United Kingdom
Debt Management
Office

Annual Report and Accounts 2018-2019

of the United Kingdom Debt Management Office

and the Debt Management Account

HC 2353

United Kingdom Debt Management Office
Annual Report and Accounts 2018 – 2019

Presented to the House of Commons pursuant to
Section 7 of the Government Resources and Accounts Act 2000
Presented to the House of Lords by Command of Her Majesty

and

Debt Management Account
Annual Report and Accounts 2018 – 2019

Presented to Parliament pursuant to
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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 2019.

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

At 1 April 2018, the DMO was 20 years old and by 31 March 2019 our cumulative gilt sales since being established on 1 April 1998 had reached £1.999 trillion of cash raised.

During 2018-2019, the DMO maintained its track record of successfully delivering the financing and cash management remits set by Treasury ministers. £98.6 billion was raised by gilt sales compared with £115.5 billion in 2017-2018. This was the first year since 2007-2008 that annual gross gilt sales were less than £100 billion[1]. At the end of 2007-2008, as the financial crisis began, the nominal (uplifted) value of the gilt portfolio was £479 billion. At the end of 2018-2019, it was 3.3 times larger at £1,592 billion. Over the same period, the gilt market has developed significantly, with a greater diversity of investors.

Auctions remain the DMO's primary means of selling gilts and accounted for £79.4 billion of gilt sales in 2018-2019, or 80.5% of the overall programme. The average cover ratio at gilt auctions in 2018-2019 reduced slightly to 2.09 from 2.30 in 2017-2018.

The use of supplementary distribution methods, in the form of syndicated gilt offerings of long-dated conventional and index-linked gilts in 2018-2019, again allowed the DMO to target its core domestic investor base directly.

Four syndications were held in 2018-2019, raising £19.2 billion (19.5% of total gilt sales). Such was the size and quality of demand at these operations that three of these offerings were increased in size above initial planning assumptions. Over the year, £1.8 billion of an initially unallocated portion of financing was moved into the syndication programme, with £2.8 billion of the portion allocated to the gilt auction programme. £2.1 billion of the unallocated amount was cancelled in the remit revision at Autumn Budget 2018 as part of an £8.5 billion reduction in the gilt sales programme. No gilt tenders were held in 2018-2019. In all, the DMO held 40 gilt financing operations (including 36 auctions), six fewer than in the previous year.

The gilt market continued smoothly to absorb the level of gilt supply in 2018-2019 and I continue to be impressed by the way it functions in this respect. Average daily turnover in the gilt market increased by 11% compared to the previous year to £36.3 billion. The presence of a deep and well-functioning gilt market remains critical to the DMO's ability to deliver successfully its debt management objective.

The DMO also continued to perform strongly in carrying out its cash management function in 2018-2019, with all related objectives achieved, despite challenging money market conditions, particularly in the gilt repo market, which has on occasion been less liquid.

There was ongoing strong demand for Treasury bills in the year. As with gilts, Treasury bills continued to attract significant overseas investor interest, with around 49% of the amount outstanding at 31 December 2018 being held by this group.

The Public Works Loan Board (PWLB) has continued to fulfil its statutory function. At 31 March 2019, the PWLB's loan book was £78.3 billion. 1,308 new loans totalling £9.1 billion were advanced during the year.

The DMO also 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 £35.0 billion at 31 March 2019.

Looking ahead, the DMO's financing remit for 2019-2020, was published on 13 March 2019 with £114.1 billion in planned gilt sales and a remit structure broadly the same as 2018-2019. The largest structural change compared to the previous year was a small shift toward short and medium conventional issuance (up 1.6% and 2.0% respectively) at the expense of long conventional and index-linked issuance (down 1.6% and 2.0% respectively). Planned gilt sales for 2019-2020 rose by £3.7 billion to £117.8 billion at the remit revision coinciding with the publication of the outturn for the Central Government Net Cash

[1] In 2007-2008, gross gilt sales were £58.5 billion.

Requirement (ex NRAM, B&B and NR) for 2018-2019 on 24 April 2019. A £4.0 billion contribution to debt financing from Treasury bills is planned for 2019-2020.

Overall, the DMO has continued to perform very strongly this year across its range of activities and operations. Once again, I want 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 all their contributions. I hope that the DMO will continue to be characterised by efficient operations and strong relationships with our stakeholders, guided by the fundamental principles of transparency and predictability, as it has been to date.

Sir Robert Stheeman
Chief Executive
16 July 2019

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 objectives.

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 just prior to the start of the financial year. 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. These operations are based at a single site and are performed by teams that reflect the DMO's functional activities.

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, the shape of the yield curves and the prevailing market environment.

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 any 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 encourages 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 within 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, are 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.

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.


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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 2019, the advance was £23 billion (31 March 2018: £48 billion). The DMA pays interest at the Bank Rate on any advance from the National Loans Fund.

