-	-	20 - 25	-	20 - 25
Brian Duffin	2017	15 - 20	-	-	15 - 20	-	15 - 20
	2016	15 - 20	-	-	15 - 20	-	15 - 20
Paul Fisher (from 1 December 2016)	2017	5 - 10	-	-	5 - 10	-	5 - 10
Full-year equivalent		*15 - 20*	-	-	*15 - 20*	-	*15 - 20*
	2016	-	-	-	-	-	-

(This disclosure has been audited.)

* The Pivotal Role Allowance scheme was introduced in the Senior Civil Service reward system in April 2013 to promote the retention of specialist staff in the most critical roles across government. The allowance is payable as a lump sum annually after the end of the financial year. It is removable, non-pensionable and subject to regular review. Eligibility for the allowance was approved by the Chief Secretary to the Treasury and the Minister for the Cabinet Office.

** For Sir Robert Stheeman, Jo Whelan, Jim Juffs and Jessica Pulay the value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

*** The salary disclosed reflects part-time hours and is calculated on a pro rata basis from a full-time equivalent of 0.72 in 2016-2017 (2015-2016: 0.72).

'Salary' includes gross salary, overtime and any other allowance to the extent that it is subject to UK taxation (except for the Pivotal Role Allowance, which is shown separately). This report is based on accrued payments made by the DMO and thus recorded in its accounts.

The DMO is not responsible for the remuneration of any Ministers or the non-executive HM Treasury representative (Richard Hughes), who is an employee of HM Treasury.

Performance related payments

The payment of performance related awards are assessed annually by the DMO Pay Committee. These one-off payments are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay.

The awards reported for 2016-2017 relate to performance in 2015-2016 and the comparative awards reported for 2015-2016 relate to performance in 2014-2015.

Remuneration multiples

The relationship between the remuneration of the highest-paid member of the DMO's Managing Board and the median remuneration of the organisation's workforce is reported below.

The Chief Executive is the highest-paid member of the DMO's Managing Board and the organisation's wider workforce.

Total remuneration includes, where appropriate, salary, non-consolidated performance related payments, benefits-in-kind and any severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

	2017	2016
Total remuneration of the Chief Executive (£000)	180-185	180-185
Median remuneration total of other DMO employees	52,000	53,000
Ratio	3.5	3.4

(This disclosure has been audited.)

The ratio above represents the total remuneration of the Chief Executive (taking the mid-point of the range disclosed) and the median total remuneration of all other DMO employees.

In 2016-2017, remuneration of the DMO's workforce excluding the Chief Executive, ranged from £24,000 to £165,000 (2015-2016: £19,000 to £162,000).

Pension benefits

	Accrued pension and related lump sum at pension age at 31 March 2017	Real increase in pension and related lump sum at pension age	CETV at 31 March 2017	CETV at 31 March 2016	Real increase in CETV
	£000	£000	£000	£000	£000
Sir Robert Stheeman	35 - 40	0 - 2.5	672	604	35
Jo Whelan	20 - 25	0 - 2.5	414	370	22
Jim Juffs	30 - 35	0 - 2.5	651	587	32
- plus lump sum	90 - 95	5.0 - 7.5			
Jessica Pulay	5 - 10	2.5 - 5.0	58	22	25

(This disclosure has been audited.)

CETV is an abbreviation for 'Cash Equivalent Transfer Value'. This measure of value is explained on page 54.

The non-executive directors are not entitled to any pension benefits.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements.

From 1 April 2015, a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme, known as 'alpha', which provides benefits on a career average basis with a normal pension age equal to the member's state pension age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four schemes: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation.

Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits banked, with those with earlier benefits in one of the final salary schemes of the PCSPS having those benefits based on their final salary when they leave alpha.

The pension figures disclosed show pension earned in PCSPS or alpha, as appropriate. Where benefits in both the PCSPS and alpha are due, the figure disclosed is the combined value of the benefits in both schemes.

Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3.0 per cent and 8.05 per cent of pensionable earnings for classic (and members of alpha who were members of classic immediately before joining alpha), and between 4.6 per cent and 8.05 per cent for premium, classic plus, nuvos and all other members of alpha.

Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his/her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with the Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32 per cent. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8 per cent and 14.75 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or state pension age for members of alpha. The pension figures disclosed show pension earned in PCSPS or alpha, as appropriate. Where benefits in both the PCSPS and alpha are due, the figure disclosed is the combined value of the benefits in both schemes, but part of the pension total may be payable from two different ages.

Further details about the Civil Service pension arrangements can be found on the website www.civilservicepensionscheme.org.uk.

The Cash Equivalent Transfer Value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures include the value of any pension benefit in another scheme or arrangement, which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost.

CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Staff numbers and related costs

	Permanent staff £000	Others £000	2017 Total £000
Staff costs			
Salaries	6,024	2,842	8,866
Social security costs	719	43	762
Other pension costs	1,177	57	1,234
	7,920	**2,942**	**10,862**
Recoveries in respect of outward secondments	(47)	-	(47)
Total net costs	**7,873**	**2,942**	**10,815**
Average number of full-time equivalent persons employed by the DMO	95	26	121

	Permanent staff £000	Others £000	2016 Total £000
Staff costs			
Salaries	6,254	1,844	8,098
Social security costs	619	28	647
Other pension costs	1,183	48	1,231
	8,056	**1,920**	**9,976**
Recoveries in respect of outward secondments	-	-	-
Total net costs	**8,056**	**1,920**	**9,976**
Average number of full-time equivalent persons employed by the DMO	99	18	117

Staff numbers in 2016-2017 and 2015-2016 include one full time equivalent senior civil servant (grade SCS 2).

The heading 'Others' includes interim staff employed either via recruitment agencies, on a fixed term contract, or via inward secondments from other bodies.

Exit packages: there were no exit costs during 2016-2017. Permanent staff costs reported for 2015-2016 include exit costs for two members of staff. Both exit payments were in the range of £50,000 to £100,000.

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS), known as 'alpha', are unfunded multiemployer defined benefit schemes, but the DMO is unable to identify its share of the underlying assets and liabilities. The PCSPS's Actuary valued the scheme as at 31 March 2012 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservicepensionscheme.org.uk/about-us/resource-accounts/).

For 2016–2017, employer contributions of £1,199,268 (2015–2016: £1,202,816) were payable to the civil service pension schemes at one of four rates in the range 20.0 per cent to 24.5 per cent (2015-2016: 20.0 per cent to 24.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary usually reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of the benefits accruing during 2016-2017 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £33,720 (2015-2016: £25,926) were paid to one or more of the panel of appointed stakeholder pension providers. Employer contributions are age-related and range from 8.0 per cent to 14.75 per cent of pensionable pay (2015-2016: 6.5 per cent to 12.5 per cent of pensionable pay up to 30 September 2015 and from 8.0 per cent to 14.75 per cent from 1 October 2015). Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £1,225, 0.5 per cent of pensionable pay (2015-2016: £499, 0.8 per cent of pensionable pay up to 30 September 2015 and £1,845, 0.5 per cent of pensionable pay from 1 October 2015), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2017 were £4,423 (31 March 2016: £3,086). Contributions prepaid at that date were £nil.

Male / female staff breakdown

The number of male and female staff at the DMO at 31 March 2017 was:

	Male	Female
Managing Board members	4	2
Employees	67	43
Total	**71**	**45**

Employees do not include contractors employed through agencies. (No Managing Board members are employed through agencies.)

Expenditure on consultancy

Expenditure on consultancy by the DMO in 2016-2017 was £279,000 (2015-2016: £120,000).

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 gender, gender re-assignment, marital or family status, colour, racial origin, sexual orientation, age, background, religion, disability, trade union membership or by any other condition or requirement.

Employee relations

A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been effective as a conduit for wider communication and consultation with all staff. Union arrangements also continue for staff transferred to the DMO in 2002 under TUPE principles. Staff may join a trade union of their choice.

Improving good practice and investment in people

The DMO was re-accredited as an Investor in People in October 2014. The DMO's training and development policy aims to ensure that its staff have the right skills to meet its objectives. The DMO provides targeted training and support for professional studies to enhance the skills base of its employees.

Staff sickness absence

Recorded working days lost due to DMO staff sickness absence in 2016-2017 were 781 or 2.8 per cent of the total available (2015-2016: 450 or 1.7 per cent of the total available).

Social, community and human rights issues

The DMO has no social, community or human rights issues to report, which are relevant to understanding its business.

Sir Robert Stheeman
Chief Executive
4 July 2017

Parliamentary accountability and audit report

Regularity of expenditure

The expenditure and income of the DMO have been applied to the purposes intended by Parliament.

The borrowings and investments of the DMA have been applied to the purposes intended by Parliament.

Both the above statements have been audited.

Remote contingent liabilities

Neither the DMO nor the DMA had any remote contingent liabilities as at 31 March 2017.

The above statement has been audited.

Certificate and report of the Comptroller and Auditor General

The certificate and report of the Comptroller and Auditor General for each of the DMO and DMA can be found preceding their accounts on page 61 to 62 and page 81 to 82 respectively.

Fees and charges

This analysis of fees and charges received by the DMO is provided as specified by the FReM and not for the disclosure requirements of IFRS 8 Operating Segments.

	CRND £000	PWLB £000	Gilt purchase and sale service £000
Full cost	411	1,077	412
Income	(410)	(1,273)	(364)
Deficit / (surplus)	**1**	**(196)**	**48**

Financial objective and performance:

- **CRND:** To invest and manage certain public funds and charge, where statute permits, an administrative cost calculated on a full-cost recovery basis. CRND also carries out other miscellaneous statutory functions for which there is no provision for recovering costs. This objective was achieved in full.
- **PWLB:** To advance loans, primarily to local authorities, at a fee rate that is set by statute. This objective was achieved in full.
- **Gilt purchase and sale service:** To operate a gilt purchase and sale service for retail investors in the secondary market and charge the appropriate transactional cost as defined by statute. This objective was achieved in full.