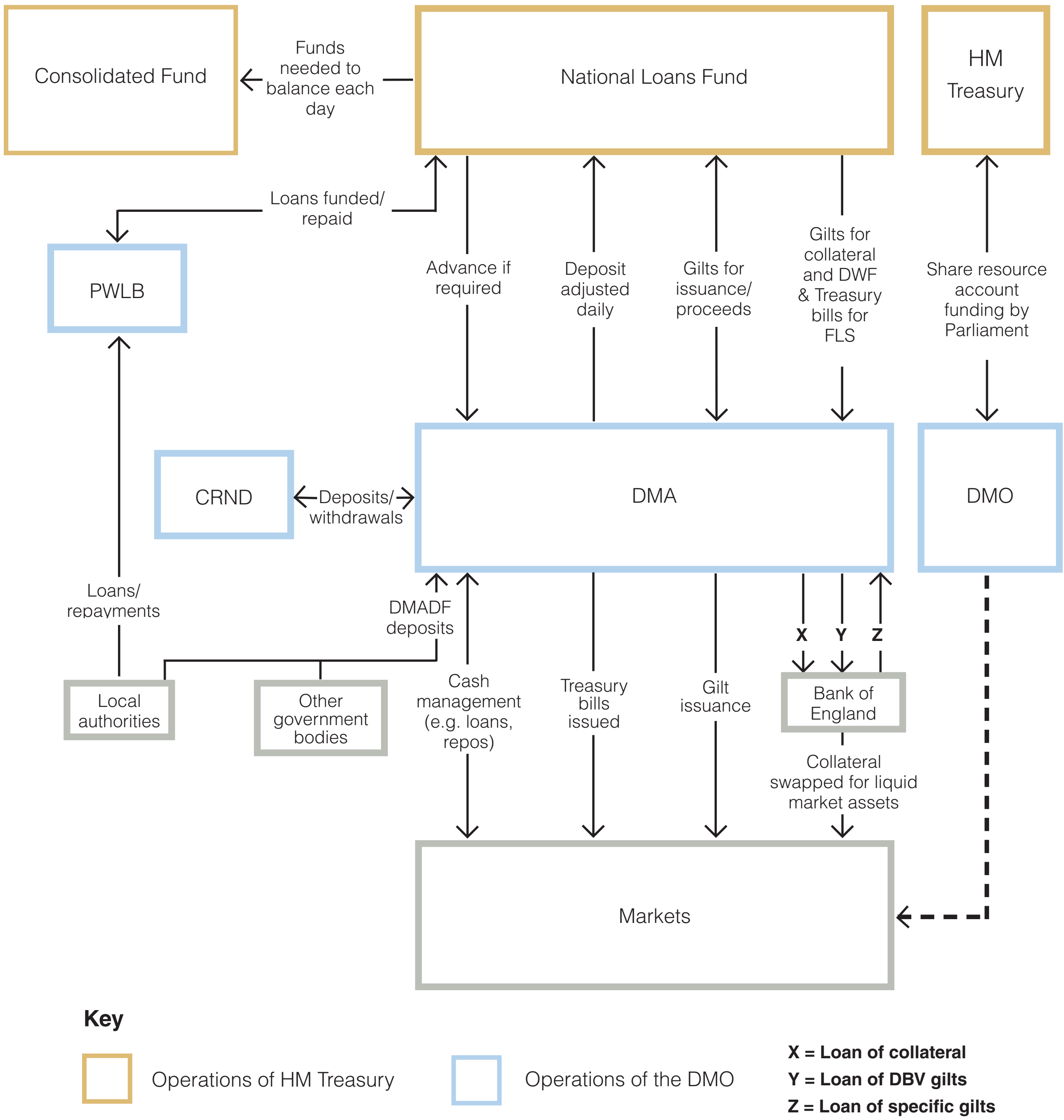
In order for the DMA to balance the daily financing needs of the National Loans Fund, the DMA actively manages its daily cashflows to ensure that the DMA is able to deposit sufficient funds with the National Loans Fund so that the National Loans Fund has a nil cash balance at the end of each day. The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

This diagram sets out the principal relationships of the DMO and the 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

2018-2019 was a successful year for the DMO, which met its debt and cash management remits.

Debt management

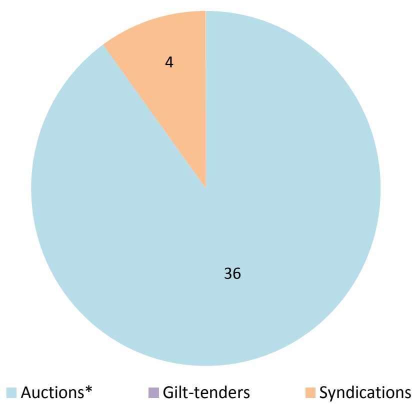
Debt issuance

In 2018-2019, the DMO successfully delivered the gilt sales programme, as needed to meet the government's net financing requirement for the financial year. The DMO's gilt sales target started the year at £102.9 billion, as announced in the Spring Budget on 12 March 2018. This was increased slightly to £106.0 billion, following the outturn for Central Government's Net Cash Requirement (ex NRAM, B&B and NR)[1] for 2017-2018 on 24 April 2018.

Net sales of Treasury bills were initially planned to make a zero contribution to debt financing in 2018-2019. This planning assumption was changed at the Autumn Budget 2018 on 29 October 2018 when net sales of Treasury bills for debt management purposes were reduced by £4.0 billion, i.e. to a planned negative net contribution to financing of £4.0 billion.

At the Autumn Budget on 29 October 2018, the DMO's net financing requirement (NFR) fell by £12.4 billion to £93.5 billion, with planned gilt sales falling by £8.5 billion to £97.5 billion. Overall gilt sales in the financial year were £98.6 billion, successfully delivering the remit, with the £1.1 billion of additional sales above the planned total reflecting take-up of the Post Auction Option Facility (PAOF) at auctions towards the end of the financial year.

Figure 1: Issuance operations by type



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

[1] Central Government Net Cash Requirement (excluding Northern Rock (Asset Management) (NRAM), Bradford & Bingley (B&B) and Network Rail (NR)).

A total of 36 gilt auctions were held in 2018-2019, with an average release time for auction results of 3.8 minutes. Gilt auctions remained the core of the financing programme, raising £79.4 billion (80.5% of total gilt sales).