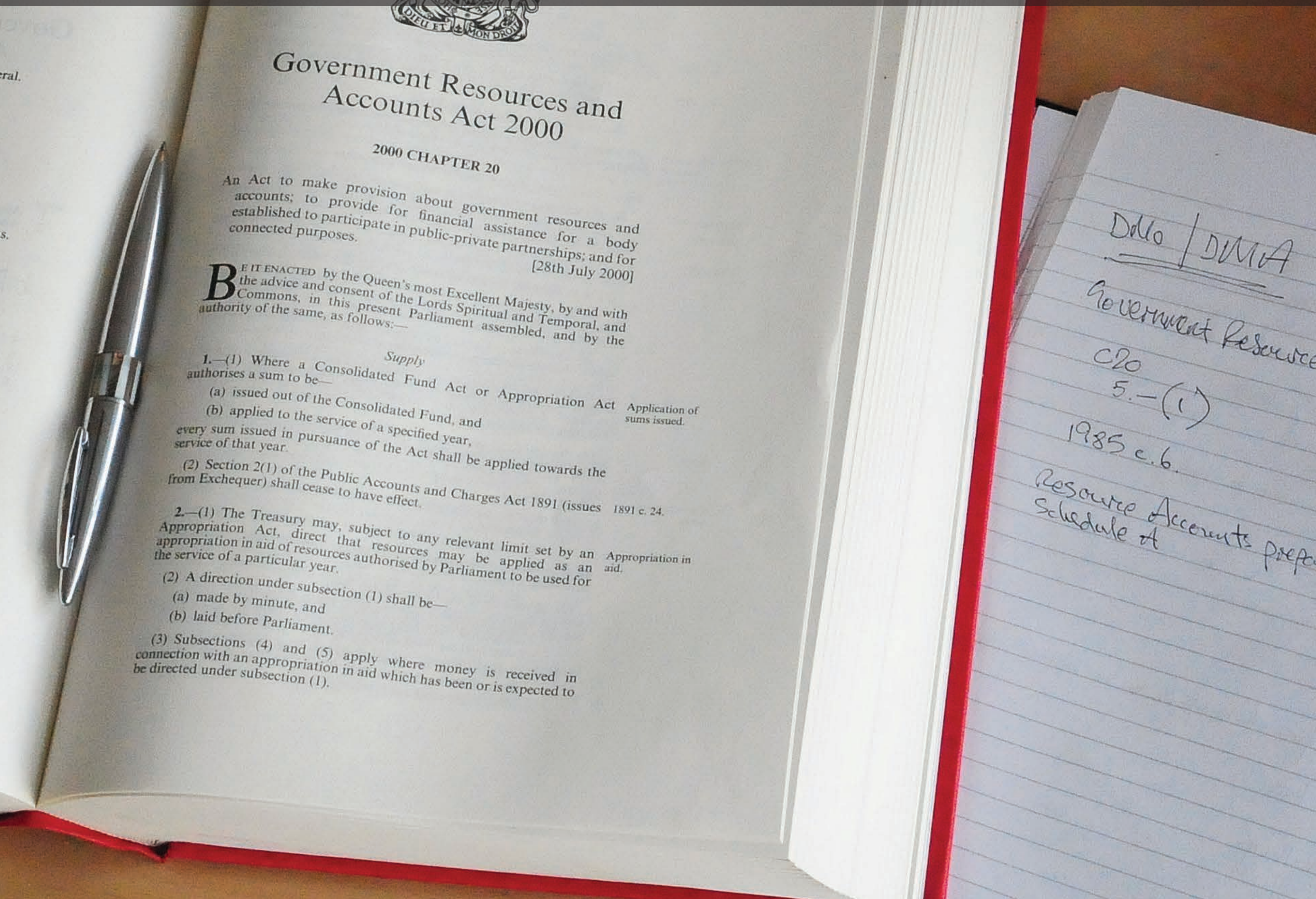
The DMA received no material fees or charges during the year.

The above section on fees and charges has been audited.

Accounts of the United Kingdom Debt Management Office

Year ended 31 March 2017
Presented to the House of Commons on 13 July 2017

United Kingdom Debt Management Office: 2016-2017 Accounts



Certificate and report of the Comptroller and Auditor General to the House of Commons for the UK Debt Management Office

I certify that I have audited the financial statements of the UK Debt Management Office for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report and Staff Report; and Parliamentary Accountability disclosures that are described as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the UK Debt Management Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the UK Debt Management Office; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the UK Debt Management Office's affairs as at 31 March 2017 and of the net operating expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration Report and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the parts of the Remuneration Report and Staff Report and Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
5 July 2017

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

United Kingdom Debt Management Office Statement of comprehensive net expenditure

For the year ended 31 March 2017

	Note	2017 £000	2016 £000
Staff costs	2	10,862	9,976
Purchase of goods and services	3	5,688	5,441
Issuance and transaction costs	4	4,067	4,255
Depreciation and impairment charges	6	581	617
Total operating expenditure		**21,198**	**20,289**
Operating income	5	(3,178)	(2,832)
Net operating expenditure		**18,020**	**17,457**

All income and expenditure are derived from continuing operations.

The notes on page 67 to 78 form part of these accounts.

United Kingdom Debt Management Office Statement of financial position

As at 31 March 2017

	Note	2017 £000	2016 £000
Non-current assets			
Property, plant and equipment	6(i)	769	1,003
Intangible assets	6(ii)	516	757
Trade and other receivables	7	55	73
Total non-current assets		**1,340**	**1,833**
Current assets			
Trade and other receivables	7	1,873	1,850
Cash and cash equivalents		1	1
Total current assets		**1,874**	**1,851**
Total assets		**3,214**	**3,684**
Current liabilities			
Trade and other payables	8	(2,079)	(2,292)
Total current liabilities		**(2,079)**	**(2,292)**
Total assets less current liabilities		**1,135**	**1,392**
Total net assets		**1,135**	**1,392**
Taxpayers' equity			
General fund		**1,135**	**1,392**

The notes on page 67 to 78 form part of these accounts.

Sir Robert Stheeman
Chief Executive
4 July 2017

United Kingdom Debt Management Office Statement of cash flows

For the year ended 31 March 2017

	Note	2017 £000	2016 £000
Cash outflow from operating activities			
Net operating cost		**(18,020)**	**(17,457)**
Adjustment for non-cash transactions			
Depreciation and amortisation of fixed assets	6	581	605
Impairment of fixed assets	6	-	12
Auditors' fee	3	42	42
		623	**659**
Adjustment for movements in working capital other than cash			
Increase in receivables		(6)	(142)
(Decrease) in current payables		(213)	(532)
Less movement in payables relating to items not passing through the statement of comprehensive net expenditure		69	536
		(150)	**(138)**
Net cash outflow from operating activities		**(17,547)**	**(16,936)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(109)	(568)
Purchase of intangible assets		(65)	(144)
Net cash outflow from investing activities		**(174)**	**(712)**
Cash flows from financing activities			
From the Consolidated Fund (supply)		17,721	17,648
Net financing		**17,721**	**17,648**
Cash and cash equivalents at the beginning of the year		**1**	**1**
Cash and cash equivalents at the end of the year		**1**	**1**

The notes on page 67 to 78 form part of these accounts.

United Kingdom Debt Management Office Statement of changes in taxpayers' equity

For the year ended 31 March 2017

	Note	General Fund £000
Balance at 31 March 2015		**1,159**
Funding from HM Treasury		17,648
Comprehensive net expenditure for the year		(17,457)
Non-cash auditors' remuneration	3	42
Balance at 31 March 2016		**1,392**
Funding from HM Treasury		17,721
Comprehensive net expenditure for the year		(18,020)
Non-cash auditors' remuneration	3	42
Balance at 31 March 2017		**1,135**

The notes on page 67 to 78 form part of these accounts.

Notes to the accounts

For the year ended 31 March 2017

1 Statement of accounting policies

(i) Basis of preparation

The accounts have been prepared in accordance with the 2016–2017 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The accounts have been prepared on an accruals basis under the historical cost convention and have been prepared in accordance with the Accounts Direction given by HM Treasury on page 79, under the legislative authority of the Government Resources and Accounts Act 2000.

Where the FReM permits a choice of accounting policy, the most appropriate policy for providing a true and fair view has been selected. The DMO's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

Certain IFRS have been issued or revised, but are not yet effective. Those issues or revisions expected to be relevant in subsequent reporting periods are:

- IAS 7 Statement of Cash Flows, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 7)'. Application is required for reporting periods beginning on or after 1 January 2017. The DMO expects to apply these revisions to IAS 7 in 2017-2018. The application of these revisions, which ensure that users can evaluate changes in financing, may result in additional disclosures regarding changes in liabilities arising from financing activities of the DMO.

- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2018. The DMO expects to apply IFRS 9 in 2018-2019. The application of IFRS 9, which sets out requirements for recognition, measurement, impairment and de-recognition of financial instruments, is not expected to alter the reporting of financial instruments in the DMO.

- IFRS 16 Leases, which will replace IAS 17. Application is required for reporting periods beginning on or after 1 January 2019. The application of IFRS 16 removes the distinction between operating and finance leases for lessees and requires them to create a balance sheet asset and liability for all material leases. The DMO expects to apply IFRS 16 in 2019-2020, at which point the remaining term of its property lease will be less than one year, so application of IFRS 16 is not expected to materially alter the recognition or reporting of leases by the DMO. In future years, however, the standard will have a significant impact on the DMO's financial reporting of any new lease, particularly within the balance sheet. It will not be possible to evaluate the impact until any new lease is agreed.

(ii) Other comprehensive expenditure

No statement of other comprehensive expenditure has been prepared as all income and expenditure is reported in the statement of comprehensive net expenditure.

(iii) Operating expenditure

Staff costs include salaries, pension costs and national insurance costs incurred by the DMO, and the cost of agency staff. Purchase of goods and services includes all external expenditure other than expenditure classified as issuance and transaction costs. Issuance and transaction costs are financial market-related costs. They include banking, settlement, brokerage, clearing, custodial, and Computershare gilt purchase and sale costs.

(iv) Operating income

Operating income is analysed between administration and programme income in accordance with the definitions in the Consolidated Budgeting Guidance 2016-2017.

Operating income is recognised by the following criteria:

- cost recoveries on a full cost basis for services provided to external clients;
- recovery of the direct costs when acting as an agent for the National Loans Fund; and
- fees set by statute and received from PWLB customers.

Full cost recovery income is charged on the basis of staff-time and all direct external costs incurred for a given service, plus an apportioned share of overheads such as accommodation and IT infrastructure. This income is charged for an agreed annual activity.

Income is analysed between that which can be applied against associated expenditure (appropriations-in-aid) and that which is surrenderable to the Consolidated Fund (CFER).

The DMO is subject to net administration cost control provisions. For funding purposes, HM Treasury treats operating income as appropriations-in-aid.

(v) Non-current assets

Assets acquired for ongoing use with a purchase cost in excess of £5,000 are capitalised. Profits or losses arising on the disposal of fixed assets are calculated by reference to the carrying value of the asset.

Any property, plant and equipment or intangible assets, for which the value is high and / or the useful economic life is long, are revalued. Currently, the DMO has no assets that meet these criteria.

Software licence purchases and internally developed software that meet the capitalisation criteria are classified as intangible assets.

Where an asset is in the process of being developed, the capitalised costs are classified as assets under construction.

(vi) Depreciation and amortisation

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 fixed assets have been estimated as follows upon initial recognition and are reviewed annually:

Information technology	between 4 and 8 years
Plant and machinery	between 5 and 15 years
Furniture and fittings	lesser of 10 years or outstanding lease term (where appropriate)
Software licences	between 4 and 10 years (licence duration where relevant)
Internally generated software	between 4 and 12 years

(vii) Impairment of non-current assets

In accordance with IAS 36 Impairment of Assets, impairments represent a permanent reduction in the service potential of non-current assets. All assets are assessed annually for indications of impairments. Where an impairment is identified it is recognised in the statement of comprehensive net expenditure to the extent that it cannot be offset against the revaluation reserve. In the event of a reversal of a previous impairment charge, the amount is recognised in the statement of comprehensive net expenditure to the extent that the original charge, adjusted for subsequent depreciation, was previously recognised in this statement. The remaining amount is recognised in the revaluation reserve.

(viii) Notional charges

Certain costs are charged on a notional basis and included in the accounts. These charges relate to auditors' remuneration. Notional costs are charged to the statement of comprehensive net expenditure and recorded as a movement on the general fund.

(ix) Value added tax

Value added tax (VAT) on purchases is charged to the statement of comprehensive net expenditure, to the extent that it is irrecoverable and 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. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

(x) Foreign exchange

Transactions with external suppliers that are denominated in foreign currencies are translated into sterling at the rates of exchange applicable when the liability is paid.

(xi) Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and of the Civil Service and Other Pension Scheme (CSOPS), known as alpha, which are described in the remuneration report and staff report. The defined benefit schemes are unfunded. The DMO recognises as an administration cost the monthly charges made by the PCSPS to contribute to the schemes. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the DMO recognises the contributions payable for the year.

(xii) Employee benefits

The DMO has provided for the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The measurement of this expected cost, which is in accordance with IAS 19 Staff Benefits, is based on salaries and employers' contributions in respect of national insurance liabilities.

(xiii) Contingent assets and liabilities

Contingent assets and liabilities are not recognised as assets or liabilities in the statement of financial position. However, they are disclosed in the notes of the accounts.

(xiv) Leases

Leases are classified as either finance or operating leases in accordance with IAS 17 Leases.

The distinction between the different classes of lease depends on whether the lease transfers substantially all of the risks and rewards incidental to ownership of the leased asset from the lessor to the lessee. Leases in which substantially all of the risks and rewards of ownership are transferred to the lessor are classified as finance leases, other leases are classified as operating leases.