The auction programme was supplemented by a programme of four syndicated offerings (two each of long-dated conventional and index-linked gilts) which raised £19.2 billion (19.5% of total gilt sales). Such was the demand for this programme that three of the syndications were increased in size above initial planning assumptions. This resulted in £1.8 billion of a £6.7 billion unallocated supplementary issuance amount being allocated to the syndication programme to accommodate these increases.

In addition, £2.8 billion of the unallocated supplementary issuance amount was allocated to the short (£1.3 billion), medium (£1.1 billion) and long (£0.4 billion) conventional auction programmes to increase average auction sizes, which had been reduced due to take-up of the PAOF. In addition, £2.1 billion of the unallocated amount was cancelled at the Autumn Budget 2018 as part of the management of the lower financing requirement. No gilt tenders were scheduled in 2018-2019.

The Post Auction Option Facility, through which successful bidders at gilt auctions have the right to acquire up to an additional 15% of their auction allocation, was activated 20 times out of 36 auctions, raising £5.1 billion of the £79.4 billion raised by gilt auctions.

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

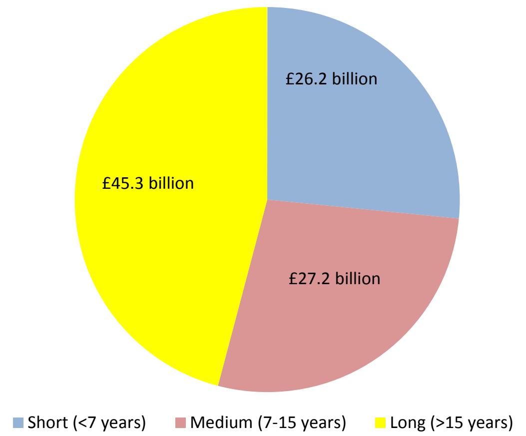
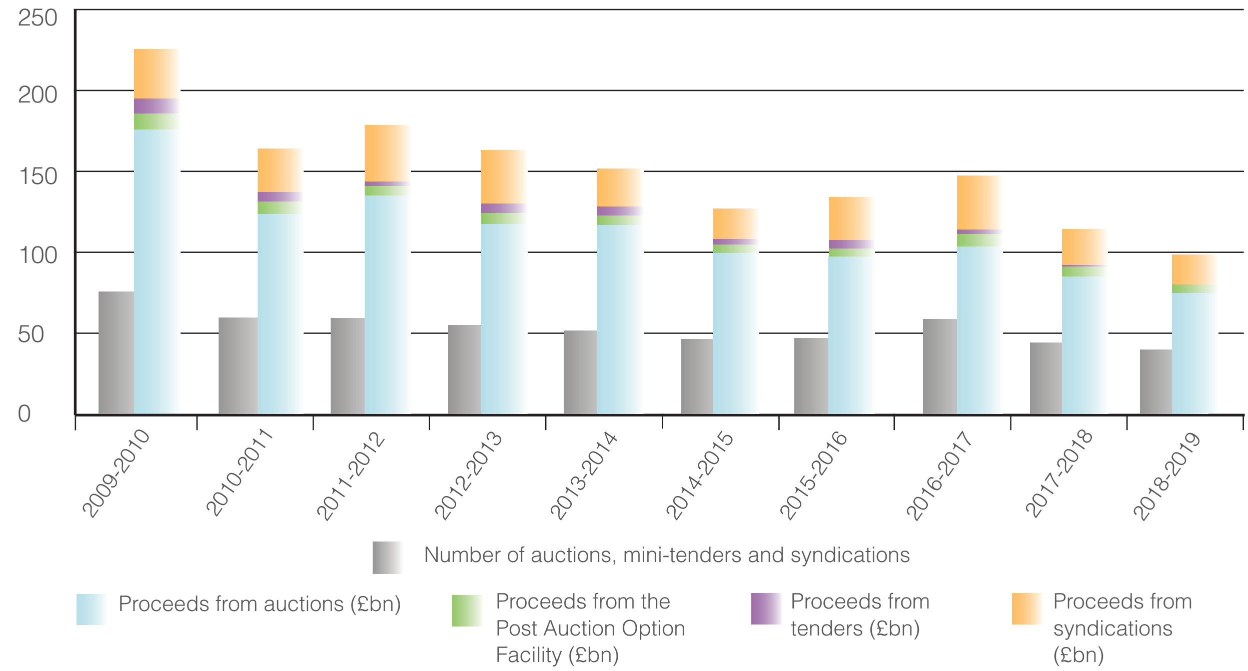


Figure 3: Number of issuance operations and proceeds



The significant difference in the gilt issuance profile in 2018-2019 compared to the previous financial year was an intended reduction in the proportion of index-linked issuance, reflecting the government's stated intention to look to reduce the proportion of index-linked issuance in a measured fashion as a share of total issuance over the medium-term, reflecting the government's preferences for inflation exposure.

Short-dated conventional gilt issuance was £26.2 billion (26.5% of sales), medium-dated conventional gilt issuance was £21.2 billion (21.5% of sales), and long-dated conventional gilt issuance was £29.9 billion (30.3% of sales). Index-linked gilt issuance was £21.4 billion (21.7% of sales, compared to a share of 24.7% in 2017-2018).

Average daily turnover in the gilt market in 2018-2019 was £36.3 billion, an increase of £3.3 billion from 2017-2018. 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 fell by £4.0 billion during the year to £56.0 billion at 31 March 2019 to help manage the reduction in the DMO's financing requirement announced at Autumn Budget 2018.

The DMO received its financing remit for 2019-2020 in the Spring Statement on 13 March 2019. Planned gilt sales of £114.1 billion were announced, an increase of £11.2 billion (10.9%) compared to the initial planned sales in 2018-2019. In addition, planned net sales of Treasury bills for debt management purposes of £4.0 billion were announced (reversing the reduction announced at Autumn Budget 2018).

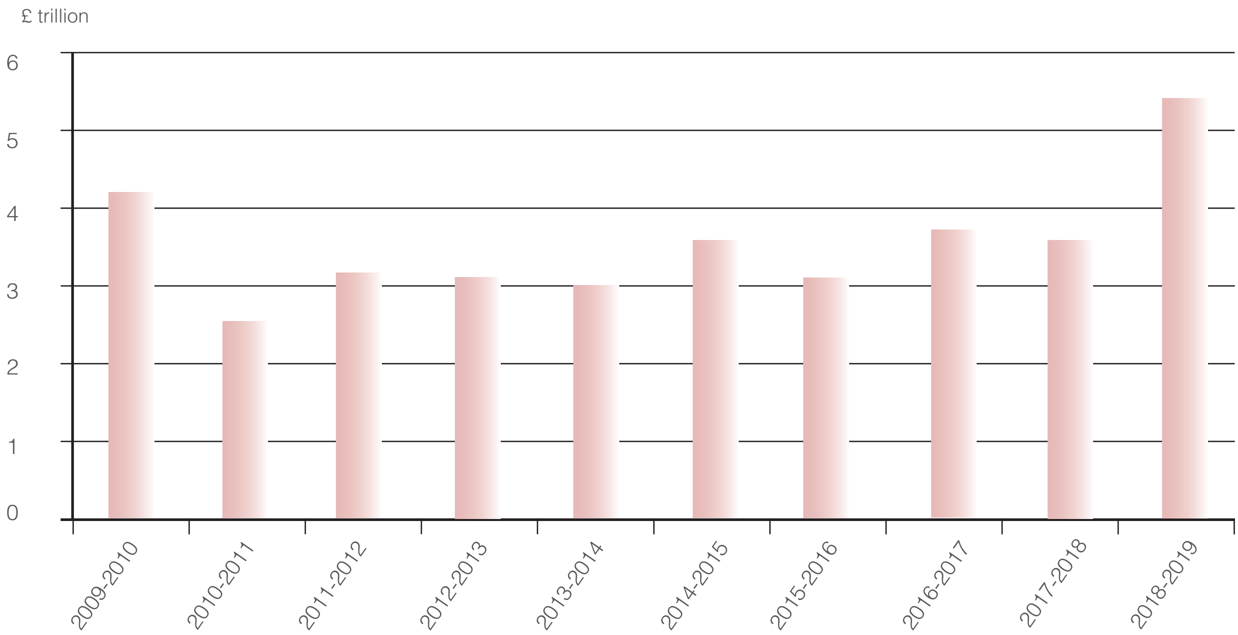
The DMO's gilt sales target for 2019-2020 was increased by £3.7 billion to £117.8 billion at the remit revision coinciding with the publication of the outturn Central Government Net Cash Requirement (ex NRAM, B&B and NR) for 2018-2019 on 24 April 2019.

Gilt holdings

The DMA holds relatively small portfolios of gilts for debt management purposes:

- Purchase and sale service (fair value of £11 million at 31 March 2019) - these gilts are used for purchase and sale transactions with retail investors.
- Other gilt holdings (fair value of £266 million at 31 March 2019) - this includes the residual from gilt auctions, (a small amount of each gilt auction may be retained due to rounding the allotment of gilts to successful bidders) and gilts bought by the DMO in the secondary market.

Figure 4: All DMA transactions by nominal value



Cash management

The DMO successfully delivered its cash management remit for 2018-2019. The DMO monitored and assessed its performance using a range of key performance indicators, details of which will be reported in the DMO Annual Review 2018-2019 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 2018-2019, the DMA held gilts for use as collateral in repo transactions. The collateral is held on a continuing basis and has been purchased from the National Loans Fund on various occasions since 3 February 2000. In 2018-2019, the DMA purchased £12,265 million (nominal) of gilts for use as collateral in its cash management operations. At 31 March 2019, gilts held specifically for use as cash management collateral had a carrying value of £75.9 billion.

The higher value of DMA turnover during 2018-2019, as visible in Figure 4, represents the larger volume of transactions undertaken by the DMO during the year, particularly in relation to cash management operations.

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 1,308 new loans to borrowers totalling £9.1 billion (2018: £5.2 billion). This resulted in fee income for the DMO of £2.3 million (2018: £1.8 million). At 31 March 2019, the loan assets outstanding to the PWLB were £78.3 billion (31 March 2018: £70.8 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 (2018: £0.4 million). At 31 March 2019, the market value of funds under management was £35.0 billion (2018: £32.0 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 2018-2019, this service transacted 470 gilt sales with a value of £16.8 million and 540 gilt purchases with a value of £25.9 million. This resulted in fee income for the DMO of less than £1 million (2018: 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.

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 makes available a stock of Treasury bills 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 2019, the DMA held Treasury bills to facilitate this scheme with a value of £23.2 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

During the year the DMO maintained its readiness to meet the funding requirements of the part of the Bank of England's Asset Purchase Facility used to purchase high-quality private sector assets. As at 31 March 2019, the DMA had no funds on deposit with the Bank of England in relation to the Asset Purchase Facility.

Also during 2018-2019, 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.

Other Performance Matters

Social mattters and respect for human rights
The DMO has no social or human rights issues to report that are relevant to understanding its business.

Anti-corruption and anti-bribery
The DMO maintains policies that include anti-corruption and anti-bribery rules. These are applied as reported in the governance statement on page 38 to 48. The DMO has no corruption or bribery issues to report.

Environmental matters
The DMO has no environmental matters to report that are relevant to understanding its business.