The DMO has not entered into any finance lease arrangements.

All operating leases are charged to the statement of comprehensive net expenditure on a straight-line basis over the term of the lease.

(xv) Financial assets

On initial recognition, financial assets (comprising trade and other receivables, and cash and cash equivalents) are classified as loans and receivables. Loans and receivables are assets with fixed or determinable repayments that are not quoted in an active market. Loans and receivables are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method. De-recognition of financial assets only occurs when the obligation is settled.

(xvi) Financial liabilities

On initial recognition, financial liabilities (comprising trade and other payables) are classified as financial liabilities at amortised cost. These are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless stated otherwise. Financial liabilities are derecognised when the obligation is discharged.

2 Staff numbers and related costs

	2017 £000	2016 £000
Permanent staff costs	7,920	8,056
Temporary staff costs	2,942	1,920
Total staff costs	**10,862**	**9,976**
Average staff numbers	**121**	**117**

There were no exit costs during 2016-2017. Permanent staff costs reported for 2015-2016 include exit costs for two members of staff. Both exit payments were in the range of £50,000 to £100,000.

Further information is included in the remuneration report and staff report on page 50 to 57.

3 Purchase of goods and services

	2017 £000	2016 £000
Operating leases	1,339	1,344
IT and telecommunications	1,229	1,316
Business and information services	1,070	1,098
Accommodation related costs	791	790
Legal services	342	168
Consultancy	279	120
Recruitment	115	83
Training	108	123
Travel, subsistence and hospitality	105	91
Printing and stationery	45	51
Non-cash auditors' remuneration	42	42
Other costs	223	215
	5,688	**5,441**

£42,000 (2015-2016: £42,000) of the external auditors' fee relates to audit work.

4 Issuance and transaction costs

Issuance and transaction costs arise from DMA, CRND and PWLB transaction costs, gilt issuance as an agent for the National Loans Fund, and Computershare gilt purchase and sale service costs. These costs are classified as programme costs.

	2017 £000	2016 £000
DMA, CRND and PWLB transaction costs		
Settlement and custodial charges	2,864	3,013
Brokerage	523	565
	3,387	**3,578**
Gilt issuance costs		
Stock Exchange listing fees (reimbursed – see note 5)	600	600
Gilt purchase and sale service costs - Computershare	80	77
	4,067	**4,255**

5 Operating income

	2017 £000	2016 £000
Administration income		
Fees and charges to PWLB customers	1,273	1,059
Fees and charges to CRND clients	410	417
Rentals and other accommodation related income - internal to government	413	404
Funding for Lending Scheme - Bank of England	70	67
Other income	48	1
	2,214	**1,948**
Programme income		
Recharges to the National Loans Fund	600	600
Gilt purchase and sale service commission - Computershare	364	284
	964	**884**
	3,178	**2,832**

6 Non-current assets

(i) Property, plant and equipment

	Information technology £000	Furniture and fittings £000	Plant and machinery £000	Total £000
Cost or valuation				
At 1 April 2016	1,925	937	101	2,963
Additions	34	-	-	34
Impairments	-	-	-	-
Disposals	(35)	-	-	(35)
At 31 March 2017	**1,924**	**937**	**101**	**2,962**
Depreciation				
At 1 April 2016	1,005	932	23	1,960
Charged in year	260	2	6	268
Disposals	(35)	-	-	(35)
At 31 March 2017	**1,230**	**934**	**29**	**2,193**
Net book value				
At 31 March 2017	**694**	**3**	**72**	**769**
At 31 March 2016	**920**	**5**	**78**	**1,003**

	Information technology £000	Furniture and fittings £000	Plant and machinery £000	Total £000
Cost or valuation				
At 1 April 2015	1,804	937	90	2,831
Additions	133	-	11	144
Impairments	(12)	-	-	(12)
Disposals	-	-	-	-
At 31 March 2016	**1,925**	**937**	**101**	**2,963**
Depreciation				
At 1 April 2015	772	928	17	1,717
Charged in year	233	4	6	243
Disposals	-	-	-	-
At 31 March 2016	**1,005**	**932**	**23**	**1,960**
Net book value				
At 31 March 2016	**920**	**5**	**78**	**1,003**
At 31 March 2015	**1,032**	**9**	**73**	**1,114**

(ii) Intangible assets

	Software licences £000	Internally generated software £000	Total £000
Cost or valuation			
At 1 April 2016	2,258	4,104	6,362
Additions	-	72	72
Disposals	(34)	-	(34)
At 31 March 2017	**2,224**	**4,176**	**6,400**
Amortisation			
At 1 April 2016	1,945	3,660	5,605
Charged in year	129	184	313
Disposals	(34)	-	(34)
At 31 March 2017	**2,040**	**3,844**	**5,884**
Net book value			
At 31 March 2017	**184**	**332**	**516**
At 31 March 2016	**313**	**444**	**757**

	Software licences £000	Internally generated software £000	Total £000
Cost or valuation			
At 1 April 2015	2,227	4,104	6,331
Additions	31	-	31
Disposals	-	-	-
At 31 March 2016	**2,258**	**4,104**	**6,362**
Amortisation			
At 1 April 2015	1,797	3,446	5,243
Charged in year	148	214	362
Disposals	-	-	-
At 31 March 2016	**1,945**	**3,660**	**5,605**
Net book value			
At 31 March 2016	**313**	**444**	**757**
At 31 March 2015	**430**	**658**	**1,088**

7 Trade and other receivables

	2017 £000	2016 £000
Amounts falling due within one year		
Prepayments and accrued income	1,825	1,801
Other receivables	48	49
	1,873	**1,850**
Amounts falling due after more than one year		
Prepayments and accrued income	55	73
	1,928	**1,923**

8 Trade and other payables

	2017 £000	2016 £000
Amounts falling due within one year		
Trade payables	-	15
Taxation and social security	336	335
Accruals	1,743	1,942
	2,079	**2,292**

Reflected within the amounts falling due within one year is a decrease of £68,568 (2015-2016: decrease of £536,662) of capital expenditure payables and accruals, which is an adjustment to the movements in working capital recorded in the statement of cash flows.

9 Commitments under operating leases

At 31 March 2017, the total future minimum lease payments under non-cancellable operating leases are as follows:

	Buildings £000	Other £000	2017 Total £000	2016 Total £000
Obligations under operating leases for the following periods comprise:				
Less than one year	1,154	4	1,158	1,158
Between two and five years	3,172	6	3,178	4,336
Over five years	-	-	-	-
	4,326	**10**	**4,336**	**5,494**

10 Capital commitments

	2017 £000	2016 £000
Contracted capital commitments at 31 March not otherwise included in these financial statements		
IT professional services	-	10
Telecommunications hardware and integral software	-	24
	-	**34**

11 Contingent assets and liabilities

At 31 March 2017, the DMO had no contingent assets (31 March 2016: none).

At 31 March 2017, the DMO had no contingent liabilities (31 March 2016: none).

12 Related party transactions

HM Treasury

The DMO is an executive agency of HM Treasury. HM Treasury is a related party.

During the year HM Treasury continued to provide several support services to the DMO, including purchase order processing, invoice processing and payment, payroll processing and some financial accounting services. The total recharge paid by DMO was £53,000 (2015-2016: £53,000).

In addition, the DMO has undertaken various transactions with HM Treasury in relation to the recharge of accommodation expenditure initially incurred by the DMO, and to the cost of providing various related services during 2016-2017.

Throughout 2016-2017, HM Treasury has occupied floor space leased by the DMO. Under the terms of a Memorandum of Terms of Occupation (MOTO) agreement, all accommodation expenditure, including ongoing facilities management services that relates to HM Treasury office space, and which is paid initially by the DMO, is recovered from HM Treasury. The total recharge received by DMO was £130,929 (2015-2016: £130,780).

Office of the Service Complaints Ombudsman

Under the terms of a MOTO agreement, the office of the Service Complaints Ombudsman (SCO) has occupied floor space leased by the DMO. This agreement was effective from 1 May 2013. The MOTO agreement allows for all accommodation expenditure, including ongoing facilities management and IT services that are provided by the DMO for the benefit of the SCO office space, to be recovered. The DMO also recovered costs that provided initial set-up and implementation services for space configuration, IT and telecoms infrastructure arrangements. The total recharge received by DMO was £281,966 (2015-2016: £273,601).

Commissioners for the Reduction of the National Debt

Commissioners for the Reduction of the National Debt (CRND) is an entity within the DMO that performs a fund management service for a small number of public sector clients. CRND client mandates are kept distinct from other DMO business. CRND client mandates require the bulk of the funds to be invested in gilts or with the DMA. The DMO received payment from Court Funds Investment Account and Northern Ireland Courts and Tribunals Service Investment Account for fund management services of £94,000 and £52,000 respectively (2015-2016: £101,000 and £52,000).

Public Works Loan Board

PWLB is also operated within the DMO and subject to the same operational controls as applied to the DMO's operations as a whole, but charges to PWLB customers are set by statute and the Public Works Loan Commissioners retain their statutory role.

Bank of England

The Bank of England provides the DMA with banking and settlement agency services, the costs of which are borne by the DMO.

To allow the Bank of England to operate the Funding for Lending Scheme, Treasury bills are lent as collateral from the DMA. The full cost of administering the loan of Treasury bills is recovered by the DMO. This recovery was £70,000 (2015-2016: £67,000).

Ministers and Managing Board

During the year, no Minister or DMO Managing Board member has undertaken any material transactions with the DMO.

13 Financial instruments

All cash requirements of the DMO are met through the Parliamentary Estimate process. In these circumstances, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the DMO's expected purchase and usage requirements.

Therefore, at 31 March 2017, the DMO had no material exposure to liquidity risk, credit risk, interest rate risk or currency risk.

All material assets and liabilities were denominated in sterling.

14 Events after the end of the reporting period

There were no events that had a material effect on the accounts after the end of the reporting period.

15 Preparation of accounts

The Accounting Officer authorised these financial statements for issue on 5 July 2017.

Accounts Direction given by HM Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000

1. The UK Debt Management Office shall prepare accounts for the year ended 31 March 2017 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury ("the FReM") which is in force for 2016-2017.