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, acting 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 2019-2020

The key business planning themes for 2019-2020 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 2019-2020

1. Delivery of the 2019-2020 financing remit – to be achieved primarily through gilt sales of £117.8 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. 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.

7. 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. In this respect, following a public procurement process in February 2019, the DMO appointed Insight Direct (UK) Ltd as its preferred supplier to upgrade its data storage and systems resilience hardware and software.

8. Continuing to enhance its core trading and transaction processing systems by the implementation of a new financial trading system, Quantum, supplied by FIS Avantgard LLC following a public procurement process in 2018.

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

10. 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 2019-2020

The DMO's objectives for 2019-2020 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 2019-2020

1. To ensure full compliance with HM Government's remit for the DMO (which is set out in the Debt Management Report 2019-2020).

2. 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.

3. To achieve accuracy, within relevant materiality tolerances, in the recording and reporting of transactions relating to the DMO, DMA, PWLB and CRND as well as meeting the required deadlines for the publication and submission for audit of their respective annual report and accounts.

4. To ensure that the DMO responds to enquiries under the Freedom of Information Act within the statutory timeframe and is compliant with all General Data Protection Regulation (GDPR) requirements.

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.

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 and, where necessary, to re-order priorities in the plan. Changing conditions include 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, which started a two year negotiation process between the UK and EU. On 11 April 2019, the Government confirmed agreement with the EU on an extension until 31 October 2019 at the latest, with the option to leave earlier as soon as a deal has been ratified.

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
16 July 2019

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. They seek to reflect the DMO's most significant risks. The objectives for 2018-2019 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 2018-2019 ahead of Spring Statement 2018. 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. For 2018-2019 the advice also took account of the government's stated preferences for inflation exposure.

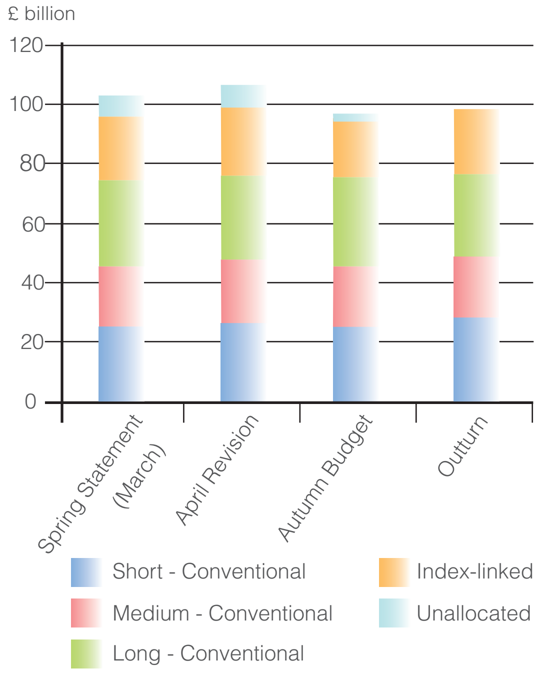
The advice provided reflected the DMO's continuing assessment that the gilt market backdrop remained challenging, reflecting ongoing volatility in international capital markets. In recognition of these trends, the package of measures introduced into the remit for 2016-2017, which were designed to support smooth remit delivery, the most prominent of which were reductions in the average sizes of short and medium conventional gilt auctions, was maintained.

Overall remit delivery was again expected to be supported by ongoing structural demand from the UK pension and insurance sectors for long-dated conventional and index-linked gilts, and also 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 four financial years, with the largest departure being a 2% reduction in the initially planned proportion of index-linked issuance, compared to 2017-2018, which was instead allocated to a combination of the conventional gilt programme and the unallocated portion of gilt issuance. Planned gilt sales fell from an initial total of £115.1 billion in 2017-2018 to an initial total of £102.9 billion in 2018-2019.

The auction programme remained the core means by which gilts were sold (accounting for 77.1% of total planned sales), but this programme was again supplemented by sales of long-dated conventional and index-linked gilts via syndicated offerings (16.5% of total planned sales) and by an initially unallocated portion of issuance (6.4% of total planned sales), which could be allocated to any type or maturity of gilt via any issuance method. It was expected that this portion would primarily be used to increase the size of syndications (where warranted by the size and quality of demand), and/or to increase the average sizes of gilt auctions (for example, if they were reduced by take up of the Post Auction Option Facility). The unallocated portion could also be used to schedule gilt tenders.

Figure 5: Gilt sales in 2018-2019



Planned gilt sales rose by £3.1 billion to £106.0 billion following the publication of the outturn CGNCR (ex NRAM plc, B&B and NR) for 2017-2018 on 24 April 2018. This increase was achieved principally via a combination of slightly increased average auction and syndication sizes. The increases were designed to maintain the planned split by maturity and type of gilt announced at Spring Statement 2018.

Planned gilt sales fell by £8.5 billion to £97.5 billion at Autumn Budget 2018, achieved by reductions in the auction programme (£5.7 billion), the syndication programme (£0.7 billion), and the unallocated portion of issuance (£2.1 billion). In the period since April 2018, the unallocated portion had been reduced from £6.7 billion to £3.6billion as a result of transfers into the auction and syndication programmes. Planned net sales of Treasury bills were also reduced by £4.0 billion, resulting in a net negative contribution to financing of £4.0 billion.

The DMO successfully delivered the financing remit, with gilt sales of £98.6 billion, £1.1 billion higher than the planned total, which was attributable to take-up of the Post Auction Option Facility at auctions towards the end of the financial year. Net sales of Treasury bills for debt management purposes were also in line with plans, reducing by £4.0 billion and resulting in a stock (for debt management purposes) of £56.0 billion at 31 March 2019.

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

The DMO successfully delivered its cash management objectives for 2018-2019, 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 2018-2019, 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 wholesale 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 2018-2019 for services relating to the management of these funds, which had a value of £35.0 billion at 31 March 2019.

The operating cost of CRND in 2018-2019 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 £9.1 billion of new loans to borrowers in 2018-2019. The DMO charged £2.3 million in 2018-2019 for services relating to this lending.

The operating cost of the PWLB in 2018-2019 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 2018-2019.

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

During 2018-2019, the DMO employed an average of 135 full-time equivalent staff, of which 97 were permanent civil servants and 38 were short-term contract staff.

The DMO was most recently re-accredited as an "Investor in People" in October 2017 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. They seek to reflect the DMO's most significant risks. The targets for 2018-2019 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 2018-2019).

Achieved. The DMO complied fully with the financing remit in 2018-2019.

The gilt sales outturn was £98.6 billion (cash) relative to the revised target of £97.5 billion as restated at Autumn Budget 2018. The final gilts sales figure was £1.1 billion above the revised target. Sales were achieved through the conduct of 36 auctions (26 conventional and 10 index-linked), and 4 syndicated offerings. All syndications were of long-dated conventional or index-linked gilts; all maturities and types of gilts continued to be eligible for sale via gilt tender in 2018-2019.

Outright gilt sales of £102.9 billion had initially been planned for 2018-2019, as announced at the Spring Statement in March 2018. This comprised a gilt auction programme of £79.3 billion via 36 auctions (77.1% of total planned sales). It was also intended that a minimum £17.0 billion (16.5% of total planned sales) would be raised via the syndication programme and £6.6 billion (6.4% of total planned 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, with an option rate of 15%.

On 24 April 2018, the gilt sales requirement rose by £3.1 billion to £106.0 billion reflecting the outturn Central Government Net Cash Requirement (CGNCR) for 2017-2018. The change was accommodated by an increase in the size of the gilt auction programme (£2.0 billion), the syndication programme (£1.0 billion), and the unallocated portion of issuance (£0.1 billion).

At the Autumn Budget held on 29 October 2018, the DMO's net financing requirement fell by £12.4 billion to £93.5 billion, with planned gilt sales falling by £8.5 billion to £97.5 billion. The change was accommodated by a decrease in the size of the gilt auction programme (£5.7 billion), the unallocated portion of issuance (£2.1 billion), and the syndication programme (£0.7 billion).

Net sales of Treasury bills were initially planned to make a zero contribution to debt financing in 2018-2019. However, this was changed at Autumn Budget 2018 when net sales of Treasury Bills for debt management purposes were reduced by £4.0 billion, i.e. to a planned negative net contribution to financing of £4.0 billion.

The evolution of planned and actual issuance by maturity and type through 2018-2019 is presented in the table below.

Table 1: 2018-2019 Gilt sales

	Conventional gilts (£bn)			Index-linked	Unspecified	Total (£bn)
	Short-dated	Medium-dated	Long-dated	gilts (£bn)	gilts (£bn)*	
Planned gilt sales						
Spring Statement (March)	24.9	20.3	29.4	21.7	6.6	102.9
April revision	25.6	21.0	30.3	22.4	6.7	106.0
Autumn Budget	24.9	20.3	29.7	21.1	1.5	97.5
Actual gilt Sales						
Outturn**	**26.3**	**21.2**	**29.9**	**21.4**	**-**	**98.6**

* 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 whilst achieving complete accuracy.

Achieved. The release times for the 36 auctions held during 2018-2019 ranged from 3 to 6 minutes and averaged 3.8 minutes (2017-2018: 4.0 minutes).

The release time for the 51 Treasury bill tenders conducted during 2018-2019 ranged from 3 to 6 minutes and averaged 4.7 minutes (2017-2018: 5.2 minutes).

Table 2: Gilt auctions

Date	Gilt	Release time (mins)
4 Apr 18	0¾ Treasury Gilt 2023	3
10 Apr 18	1¾% Treasury Gilt 2057	3
19 Apr 18	1 5/8% Treasury Gilt 2028	4
24 Apr 18	0 1/8% Index-linked Treasury Gilt 2048	4
3 May 18	0¾% Treasury Gilt 2023	4
9 May 18	1 5/8% Treasury Gilt 2028	4
24 May 18	0 1/8% Index-linked Treasury Gilt 2036	4
6 Jun 18	0¾% Treasury Gilt 2023	5
20 Jun 18	0 1/8% Index-linked Treasury Gilt 2028	3
26 Jun 18	1¾% Treasury Gilt 2037	4
3 Jul 18	1 5/8% Treasury Gilt 2028	4
19 Jul 18	1¾% Treasury Gilt 2057	4
24 Jul 18	1% Treasury Gilt 2024	4
8 Aug 18	1 5/8% Treasury Gilt 2028	5
21 Aug 18	0 1/8% Index-linked Treasury Gilt 2028	5
6 Sep 18	1% Treasury Gilt 2024	4
11 Sep 18	1¾% Treasury Gilt 2049	4
20 Sep 18	1 5/8% Treasury Gilt 2028	3
25 Sep 18	0 1/8% Index-linked Treasury Gilt 2048	3
4 Oct 18	1% Treasury Gilt 2024	3
23 Oct 18	0 1/8% Index-linked Treasury Gilt 2028	4
6 Nov 18	1 5/8% Treasury Gilt 2028	3
15 Nov 18	1¾% Treasury Gilt 2037	4
20 Nov 18	0 1/8% Index-linked Treasury Gilt 2056	6
4 Dec 18	1% Treasury Gilt 2024	4
6 Dec 18	1¾% Treasury Gilt 2049	4
12 Dec 18	0 1/8% Index-linked Treasury Gilt 2048	3
8 Jan 19	1 5/8% Treasury Gilt 2028	3
17 Jan 19	1% Treasury Gilt 2024	3
22 Jan 19	1¾% Treasury Gilt 2037	4
14 Feb 19	1 5/8% Treasury Gilt 2028	3
21 Feb 19	1¾% Treasury Gilt 2057	5
26 Feb 19	0 1/8% Index-linked Treasury Gilt 2028	3
6 Mar 19	1% Treasury Gilt 2024	3
14 Mar 19	1¾% Treasury Gilt 2049	4
26 Mar 19	0 1/8% Index-linked Treasury Gilt 2048	4

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, PWLB and CRND.