2. The accounts shall be prepared so as to:

   (a) give a true and fair view of the state of affairs as at 31 March 2017 and of the income and expenditure (or, as appropriate, net resource outturn), changes in taxpayers' equity and cash flows of the DMO for the financial year then ended; and

   (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

3. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

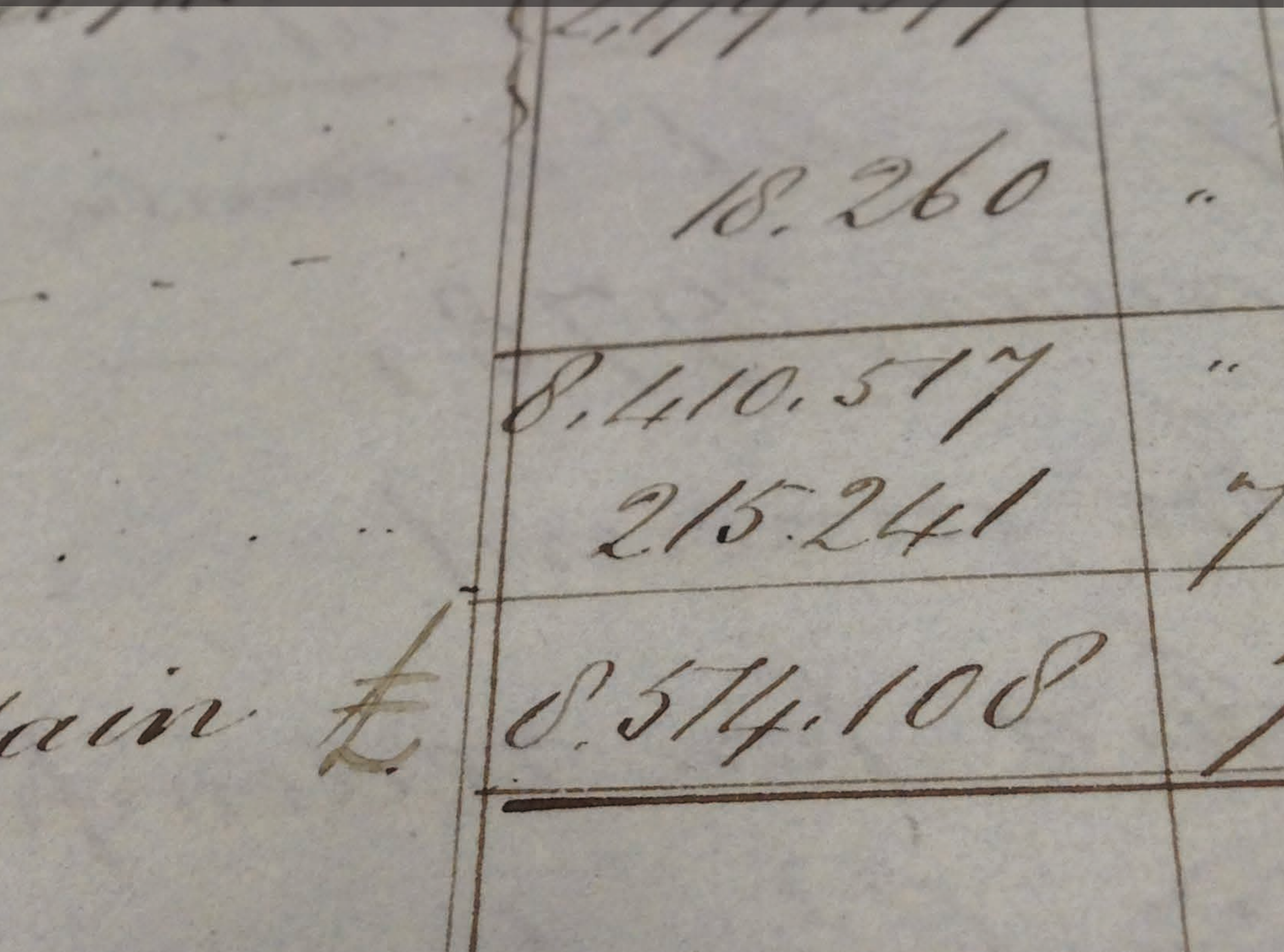
Vicky Rock

Deputy Director
Government Financial Reporting
HM Treasury
19 December 2016

Accounts of the Debt Management Account

Year ended 31 March 2017
Presented to Parliament on 13 July 2017

Debt Management Account: 2016-2017 Accounts



Certificate and report of the Comptroller and Auditor General to Houses of Parliament for the Debt Management Account

I certify that I have audited the financial statements of the Debt Management Account for the year ended 31 March 2017 under the National Loans Act 1968. The financial statements comprise: the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Net Funding by National Loans Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Parliamentary Accountability Disclosures that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Loans Act 1968. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Debt Management Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Debt Management Account; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Debt Management Account's affairs as at 31 March 2017 and of the surplus for the year then ended; and

- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with the National Loans Act 1968 and HM Treasury directions issued thereunder: and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the parts of the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
5 July 2017

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

Debt Management Account
Income statement

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
Interest income	2	5,061	5,425
Interest expense	3	(745)	(1,134)
Net interest income		**4,316**	**4,291**
Other gains and losses	4	(1)	(1)
Fee income	5	1	1
Surplus for the year	6	**4,316**	**4,291**

All income and expenditure arose from continuing operations.

The notes on page 87 to 118 are an integral part of these accounts.

Debt Management Account
Statement of comprehensive income

For the year ended 31 March 2017

	2017 £m	2016 £m
Surplus for the year from the income statement	**4,316**	**4,291**
Items that may subsequently be reclassified to income statement		
Gains/(losses) taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	5,838	(485)
Net income/(expenditure) recognised directly in total funding by National Loans Fund	**5,838**	**(485)**
Transfers		
Transferred to income statement on disposal of investment securities classified as available-for-sale	-	(1)
Net transfers within total funding by National Loans Fund	**-**	**(1)**
Total comprehensive income	**10,154**	**3,805**

The notes on page 87 to 118 are an integral part of these accounts.

Debt Management Account
Statement of financial position

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
Assets			
Cash and balances at the Bank of England		1,257	1,666
Other assets	11	2,000	53
Derivative financial instruments	9	3	2
Loans and advances to banks	7	32,406	19,801
Securities held for trading	8	1,041	265
Investment securities classified as available-for-sale:			
Treasury bills		75,088	86,430
UK government gilt-edged securities for use as collateral subject to sale and repurchase agreements		17,882	7,869
UK government gilt-edged securities for use as collateral not pledged		83,224	83,992
		101,106	**91,861**
Other UK government gilt-edged securities		61,023	60,304
	10	**237,217**	**238,595**
Total assets before deposit at National Loans Fund		**273,924**	**260,382**
Deposit at National Loans Fund		13,061	18,679
Total assets		**286,985**	**279,061**
Liabilities			
Deposits by banks	12	19,196	7,493
Due to government customers	13	30,848	30,992
Other liabilities	15	15	7
Derivative financial instruments	9	10	34
Treasury bills in issue	14	69,552	78,299
Total liabilities before funding by the National Loans Fund		**119,621**	**116,825**
Advance from National Loans Fund		93,020	98,046
Revaluation reserve		33,994	28,156
Income and expenditure account		40,350	36,034
Total funding by National Loans Fund		**167,364**	**162,236**
Total liabilities		**286,985**	**279,061**

All income and expenditure arose from continuing operations.

The notes on page 87 to 118 are an integral part of these accounts.

Sir Robert Stheeman
Chief Executive
4 July 2017

Debt Management Account Statement of cash flows

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
Net cash (outflow)/inflow from operating activities	16	**(12,837)**	**20,950**
Investing activities			
Interest received on investment securities classified as available-for sale		5,939	6,220
Sales of investment securities classified as available-for-sale		264,325	246,584
Purchases of investment securities classified as available-for-sale		(258,167)	(243,493)
Net cash from investing activities		**12,097**	**9,311**
Financing activities			
Interest received on deposit at National Loans Fund		80	91
Interest paid on advance from National Loans Fund		(361)	(623)
Increase in net funding by National Loans Fund		286,202	249,755
Decrease in net funding by National Loans Fund		(285,590)	(279,317)
Net cash from/(used) in financing activities		**331**	**(30,094)**
(Decrease)/increase in cash		**(409)**	**167**

The notes on page 87 to 118 are an integral part of these accounts.

Debt Management Account
Statement of changes in net funding by National Loans Fund

For the year ended 31 March 2017

	Deposit at National Loans Fund £m	Advance from National Loans Fund £m	Revaluation reserve £m	Income and expenditure account £m	Total funding by National Loans Fund £m	Net Funding £m
At 31 March 2015	**19,116**	**128,057**	**28,642**	**31,743**	**188,442**	**169,326**
Surplus for year	-	-	-	4,291	4,291	4,291
Transferred to income statement on disposal of investment securities classified as available-for-sale	-	-	(1)	-	(1)	(1)
Losses taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	-	-	(485)	-	(485)	(485)
Change in advance from National Loans Fund	-	(30,011)	-	-	(30,011)	(30,011)
Change in deposit at National Loans Fund	(437)	-	-	-	-	437
At 31 March 2016	**18,679**	**98,046**	**28,156**	**36,034**	**162,236**	**143,557**
Surplus for year	-	-	-	4,316	4,316	4,316
Transferred to income statement on disposal of investment securities classified as available-for-sale	-	-	-	-	-	-
Gains taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	-	-	5,838	-	5,838	5,838
Change in advance from National Loans Fund	-	(5,026)	-	-	(5,026)	(5,026)
Change in deposit at National Loans Fund	(5,618)	-	-	-	-	5,618
At 31 March 2017	**13,061**	**93,020**	**33,994**	**40,350**	**167,364**	**154,303**

Each day, the DMA deposits any surplus cash with the National Loans Fund. The DMA receives interest on this deposit at the Bank Rate.

A DMA surplus or deficit is an asset or liability respectively of the National Loans Fund. HM Treasury may pay from the DMA to the National Loans Fund all or part of any DMA surplus. In the case of a retained deficit, HM Treasury may pay all or part of the deficit to the DMA from the National Loans Fund.

The notes on page 87 to 118 are an integral part of these accounts.

Notes to the accounts

For the year ended 31 March 2017

1 Accounting policies

(i) Basis of preparation

The accounts have been prepared in accordance with the Accounts Direction given by HM Treasury, in accordance with International Financial Reporting Standards (IFRS) in so far as they are appropriate for the DMA, and under the historical cost convention, except for re-measurement at fair value of available-for-sale financial assets, financial assets held for trading, and all derivative contracts. In particular, the following standards have been applied:

- IAS 1 Presentation of Financial Statements (revised 2007)
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 18 Revenue
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 Fair Value Measurement

Certain IFRS have been issued or revised, but are not yet effective. Those issues or revisions expected to be relevant in subsequent reporting periods are:

- IAS 7 Statement of Cash Flows, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 7)'. Application is required for reporting periods beginning on or after 1 January 2017. The DMA expects to apply these revisions to IAS 7 in 2017-2018. The application of these revisions, which ensure that users can evaluate changes in financing, may result in additional disclosures regarding changes in liabilities arising from financing activities of the DMA.
- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2018. The DMA expects to apply IFRS 9 in 2018-2019. The application of IFRS 9, which sets out requirements for recognition, measurement, impairment and derecognition of financial instruments, will result in the removal of any balance in the revaluation reserve and a corresponding change in the carrying value of the assets classified as available-for-sale in the statement of financial position.

(ii) Financial assets

During the year, the DMA has invested in financial assets which have been recognised and measured according to the following three categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets. These three categories of asset held by the DMA are described in more detail below.

The DMA classifies financial asset securities, on initial recognition, as securities held for trading (and therefore categorised as financial assets at fair value through profit or loss) or as securities classified as available-for-sale (and therefore categorised as available-for-sale financial assets). The DMA also holds loans and receivables. All financial assets are recognised initially at fair value. Financial assets are derecognised when the rights to receive cash flows from them have expired or where the DMA has transferred substantially all the risks and rewards of ownership. Loaned securities are not derecognised.

At the end of each reporting period, DMO management assess whether there is any objective evidence that a financial asset is impaired and hence whether any reduction in the carrying amount of the asset, or any impairment allowance, is required. An impairment in the DMA's assets is considered to be a measurable decrease in the estimated future cash flows of a financial asset since its initial recognition, as the result of one or more events that occurred after initial recognition.

(a) Financial assets at fair value through profit and loss
Debt securities are classified as held for trading if they have been acquired principally for the purpose of selling in the short term, or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets are recognised on trade date, when the DMA enters into contractual arrangements with counterparties to purchase securities, and are derecognised when the DMA enters into contractual arrangements to sell them or when they are redeemed. Following initial recognition, fair values are re-measured, and changes therein are recognised as other gains and losses.

The treatment of derivatives is described in section (iv).

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, comprising cash and balances at central banks, and loans and advances to banks. Loans and advances to banks comprise deposits and reverse sale and repurchase agreements, where the DMA purchases securities and agrees to sell them back at a specified time and price. Securities pledged to the DMA as collateral via reverse repos are not included on the statement of financial position. Other assets comprise accrued fees receivable and amounts due from counterparties.

Loans and receivables are recognised at settlement date. If the transaction is regular way (where a transaction settles within a timeframe established by convention in the market) then no change in fair value is recognised between trade date and settlement date. If the transaction is non-regular way, a derivative is recognised at trade date. Both regular way and non-regular way transactions are recognised from settlement date, and are derecognised when borrowers repay their obligations. Following recognition as loans and receivables such assets are subsequently measured at amortised cost using the effective interest rate method.

The fair value of financial assets and liabilities recognised at amortised cost is not disclosed because the carrying value is a reasonable approximation of the fair value, as these assets and liabilities are held for the short-term.

(c) Financial assets classified as available-for-sale
Debt securities are classified as available-for-sale where they are expected to be held for an indefinite period of time. However, they may be sold in response to changes in factors such as collateral requirements, liquidity needs, and interest rate movements.

These financial assets are recognised on trade date, when the DMA enters into contractual arrangements with counterparties (primarily the National Loans Fund) to purchase securities.

Following initial recognition, fair values are re-measured, and changes therein are recognised in the revaluation reserve until the securities are derecognised, at which point cumulative changes in fair value previously recognised in this reserve are recognised as other gains and losses.

(iii) Financial liabilities

The DMA classifies financial liabilities, on initial recognition, in the following categories: financial liabilities at fair value through profit and loss, and financial liabilities at amortised cost. These two categories of liability held by the DMA are described in more detail below.

All financial liabilities are recognised initially at fair value. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(a) Financial liabilities at fair value through profit and loss
This category comprises derivatives, the treatment of which is described in section (iv).

(b) Financial liabilities at amortised cost
Following initial recognition, deposits by banks, amounts due to government customers, and Treasury bills in issue are measured at amortised cost using the effective interest rate. Deposits by banks include sale and repurchase agreements, where the DMA sells securities and agrees to buy them back at a specified time and price. Securities that are pledged by the DMA as collateral via sale and repurchase agreements remain on the statement of financial position.

Deposits by banks and amounts due to government customers are recognised on settlement date. If the transaction is regular way (where a transaction settles within a timeframe established by convention in the market) then no change in fair value is recognised between trade date and settlement date. If the transaction is non-regular way, a derivative is recognised at trade date. Both regular way and non-regular way transactions are recognised from settlement date, and are derecognised when obligations are repaid.

Treasury bills in issue are recognised on trade date, when the DMA enters into contractual arrangements with counterparties to sell securities, and are derecognised when redeemed.

(iv) Derivatives

The DMA has entered into forward foreign exchange contracts, forward starting sale and repurchase agreements and forward starting reverse sale and repurchase agreements.

Forward foreign exchange contracts are used to hedge the risk arising from movements in foreign exchange rates.

Forward starting sale and repurchase agreements and reverse sale and repurchase agreements are used as part of the DMO's cash management operations.

Derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative.

All derivatives are classified as held for trading. They are initially recognised at fair value when the DMA enters into contractual arrangements with counterparties and are subsequently re-measured at fair value. All changes in the fair values of derivatives are recognised in the income statement as they arise. These changes are reported as other gains and losses except where derivatives are managed in conjunction with euro denominated sale and repurchase agreements, in which case the changes are reported in interest income within reverse sale and repurchase agreements.

The DMA does not apply hedge accounting.

(v) Determination of fair value

The fair value of a financial instrument on initial recognition is normally the transaction price.

Following initial recognition, the fair values of financial instruments that are quoted in active markets are based on mid prices for assets and liabilities. Such instruments are classified as level 1 in the fair value hierarchy defined by IFRS 7.

When active market prices for specific instruments are not available, fair values are determined by using valuation techniques that refer to relevant observable market data. Such instruments are classified as level 2 in the fair value hierarchy defined by IFRS 7.

If the fair value of a financial asset becomes negative, it is recorded as a financial liability until its fair value becomes positive.

(vi) Offsetting financial assets and financial liabilities

Financial assets and liabilities (including derivatives) are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. When the DMA holds Treasury bills that it has issued, no financial asset or liability is disclosed, as no external transaction has occurred, so neither a financial asset nor liability exists.

(vii) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in interest income and interest expense in the income statement using the effective interest rate method of allocating interest over the relevant period. Interest income and expense is recognised from settlement date.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument. The calculation includes all amounts paid or received that are an integral part of the effective interest rate, such as premiums or discounts on acquisition or issue.

(viii) Other gains and losses

Other gains and losses includes changes in the fair value of financial instruments held for trading, excluding interest income on securities held for trading, and gains or losses realised on the disposal of financial instruments classified as available-for-sale.

(ix) Transaction costs

Transaction costs are paid and accounted for by the DMO.

(x) Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are retranslated into sterling at the rates prevailing at the end of the reporting period.

Forward foreign exchange contracts are used to hedge the risk arising from movements in foreign exchange rates. These derivatives are accounted for at sterling fair value using the rates prevailing at the end of the reporting period.

Exchange differences arising on settlement, and those arising on retranslation, are recognised in interest income along with the interest income arising from the related reverse sale and repurchase agreement.

2 Interest income

	2017 £m	2016 £m
Investment securities classified as available-for-sale		
UK government gilt-edged securities	4,453	4,662
Treasury bills	429	507
	4,882	**5,169**
Loans and advances to banks		
Reverse sale and repurchase agreements	95	157
Deposits	5	5
	100	**162**
Securities held for trading		
UK government gilt-edged securities	1	1
Other securities	4	2
	5	**3**
Deposit at National Loans Fund	74	91
	5,061	**5,425**

3 Interest expense

	2017 £m	2016 £m
Deposits by banks		
Sale and repurchase agreements	(21)	(43)
Due to government customers		
Deposits	(97)	(117)
Treasury bills in issue	(292)	(363)
Advance from National Loans Fund	(335)	(611)
	(745)	**(1,134)**

4 Other gains and losses

	2017 £m	2016 £m
Profit on disposal		
Investment securities classified as available-for-sale		
UK government gilt-edged securities	-	1
Change in the fair value of derivative financial instruments held for trading and held at year end		
Unsettled reverse sale and repurchase agreements	(1)	(2)
	(1)	**(1)**

5 Fee income and fee expense

The DMA received a fee of £1 million (2016: £1 million) for lending Treasury bills to the Bank of England to facilitate the Funding for Lending Scheme.

The DMA incurred a fee expense of less than £1 million (2016: less than £1 million) from activities that included lending to the Bank of England to facilitate the Asset Purchase Facility.

6 Surplus for the year

Surplus for the year has been arrived at after including net foreign exchange gains, relating to investments in euro reverse sale and repurchase agreements, of £23 million (2016: £15 million). These gains arose from the DMA's foreign currency assets.

7 Loans and advances to banks

	2017 £m	2016 £m
Reverse sale and repurchase agreements		
Due in not more than 3 months	29,351	14,919
Due in more than 3 months but not more than 1 year	2,862	4,689
	32,213	**19,608**
Call notice deposits*		
Due in not more than 3 months	193	193
	32,406	**19,801**

* This relates to the Asset Purchase Facility with the Bank of England

Reverse sale and repurchase agreements are valued daily. The DMA returns collateral to the provider of collateral, or requests additional collateral, depending on whether the value of the collateral has risen or fallen.

Reverse sale and repurchase agreements included euro denominated transactions. The associated foreign currency risk was fully hedged through forward foreign exchange contracts (see note 9).

8 Securities held for trading

	2017 £m	2016 £m
UK government gilt-edged securities	13	15
Other securities	1,028	250
	1,041	**265**

	2017 Nominal £m	2017 Fair value £m	2016 Nominal £m	2016 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	-	-	250	250
In more than 3 months but not more than 1 year	1,032	1,031	5	5
	1,032	**1,031**	**255**	**255**
Due after 1 year				
In more than 1 year but not more than 5 years	2	3	3	3
In more than 5 years	4	7	5	7
	6	**10**	**8**	**10**
	1,038	**1,041**	**263**	**265**

9 Derivative financial instruments

	2017 Asset £m	2017 Liability £m	2016 Asset £m	2016 Liability £m
Forward foreign exchange contracts	3	10	-	34
Unsettled reverse sale and repurchase agreements	-	-	2	-
	3	**10**	**2**	**34**

	2017 Nominal £m	2017 Fair value £m	2016 Nominal £m	2016 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	3,155	-	9,291	(32)
In more than 3 months but not more than 1 year	909	(7)	-	-
	4,064	**(7)**	**9,291**	**(32)**

Collateral is requested from the counterparty, or returned to the counterparty, depending on whether the value of the contract has risen or fallen.

10 Investment securities classified as available-for-sale

	2017 Nominal £m	2017 Fair value £m	2016 Nominal £m	2016 Fair value £m
Maturity analysis				
Due within 1 year				
In not more than 3 months	22,000	21,995	30,341	30,325
In more than 3 months but not more than 1 year	64,650	65,050	68,082	66,092
	86,650	**87,045**	**98,423**	**96,417**
Due after 1 year				
In more than 1 year but not more than 5 years	27,025	32,084	23,801	26,694
In more than 5 years	78,907	118,088	82,198	115,484
	105,932	**150,172**	**105,999**	**142,178**
	192,582	**237,217**	**204,422**	**238,595**

11 Other assets

	2017 £m	2016 £m
Due from counterparties	**2,000**	**53**

At 31 March 2017, other assets of £2,000 million related to unsettled Treasury bill sales and less than £1 million related to other unsettled security sales. At 31 March 2016, other assets of £53 million related to unsettled Treasury bill sales and less than £1 million related to other unsettled security sales.

All amounts are due in not more than 3 months.

12 Deposits by banks

	2017 £m	2016 £m
Sale and repurchase agreements		
Due in not more than 3 months	17,771	7,493
Fixed term deposits		
Due in not more than 3 months	1,425	-
	19,196	**7,493**

Sale and repurchase agreements are valued daily. The holder of collateral returns collateral to the DMA, or requests additional collateral, depending on whether the value of the collateral has risen or fallen.

13 Due to government customers

	2017 £m	2016 £m
Counterparty analysis		
Commissioners for the Reduction of the National Debt		
Call notice deposits	29,384	30,185
Other government counterparties		
Fixed term deposits	1,464	807
	30,848	**30,992**
Maturity analysis		
In not more than 3 months		
Fixed term deposits	1,464	804
Call notice deposits	29,384	30,185
	30,848	**30,989**
In more than 3 months but not more than 1 year		
Fixed term deposits	-	3
	30,848	**30,992**

Call notice deposits are repayable on demand.

14 Treasury bills in issue

	2017 £m	2016 £m
Carrying value		
Due in not more than 3 months	50,061	56,505
Due in more than 3 months but not more than 1 year	19,491	21,794
	69,552	**78,299**
Fair Value	**69,542**	**78,302**

15 Other liabilities

	2017 £m	2016 £m
Accrued fees	2	2
Cash collateral	13	5
	15	**7**

All amounts are due in not more than 3 months.

16 Analysis of cash flow

	2017 £m	2016 £m
Reconciliation of operating profit to net cashflow from operating activities		
Operating surplus	**4,316**	**4,291**
Less: investment revenues		
Interest on investment securities classified as available-for-sale	(4,882)	(5,169)
Less: other gains and losses		
Gain on disposal of investment securities classified as available-for-sale	-	(1)
Less: financing costs		
Interest income on deposit at National Loans Fund	(74)	(91)
Interest expense on advance from National Loans Fund	335	611
	261	**520**
(Increase)/decrease in loans and advances to banks	(12,605)	5,965
(Increase)/decrease in securities held for trading	(776)	760
Decrease in derivative assets	(1)	48
Increase in other assets	(1,947)	(35)
Increase/(decrease) in deposits by banks	11,703	(5,410)
(Decrease)/increase in amounts due to government customers	(144)	7,044
(Decrease)/increase in derivative liabilities	(23)	32
(Decrease)/increase in Treasury bills in issue	(8,747)	12,907
Increase/(decrease) in other liabilities	8	(2)
Net cash (outflow)/inflow from operating activities	**(12,837)**	**20,950**

17 Fair value hierarchy

IFRS 7 defines three classifications of fair value measurement, using a fair value hierarchy. At 31 March 2017 the DMA held assets and liabilities in level 1 and level 2 of the fair value hierarchy, as defined in note 1 (v), and as shown below.