Achieved. Internal control procedures identified no significant errors. The Comptroller and Auditor General certified that the 2017-2018 annual report and accounts of the DMO, DMA, PWLB, and the CRND give a true and fair view.

The annual report and accounts of the DMO and DMA were laid before Parliament on 19 July 2018. 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. Over 99.9% of trades (by value) were successfully settled on the due date where the DMO was responsible for delivering stock or cash. 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 two factual errors in material published by the DMO. There were four 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).

Not fully achieved. All early settlement applications and all but one loan applications were processed within two working days. Appropriate steps have been taken to reduce the risk of such exceptions in future.

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 2018-2019 was conducted fully in line with its terms and conditions.

Financial results of the United Kingdom Debt Management Office

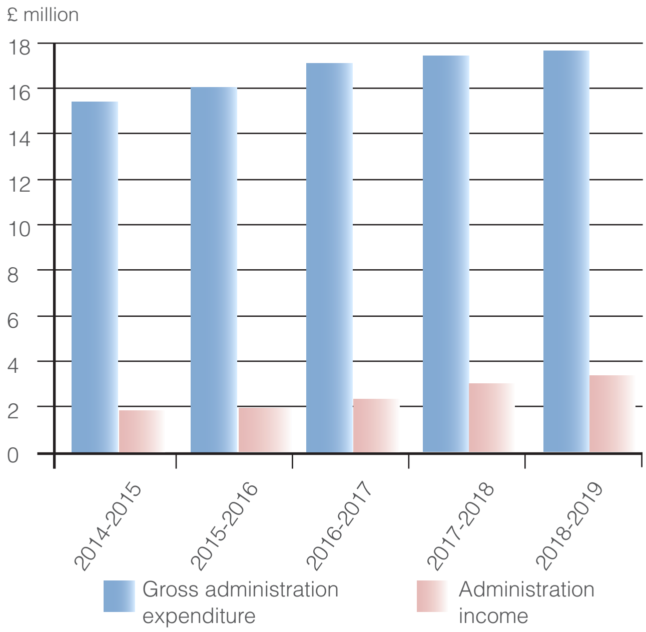
The DMO is financed through an allocation of HM Treasury's net funding approved by Parliament.

The DMO's net operating cost for 2018-2019 increased by £0.9 million to £18.4 million (2017-2018: £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.

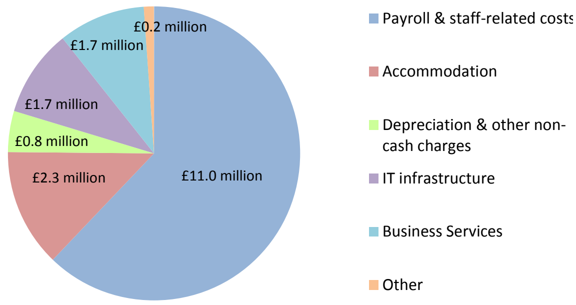
Figure 6: Administration expenditure and income



During 2018-2019, **gross administration expenditure increased by £0.4 million** to £17.7 million (2017-2018: £17.3 million). This increase was mainly due to a new provision of £0.4 million for accommodation-related costs relating to the DMO's current lease agreement. Though there was a reduction in depreciation costs, an increase in IT and telecommunication costs and in staff costs also contributed to the overall increase.

The administration cost expenditure represented in Figure 6 and Figure 7 includes the provision, though this is classed in government accounting as Annually Managed Expenditure. In Figure 7, the provision is included in Depreciation and other non-cash charges.

Figure 7: Gross administration expenditure



Administration income

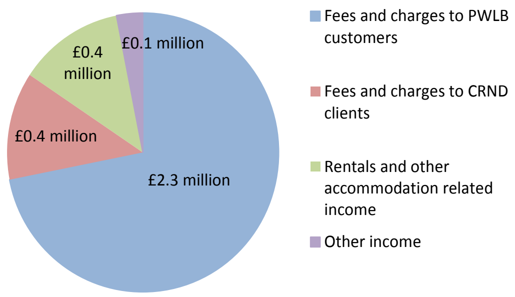
Income received by the DMO principally comprised fees charged for issuing new loans to PWLB customers and for the provision of fund management services to other government clients of CRND. In addition, the DMO recovered costs associated with various other activities it undertakes on behalf of others, 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 2018-2019, **administration income increased by £0.4 million** to £3.2 million (2017-2018: £2.8 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. 1,308 new loans totalling £9.1 billion were lent in 2018-2019 (2017-2018: 780 loans, £5.2 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 8: Administration income



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 2018-2019, **gross programme expenditure increased by £0.8 million** to £4.7 million (2017-2018: £3.9 million).