	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	Total £m
Fair value at 31 March 2017			
Assets			
Securities held for trading	42	999	1,041
Derivative financial instruments	-	3	3
Investment securities classified as available-for-sale	237,217	-	237,217
Liabilities			
Derivative financial instruments	-	10	10
Fair value at 31 March 2016			
Assets			
Securities held for trading	15	250	265
Derivative financial instruments	-	2	2
Investment securities classified as available-for-sale	238,595	-	238,595
Liabilities			
Derivative financial instruments	-	34	34

There were no transfers between level 1 and level 2 in the year.

18 Gilt issuance

	2017 £m	2016 £m
Nominal value of gilts issued on behalf of National Loans Fund	128,392	111,201
Proceeds paid to National Loans Fund (excluding accrued interest)	147,605	127,727

During the year, there were no uncovered gilt auctions (2016: none).

During the year, £11,238 million nominal of gilts (2016: no gilts) were created by the National Loans Fund and sold to the DMA for use as collateral in its cash management operations. Specific gilts issued in this way are not available to the repo market until three months after their creation. However, during this period, these gilts may be used in delivery by value (DBV) transactions.

19 Related party transactions

HM Treasury

The DMO is an executive agency of HM Treasury. As the DMO controls the DMA, HM Treasury is regarded as a related party of the DMA.

As detailed below, the DMA gave funding to the Bank of England in relation to the Bank of England's Asset Purchase Facility. The DMO and HM Treasury have agreed that, when the Asset Purchase Facility is closed, HM Treasury will reimburse the DMA for any accumulated net interest loss arising from this funding, or the DMA will transfer to HM Treasury any accumulated net interest surplus. The amount receivable or payable by the DMA over the course of the facility cannot be reliably estimated, but it is unlikely to be material to the accounts of the DMA. At 31 March 2017, the DMA recognised an amount payable to HM Treasury of £2 million (31 March 2016: £2 million).

During the year, the DMA had a significant number of material transactions with the following entities, for which HM Treasury is regarded as the parent department or sponsor, and which are regarded as related parties:

Commissioners for the Reduction of the National Debt

Commissioners for the Reduction of the National Debt (CRND) is an entity within the DMO that performs a fund management service for a small number of public sector clients. The Secretary and Comptroller General of the CRND is also the Deputy Chief Executive of the DMO. CRND client mandates are kept distinct from other DMO business. CRND client mandates require the bulk of the funds to be invested in gilts or with the DMA. Surplus cash in CRND client accounts is regularly deposited with the DMA.

National Loans Fund

The DMA's principal role is to meet the financing needs of the National Loans Fund. At the end of each day, any surplus balance on the DMA (less a varying target float) is returned to the National Loans Fund as a deposit. This is the means by which the DMA balances the daily financing needs of the National Loans Fund. Under the terms of the Finance Act 1998, the National Loans Fund made a cash advance of £6 billion to the DMA at inception in order to establish the account. Subsequent cash advances and repayments have been made from time to time.

Bank of England

The Bank of England provides the DMA with banking and settlement agency services, the costs of which are borne by the DMO. The DMA lent to the Bank of England Treasury bills and gilts in relation to the Bank of England's Funding for Lending Scheme and Discount Window Facility respectively. The DMA gave funding to the Bank of England in relation to the Bank of England's Asset Purchase Facility. Interest on this loan is payable at the Bank Rate. The DMA also lent gilts to the Bank of England in delivery by value (DBV) transactions, and borrowed specific gilts of the same value.

During the year, the government held interests in a number of financial institutions whose share capital was either wholly owned or partially owned by HM Treasury. The government's investments are managed by UK Financial Investments Limited, which is wholly owned by the government. As a result, the following financial institutions are regarded as related parties:

- **Bradford and Bingley**
- **Lloyds Banking Group plc**
- **Northern Rock (Asset Management)**
- **Royal Bank of Scotland Group plc**

In addition, the DMA has had various transactions with other government entities. Most of these transactions have been with the following entities, which are regarded as related parties:

Various departments, other central government bodies, and local authorities
Various government departments, other central government bodies, and local authorities deposit cash with the Debt Management Account Deposit Facility (DMADF).

Ministers and DMO Managing Board
During the year, no minister or DMO Managing Board member has undertaken any transactions with the DMA.

At 31 March 2017 amounts due to or from related parties (and others) were:

	Related Parties					Others	
	Central govt £m	Local govt £m	Public corporations £m	Financial institutions £m	Govt total £m	External bodies £m	Total £m
Assets							
Cash and balances at the Bank of England	1,257	-	-	-	1,257	-	1,257
Other assets	-	-	-	-	-	2,000	2,000
Derivative financial instruments	-	-	-	-	-	3	3
Loans and advances to banks	193	-	-	1,507	1,700	30,706	32,406
Securities held for trading	13	-	-	-	13	1,028	1,041
Investment securities classified as available-for-sale							
Treasury bills	75,088	-	-	-	75,088	-	75,088
UK government gilt-edged securities	162,129	-	-	-	162,129	-	162,129
Deposit at National Loans Fund	13,061	-	-	-	13,061	-	13,061
Liabilities							
Deposits by banks	-	-	-	-	-	19,196	19,196
Due to government customers	29,554	627	667	-	30,848	-	30,848
Other liabilities	2	-	-	-	2	13	15
Derivative financial instruments	-	-	-	-	-	10	10
Advance from National Loans Fund	93,020	-	-	-	93,020	-	93,020

20 Credit risk

Credit risk is the risk that a counterparty, or security issuer, will fail to discharge a contractual obligation resulting in financial loss to the DMA. Credit risk is monitored daily by the DMO's Risk Management Unit.

Exposure is primarily to financial institutions (mainly banks), non-UK sovereign-related entities and central clearing counterparties. Intra-HM Government balances are not considered to give rise to credit exposure.

Activities of the DMA that give rise to credit risk include:

- placing cash deposits with banks;
- providing collateral for borrowings from banks;
- exchanging cash and stock in buying and selling financial assets; and
- entering into derivative contracts.

Methods used to measure and manage credit risk in the year ended 31 March 2017 were the same as in the prior year. The DMO continued to analyse financial markets, in particular how credit conditions, regulatory developments and market liquidity might affect the DMA's risk profile.

(i) Credit risk limits and measurement
The DMO's policy is to deal only with highly creditworthy counterparties and issuers. Credit exposure is controlled by the application of limits for each counterparty and issuer that are approved by the Credit and Market Risk Committee. These limits are set for both individual entities and groups of related entities. Separate limits are set for different transaction types.

Credit risk measurement takes into account both current fair value and a risk weighting based on an estimate of potential future changes in value; in measuring credit exposure, different risk weightings are applied to different transaction types. The DMO monitors the DMA's exposure against limits on a daily basis and breaches are reported to the Credit and Market Risk Committee.

The Credit and Market Risk Committee reviews the concentrations of the DMA's credit exposure to individual banking groups and countries on a regular basis.

The DMO analyses the creditworthiness of potential counterparties and security issuers using various information sources including the information provided by three external credit assessment institutions: Standard and Poor's, Moody's Investors Service, and Fitch Ratings. Information from these sources is monitored continuously for subsequent changes.

The DMA transacts only with counterparties who meet a minimum credit rating requirement, and purchases securities issued only by issuers who meet such a requirement. Each counterparty and issuer must meet this requirement for each external credit rating available at the time the transaction is entered into.

(ii) Other risk mitigation policies
In addition to the use of credit limits, exposure to credit risk is managed through other specific control and mitigation measures, as outlined below.

(a) Settlement processes
Transactions in financial assets (gilts, Treasury bills and commercial paper) are settled primarily through the CREST, Euroclear, or Clearstream systems, making use of settlement and custody accounts operated by the Bank of England on the DMO's behalf.

The CREST and Euroclear systems are owned by Euroclear Bank S.A., which had a Standard and Poor's credit rating of AA at 31 March 2017 (31 March 2016: credit rating of AA). The Clearstream system is owned by Clearstream Banking S.A., which had a Standard and Poor's credit rating of AA at 31 March 2017 (31 March 2016: credit rating of AA).

Wherever possible, trades are settled as delivery versus payment, with simultaneous exchange of cash and stock, or settlement whereby the DMA receives cash or stock from the counterparty before delivering stock or cash in return.

Daily settlement limits are also used to control settlement risk.

(b) Collateral
The DMA takes stock collateral when entering reverse sale and repurchase contracts to reduce its exposure to credit losses.

Collateral is required to be in the form of securities issued or guaranteed by the government or certain other governments in the rest of Europe with a long-term rating equal to or above AA- (Standard and Poor's), Aa3 (Moody's), and AA- (Fitch). Other highly-rated securities may be accepted from time to time. Collateral is held in the CREST, Euroclear or Clearstream systems.

The DMA also pays and receives cash collateral that arises from margin calls under certain derivative contracts and repo and reverse repo contracts novated to central clearing counterparties.

(c) Netting agreements
The DMO further restricts the DMA's exposure to credit losses by entering into master netting arrangements with counterparties. These arrangements do not result in an offset of assets and liabilities in the statement of financial position. However, if a default occurs, all outstanding transactions with the counterparty are terminated and settled on a net basis.

Netting agreements normally incorporate collateral terms, including provision for additional margin to be called in response to changes in fair values of underlying transactions.

(iii) Impairment and provisioning policies
Counterparties and issuers are monitored for deterioration of credit worthiness, disappearance of an active market or late settlement. Collateral is valued on a daily basis.

As at 31 March 2017, DMO management assessed that there was no impairment of any financial assets and there were no assets whose terms had been renegotiated (31 March 2016: none).

No credit related losses were incurred by the DMA during the year (2016: none), and no provisions were considered necessary at 31 March 2017 (31 March 2016: none).

(iv) Gross exposure to credit risk before collateral held or other credit enhancements
Credit risk exposures on statement of financial position assets at 31 March were:

	Internal to government		External to government Financial institutions		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Cash and balances at the Bank of England	1,257	1,666	-	-	1,257	1,666
Other assets	-	-	2,000	53	2,000	53
Derivative financial instruments	-	-	3	2	3	2
Loans and advances to banks						
Reverse repos	-	-	32,213	19,608	32,213	19,608
Asset Purchase Facility (deposit at Bank of England)	193	193	-	-	193	193
Securities held for trading	13	15	1,028	250	1,041	265
Investment securities classified as available-for-sale						
Treasury bills	75,088	86,430	-	-	75,088	86,430
UK government gilt-edged securities for use as collateral	101,106	91,861	-	-	101,106	91,861
Other UK government gilt-edged securities	61,023	60,304	-	-	61,023	60,304
Deposit at National Loans Fund	13,061	18,679	-	-	13,061	18,679
Total gross exposure	**251,741**	**259,148**	**35,244**	**19,913**	**286,985**	**279,061**

The external to government balances above represent credit risk exposure without taking into account any collateral held or other credit enhancements attached. The exposures set out above are based on the carrying value, as reported in the statement of financial position.

The DMA has not issued any financial guarantees and has no off-balance sheet financial commitments.

(v) Collateral

(a) Sale and repurchase agreements (repos) and reverse sale and repurchase agreements (reverse repos)

Repos and reverse repos with collateral backing were as follows:

Settled transactions:

	Carrying value* £m	2017 Fair value of securities collateral £m	Carrying value* £m	2016 Fair value of securities collateral £m
Reverse repos (within loans and advances to banks)	32,213		19,608	
Repos (within deposits by banks)	17,771		7,493	
Net fair value of collateral		12,163		12,110
Collateral shortfall (excluding Bank of England)		4		10
Collateral surplus (excluding Bank of England)		16		5

* Carrying value per the statement of financial position

Collateral shortfall and surplus represent the total margin call expected to be made (shortfall) or received (surplus) subject to individual contractual thresholds on the first business day following 31 March 2017.

Unsettled transactions:

	Unsettled value £m	2017 Weighted average days to settlement	Unsettled value £m	2016 Weighted average days to settlement
Reverse repos	829	19	6,033	22
Repos	2,286	3	2,662	1

All repo and reverse repos are with banks (or bank subsidiaries) and central clearing counterparties. Collateral surplus and shortfall have been calculated at the level of individual counterparties. Collateral to the value of the unsettled cash amounts is taken upon settlement.

The unsettled reverse repos comprised £829 million with counterparties whose ultimate parent entity was based in the United Kingdom. £329 million of the unsettled reverse repos were with counterparties with a credit rating of A+ (based on Standard and Poor's long-term designation at 31 March of the counterparty or, where the individual contracting entity is not rated by Standard and Poor's, the parent's rating), and £500 million with counterparties with a credit rating of A.

The unsettled repos comprised £2,286 million with counterparties whose ultimate parent entity was based in the United Kingdom. £1,986 million of the unsettled repos were with counterparties with a credit rating of A+ (based on Standard and Poor's long-term designation at 31 March of the counterparty or, where the individual contracting entity is not rated by Standard and Poor's, the parent's rating) and £300 million with counterparties with a credit rating of A.

(b) Derivative financial instruments

	2017 Carrying value* £m	2017 Fair value of securities collateral £m	2016 Carrying value* £m	2016 Fair value of securities collateral £m
Assets	3		2	
Liabilities	10		34	
Collateral shortfall		-		-

* Carrying value per the statement of financial position

Derivative assets include foreign exchange contracts transacted under bilateral netting agreements (ISDA). These are traded over-the-counter and are not settled by central counterparties and collateral may be held in mitigation. Collateral surplus and shortfall have been calculated at the level of individual counterparties.

The nominal values of these derivatives are shown in note 9.

(vi) Analysis by credit rating

Standard and Poor's long-term designation of the counterparty (or issuer for securities held for trading) at 31 March based on the rating of individual contracting entities is shown below. Where the individual contracting entity is not rated by Standard & Poor's, the parent entity's rating is used where appropriate:

At 31 March 2017

	AAA £m	AA- to AA+ £m	A- to A+ £m	BBB- to BBB+ £m	Unrated £m	Total £m
Assets						
Cash and balances at the Bank of England	-	1,257	-	-	-	1,257
Other assets	-	734	1,027	13	226	2,000
Derivative financial instruments**	-	-	-	-	-	-
Loans and advances to banks						
Reverse repos	-	955	30,501	757	-	32,213
Asset Purchase Facility (deposit at Bank of England)	-	193	-	-	-	193
Securities held for trading*	529	-	-	-	499	1,028
	529	**3,139**	**31,528**	**770**	**725**	**36,691**
Liabilities						
Deposits by banks						
Repos	-	994	16,777	-	-	17,771

* £499 million of securities held for trading at 31 March 2017 did not carry a Standard & Poor's long-term credit rating. The Standard & Poor's short-term designation for these securities was the highest quality (A-1+), which would be equivalent to a long-term rating no lower than AA-.

At 31 March 2016

	AAA £m	AA- to AA+ £m	A- to A+ £m	BBB- to BBB+ £m	Unrated £m	Total £m
Assets						
Cash and balances at the Bank of England	1,666	-	-	-	-	1,666
Other assets	-	-	-	-	53	53
Derivative financial instruments**	-	-	-	-	-	-
Loans and advances to banks						
Reverse repos	-	-	19,608	-	-	19,608
Asset Purchase Facility (deposit at Bank of England)	193	-	-	-	-	193
Securities held for trading	-	250	-	-	-	250
	1,859	**250**	**19,608**	**-**	**53**	**21,770**
Liabilities						
Deposits by banks						
Repos	-	-	7,492	1	-	7,493

** Derivative financial instruments are shown net of any derivative liability for each counterparty

UK government gilt-edged securities, Treasury bills and deposits with the National Loans Fund have been excluded, as they are respectively issued by and deposited with the government.

At 31 March 2017, other assets of £2,000 million related to unsettled Treasury bill sales and less than £1 million related to other unsettled security sales. At 31 March 2016, other assets of £53 million related to unsettled Treasury bill sales and less than £1 million related to other unsettled security sales.

(vii) Concentration of exposures

Credit exposures at 31 March by geographical region, based on the country of domicile of the ultimate parent entities of the counterparty or (for trading assets) issuer were:

At 31 March 2017

	United Kingdom £m	Rest of Europe £m	North America £m	Asia-Pacific £m	Total £m
Assets					
Cash and balances at the Bank of England	1,257	-	-	-	1,257
Other assets	335	471	1,194	-	2,000
Derivative financial instruments	-	-	-	-	-
Loans and advances to banks					
Reverse repos	29,677	2,436	-	100	32,213
Asset Purchase Facility (deposit at Bank of England)	193	-	-	-	193
Securities held for trading	-	1,028	-	-	1,028
	31,462	**3,935**	**1,194**	**100**	**36,691**
Liabilities					
Deposits by banks					
Repos	17,718	24	29	-	17,771

At 31 March 2016

	United Kingdom £m	Rest of Europe £m	North America £m	Asia-Pacific £m	Total £m
Assets					
Cash and balances at the Bank of England	1,666	-	-	-	1,666
Other assets	53	-	-	-	53
Derivative financial instruments	-	-	-	-	-
Loans and advances to banks					
Reverse repos	17,694	1,385	-	529	19,608
Asset Purchase Facility (deposit at Bank of England)	193	-	-	-	193
Securities held for trading	-	250	-	-	250
	19,606	**1,635**	**-**	**529**	**21,770**
Liabilities					
Deposits by banks					
Repos	7,492	1	-	-	7,493

* Derivative financial instruments are shown net of any derivative liability for each counterparty

UK government gilt-edged securities, Treasury bills and deposits with the National Loans Fund have been excluded, as they are respectively issued by and deposited with the government.

(viii) Concentration of exposures - analysis by credit rating

Credit ratings are Standard and Poor's long-term designation of the counterparty or (for trading assets) issuer at 31 March based on rating individual contracting entities. Where the individual contracting entity is not rated by Standard & Poor's, the parent entity's rating is used where appropriate.

Geographical regions are based on the country of domicile of the ultimate parent entity of the counterparty or (for trading assets) issuer.

Cash and balances at the Bank of England, Asset Purchase Facility deposit, securities held for trading, derivatives, other assets, reverse repos and repos were:

	United Kingdom		Rest of Europe		North America		Asia- Pacific		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
AAA	-	1,859	528	-	-	-	-	-	528	1,859
AA- to AA+	3,499	-	-	250	635	-	-	-	4,134	250
A- to A+	44,699	25,186	2,931	1,385	575	-	100	529	48,305	27,100
BBB- to BBB+	757	-	-	1	13	-	-	-	770	1
Unrated	226	53	499	-	-	-	-	-	725	53
	49,181	**27,098**	**3,958**	**1,636**	**1,223**	**-**	**100**	**529**	**54,462**	**29,263**

UK government gilt-edged securities, Treasury bills and deposits with the National Loans Fund have been excluded, as they are respectively issued by and deposited with the government.

21 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk.

The DMA's exposure is primarily to interest rate risk. Derivatives have exposure to interest rate and currency risk. Non-derivative assets and liabilities have exposure to interest rate risk only.

The DMO manages the DMA's exposure to market risk in two main areas:

- daily monitoring and reporting of interest rate risk arising from the cash management portfolio of assets and liabilities; and
- daily monitoring and reporting of interest rate risk arising from the retail gilts book.

The scope of market risk monitoring excludes interest rate risk arising from cash at the Bank of England, gilts and Treasury bills for use as collateral or for lending to the Bank of England, Treasury bills issued by tender, amounts due to the funds managed by CRND and all balances with the National Loans Fund. Intra-HM Government balances are not considered to give rise to market risk across the government as a whole.

(i) Market risk measurement

The primary sensitivity analysis techniques used to measure and monitor market risk are outlined below.

Interest rate risk arises from the DMA's activity of addressing its cash flow profile throughout the year. Interest rate risk limits are in place, expressed in present value of a basis point (rather than value at risk) terms.

The Credit and Market Risk Committee reviews the DMA's market risk exposure regularly and the Cash Management Committee reviews certain aspects fortnightly.

(a) Value at risk
Value at risk (VaR) is a method which estimates the potential mark to market loss over a target horizon given a level of confidence. The DMO uses a time horizon of one day and a confidence level of 90 per cent and anticipates no portfolio changes over the time horizon. The model reflects interdependencies and benefits of diversification between risk factors such as interest rates and foreign exchange rates. VaR is calculated daily on the basis of exposures outstanding at the close of business. If a portfolio has a one-day 90 per cent VaR of £1 million, it can be expected to lose or gain more than £1 million on only one trading day out of 10. Calculation of the worst possible loss is outside the scope of VaR. For interest rate risk, the DMO uses the variance-covariance parametric VaR methodology. Assumptions as to how data will be distributed are based on historical data. Additionally, stress-testing is performed for the cash management portfolio to describe the possible scenarios falling outside the 90 per cent confidence limits.

The DMO uses VaR measures as analytical information to help understand the risk profile of the cash management operation.

(b) Present value of a basis point
Present value of a basis point (PV01) is a standard sensitivity measure used to measure sensitivity to a 0.01 per cent parallel shift in interest rates when all other risk factors are held constant. The parallel shift in interest rates has been defined as the movement in the relevant zero coupon curve used to estimate fair value. The impact on yield curves of other factors, including extreme events, is outside the scope of PV01. As well as monitoring the total PV01, in order to understand concentrations in exposure, interest rate exposure by time-bucket and product class is reviewed weekly.

Interest rate limits set in PV01 terms were in place throughout the year and the prior year. Limits used operationally are set lower than those agreed with HM Treasury, in order to safeguard against breach of the latter should an operational error arise. Monitoring against these limits is performed daily and any breaches are reported to the Credit and Market Risk Committee.

(ii) VaR summary
VaR is not aggregated across activities, as different VaR methodologies are used as described in (i) (a) above.

VaR is calculated daily for both cash management and retail gilt exposures.

(a) Interest rate risk and currency risk – cash management

	2017 £m	2016 £m
VaR at 31 March	0.52	0.28
The range of end-of-day VaR in the year ended 31 March was:		
Highest	2.60	0.88
Average	0.92	0.47
Lowest	0.09	0.16

(b) Interest rate risk – retail gilts

	2017 £m	2016 £m
VaR at 31 March	0.05	0.07
The range of end-of-day VaR in the year ended 31 March was:		
Highest	0.12	0.12
Average	0.08	0.08
Lowest	0.04	0.05

Exposures to risk from trading and non-trading activities are measured together as they arise from economic environments that are not significantly different.

(iii) Interest rate risk

The DMA enters primarily into cash and securities contracts at fixed interest or discount rates.

The exceptions to this at 31 March 2016 were: index-linked gilts, with a carrying value of £12,703 million (31 March 2016: £14,076 million); the deposit at the National Loans Fund, with a carrying value of £13,061 million (31 March 2016: £18,679 million); the advance from the National Loans Fund, with a carrying value of £93,020 million (31 March 2016: £98,046 million); call notice deposits from customers, with a carrying value of £29,384 million (31 March 2016: £30,185 million) and the Asset Purchase Facility deposit with a carrying value of £193 million (31 March 2016 £193 million). The index-linked gilts are linked to the General Index of Retail Prices in the UK (RPI).

(a) Interest rate risk profile

The DMA's interest rate risk profile based on the earliest possible repayment date at 31 March was:

	Fixed rate instruments Weighted average interest rate 2017 %	Fixed rate instruments Weighted average period 2017 Years	Fixed rate instruments Statement of financial position carrying value 2017 £m	Floating rate instruments Statement of financial position carrying value 2017 £m
Sterling				
Assets	2.93	9.43	258,268	25,456
Liabilities (before funding by National Loans Fund)	0.13	0.14	90,226	29,384

	2016 %	2016 Years	2016 £m	2016 £m
Sterling				
Assets	3.00	8.92	244,393	32,948
Liabilities (before funding by National Loans Fund)	0.48	0.17	86,605	30,185

The DMA is charged interest on the advance from the National Loans Fund at the Bank Rate.

(b) Interest rate sensitivity – PV01 summary

Interest rate risk - cash management

	2017 £m	2016 £m
PV01 at 31 March	(0.68)	(0.43)
The range of end-of-day PV01 in the year ended 31 March was:		
Highest positive	0.73	(0.16)
Average	0.02	(0.48)
Highest negative	(0.68)	(0.80)

Interest rate risk - retail gilts

	2017 £m	2016 £m
PV01 at 31 March	(0.01)	(0.01)
The range of end-of-day PV01 in the year ended 31 March was:		
Highest positive	(0.01)	(0.01)
Average	(0.01)	(0.01)
Highest negative	(0.01)	(0.01)

PV01 is the change in present value of an asset or liability for a 1 basis point change in the nominal yield curve used to value the asset or liability. A negative PV01 therefore indicates a decrease in value if rates rise or a gain if rates drop.

(iv) Currency risk

The DMA enters into transactions with instruments denominated in euros, for diversification purposes, with currency risk hedged via foreign exchange swaps.

A currency risk limit constrains the extent to which the DMO may incur a net exposure to foreign currency movements when it enters into a foreign exchange transaction. The policy in force during the year (and during the prior year) was to match all foreign exchange cash flows. This hedging is monitored daily and any breaches are reported to the Credit and Market Risk Committee.

Forward foreign exchange contracts outstanding are disclosed in note 9 and 22(iii).

The DMA has no foreign operations and hence no structural foreign exchange exposures.

22 Liquidity risk

Liquidity risk is the risk that the DMA will encounter difficulty in meeting its obligations associated with financial liabilities.

The DMO manages the DMA's liquidity primarily by:

- monitoring cash flows to ensure that daily cash requirements are met;
- holding sufficient financial assets for which there is an active market and which can readily be sold or used as collateral against cash borrowings; and
- arranging the issue of Treasury bills and gilts to raise funds.

Management does not expect customers to call amounts repayable on demand simultaneously or without notice.

The DMA and the National Loans Fund are under common influence. It is not expected that liabilities of the DMA to the National Loans Fund would be required to be paid without warning.

Maturity analysis of assets and liabilities at 31 March 2017

	On demand £m	Up to 1 month £m	1-3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
Assets										
Cash and balances at the Bank of England	1,257	-	-	-	-	-	-	-	-	1,257
Other assets	-	2,000	-	-	-	-	-	-	-	2,000
Derivative financial instruments	-	-	3	-	-	-	-	-	-	3
Loans and advances to banks	193	20,515	8,836	2,788	-	74	-	-	-	32,406
Securities held for trading	-	-	-	1,001	30	-	-	3	7	1,041
Investment securities classified as available-for-sale	-	9,731	12,264	24,892	33,647	6,510	4,207	27,877	118,089	237,217
Total assets before deposit at National Loans Fund	**1,450**	**32,246**	**21,103**	**28,681**	**33,677**	**6,584**	**4,207**	**27,880**	**118,096**	**273,924**
Deposit at National Loans Fund	13,061	-	-	-	-	-	-	-	-	13,061
	14,511	**32,246**	**21,103**	**28,681**	**33,677**	**6,584**	**4,207**	**27,880**	**118,096**	**286,985**
Liabilities										
Deposits by banks	1,425	17,449	322	-	-	-	-	-	-	19,196
Due to government customers	29,384	1,142	322	-	-	-	-	-	-	30,848
Other liabilities	15	-	-	-	-	-	-	-	-	15
Derivative financial instruments	-	-	3	7	-	-	-	-	-	10
Treasury bills in issue	-	22,545	27,516	18,491	1,000	-	-	-	-	69,552
Total liabilities before funding by National Loans Fund	**30,824**	**41,136**	**28,163**	**18,498**	**1,000**	**-**	**-**	**-**	**-**	**119,621**
Advance from National Loans Fund	93,020	-	-	-	-	-	-	-	-	93,020
	123,844	**41,136**	**28,163**	**18,498**	**1,000**	**-**	**-**	**-**	**-**	**212,641**

Maturity analysis of assets and liabilities at 31 March 2016

	On demand £m	Up to 1 month £m	1-3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
Assets										
Cash and balances at the Bank of England	1,666	-	-	-	-	-	-	-	-	1,666
Other assets	-	53	-	-	-	-	-	-	-	53
Derivative financial instruments	-	2	-	-	-	-	-	-	-	2
Loans and advances to banks	193	9,137	5,782	4,689	-	-	-	-	-	19,801
Securities held for trading	-	-	250	5	-	-	2	2	6	265
Investment securities classified as available-for-sale	-	9,336	20,989	32,366	32,735	991	11,664	15,030	115,484	238,595
Total assets before deposit at National Loans Fund	**1,859**	**18,528**	**27,021**	**37,060**	**32,735**	**991**	**11,666**	**15,032**	**115,490**	**260,382**
Deposit at National Loans Fund	18,679	-	-	-	-	-	-	-	-	18,679
	20,538	**18,528**	**27,021**	**37,060**	**32,735**	**991**	**11,666**	**15,032**	**115,490**	**279,061**
Liabilities										
Deposits by banks	-	7,493	-	-	-	-	-	-	-	7,493
Due to government customers	30,185	547	257	3	-	-	-	-	-	30,992
Other liabilities	7	-	-	-	-	-	-	-	-	7
Derivative financial instruments	-	11	23	-	-	-	-	-	-	34
Treasury bills in issue	-	24,802	31,703	21,794	-	-	-	-	-	78,299
Total liabilities before funding by National Loans Fund	**30,192**	**32,853**	**31,983**	**21,797**	**-**	**-**	**-**	**-**	**-**	**116,825**
Advance from National Loans Fund	98,046	-	-	-	-	-	-	-	-	98,046
	128,238	**32,853**	**31,983**	**21,797**	**-**	**-**	**-**	**-**	**-**	**214,871**

(i) Maximum cumulative flow

A daily liquidity risk limit constrains the extent to which the DMO may leave an expected cash flow to be dealt with on the day it occurs.

The liquidity risk limit is measured by the Maximum Cumulative Flow over one day, which is the maximum permitted amount of any net expected cash inflow or outflow for the following day, assuming normal operating conditions.

A limit was in place throughout the year and acted as a liquidity risk trigger. Limits used operationally are set lower than those agreed with HM Treasury, in order to safeguard against breach of the latter should an operational error arise. These limits are monitored daily and any breaches are reported to the Credit and Market Risk Committee.

(ii) Non-derivative cash flows

The contractual undiscounted cash flows of the DMA's liabilities, other than the cash flows under derivative contracts, including interest that will accrue to these liabilities, were:

At 31 March 2017

	On demand £m	0-6 months £m	7-12 months £m	Total flows (not-discounted £m	Adjustment for discount £m	Carrying Value* £m
Deposits by banks	1,425	17,771	-	**19,196**	-	**19,196**
Due to government customers	29,384	1,464	-	**30,848**	-	**30,848**
Other liabilities	15	-	-	**15**	-	**15**
Treasury bills in issue	-	68,568	1,000	**69,568**	(16)	**69,552**
Total non-derivative liabilities before funding by National Loans Fund	**30,824**	**87,803**	**1,000**	**119,627**	**(16)**	**119,611**

* Carrying value per the statement of financial position

At 31 March 2016

	On demand £m	0-6 months £m	7-12 months £m	Total flows (not-discounted £m	Adjustment for discount £m	Carrying Value* £m
Deposits by banks	-	7,493	-	**7,493**	-	**7,493**
Due to government customers	30,185	807	-	**30,992**	-	**30,992**
Other liabilities	7	-	-	**7**	-	**7**
Treasury bills in issue	-	78,370	-	**78,370**	(71)	**78,299**
Total non-derivative liabilities before funding by National Loans Fund	**30,192**	**86,670**	**-**	**116,862**	**(71)**	**116,791**

* Carrying value per the statement of financial position

At 31 March 2017 there were no liabilities that the DMA intended to repay before maturity (31 March 2016: none).

Management expects actual undiscounted cash flows in relation to liabilities to be the same as contractual undiscounted cash flows, except in the case of amounts repayable on demand.

The DMA holds deposits at the Bank of England and other financial assets for which there is a liquid market and that can be readily sold to meet liquidity needs.

(iii) Derivative cash flows

The contractual undiscounted cash flows of the DMA's assets and liabilities under derivative contracts were:

(a) Derivatives settled on a gross basis

At 31 March 2017

	0-6 months £m	7-12 months £m	Total undiscounted flows £m
Sterling			
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, and unsettled sale and repurchase agreements			
Outflow	834	-	**834**
Inflow	2,817	-	**2,817**

	€m	€m	€m
Euro			
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, and unsettled sale and repurchase agreements			
Outflow	2,850	-	**2,850**
Inflow	6	-	**6**

At 31 March 2016

	0-6 months £m	7-12 months £m	Total undiscounted flows £m
Sterling			
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, and unsettled sale and repurchase agreements			
Outflow	6,034	-	**6,034**
Inflow	3,182	-	**3,182**

	€m	€m	€m
Euro			
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, and unsettled sale and repurchase agreements			
Outflow	1,748	-	**1,748**
Inflow	2	-	**2**

Carrying values are shown in note 9.

(b) Derivatives settled on a net basis
At 31 March 2017 the DMA held no derivatives settled on a net basis (31 March 2016: none).

At 31 March 2017 there were no derivative contracts that the DMA intended to terminate before maturity (31 March 2016: none). Management expects actual undiscounted cash flows in relation to derivatives to be the same as contractual undiscounted cash flows.

23 Date of authorisation for issue

The Accounting Officer authorised these financial statements for issue on 5 July 2017.

Accounts Direction given by HM Treasury under the National Loans Act 1968

1. This direction applies to the United Kingdom Debt Management Office.

2. The United Kingdom Debt Management Office shall prepare accounts for the Debt Management Account (the Account) for the year ending 31 March 2012 and each subsequent financial year, which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.

3. The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.

4. The accounts shall present an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows, and a statement of changes in net funding by National Loans Fund. The statement of financial position shall present assets and liabilities in order of liquidity.

5. The notes to the accounts shall include disclosure of assets and liabilities, and of income and expense, relating to other central government funds including the National Loans Fund.

6. The report shall include:

i a brief history of the Account, and its statutory background;

ii an outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management arrangements;

iii information on targets set by HM Treasury and their achievement;

iv a management commentary, including information on financial performance and financial position, which reflects the relationship between the Account and other central funds; and

v a governance statement.

7. This accounts direction shall be reproduced as an appendix to the accounts.

8. This accounts direction supersedes all previous Directions issued by HM Treasury.

Chris Wobschall
Deputy Director, Assurance and Financial Reporting Policy, HM Treasury
23 March 2012

This publication is available in electronic form on the United Kingdom Debt Management Office (DMO) website www.dmo.gov.uk.

All the DMO's publications and a wide range of data are available on its website including:

- the Annual Review, which covers the main developments for the financial year;
- the Quarterly Review, which summarises the DMO's gilt and money market operations over the given quarter;
- current and historical gilt prices and yields;
- press releases;
- gilt auction announcements and gilt auction results; and
- Treasury bill tender results.

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