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

Figure 9: Programme expenditure and income

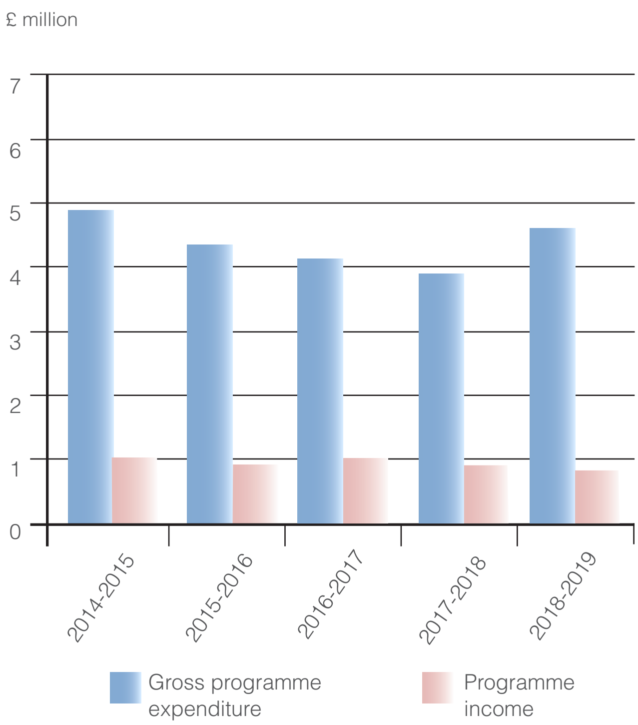
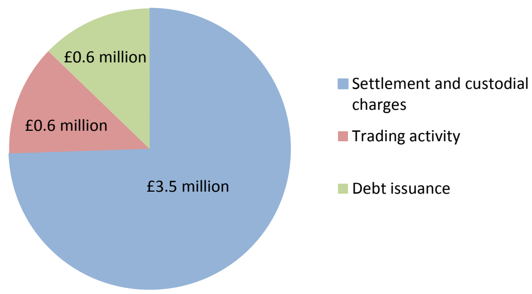


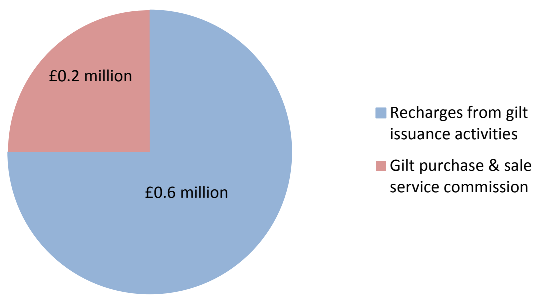
Figure 10: Gross programme expenditure



Programme income

During 2018-2019, **programme income decreased by £0.1 million** to £0.8 million (2017-2018: £0.9 million). The decrease resulted mainly from lower commission received from Computershare Investor Services PLC due to lower secondary market trading activity in the gilt purchase and sale service.

Figure 11: Programme income



Statement of financial position

At 31 March 2019, the DMO's statement of financial position showed a deficit. This is a product of the relationship between the DMO and HM Treasury as its parent department. The DMO is an executive agency operating at arm's length from ministers, but its funding is an allocation of the total voted by Parliament to HM Treasury. The DMO has no operating capital or cash or its own; its liabilities are paid by HM Treasury. The deficit therefore reflects the DMO's net operating funding at that date rather than operating performance or solvency.

Financial results of the Debt Management Account

Income statement

The DMA's operations for the financial year 2018-2019 gave rise to **net interest income of £3,796 million** (2018: £4,232 million), **other gains of £3 million** (2018: other losses of £2 million) and **fee income of less than £1 million** (2018: £1 million). This resulted in an income statement **surplus for the year of £3,799 million** (2017: £4,231 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, namely 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.

Table 3: Breakdown of the DMA surplus

	£m
Income net of associated cost of funds	
Cash management	44
Facilitation of HM Treasury and Bank of England schemes:	
Gilts held for the Discount Window Facility	1,778
Treasury bills held for the Funding for Lending Scheme	40
Other income	
Collateral pool	2,228
Net deposit at National Loans Fund (part not allocated as cost of funds)	284
Other	9
Other expense	
Deposits from CRND funds	(223)
Treasury bills (not part of cash management)	(361)
	3,799

Following the introduction of IFRS 9 from 1 April 2018, replacing IAS 39, the DMA's revaluation reserve has been reduced to nil. This change in accounting standards required a reclassification of asset securities previously held as 'available-for-sale' under IAS 39. Under IFRS 9 these assets have been reclassified as 'held at amortised cost' and are no longer subject to mark-to-market valuation changes through the revaluation reserve. The reversal of the cumulative historic valuation gains of these DMA assets within the revaluation reserve has led to a **£30,236 million reduction to nil in the DMA's revaluation reserve** (2018: net unrealised losses of £3,758 million).

Net interest income: £3,796 million

Interest income was generated mainly by the DMA's holding of collateral gilts for cash management operations (£2,228 million) and involvement in the Discount Window Facility (£1,778 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% 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 many 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 2018-2019.

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 increased from 0.50% to 0.75% on 2 August 2018.

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 received 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 financial counterparties, 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 financial counterparties 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 2018-2019, which will be available on the DMO website at www.dmo.gov.uk.

Other gains and losses: £3 million gain

Changes in the value of cash management assets resulted in net income of £3 million (2018: net expense of £2 million).

Fee income: less than £1 million

The DMA received a fee of less than £1 million (2018: £1 million) in relation to the Funding for Lending Scheme.

Movement in revaluation reserve: £30,236 million reduction to nil

As described above, the introduction of IFRS 9 has led to a reclassification of a number of the DMA's asset securities and the consequent reduction of the DMA's revaluation reserve to nil (2017: decreased by £3,758 million).

Composition of the statement of financial position (see figure 12)

At 31 March 2019, the DMA held investment securities classified as amortised cost, which comprised gilts held for use as collateral, gilts held to facilitate the Discount Window Facility and Treasury bills held to facilitate the Funding for Lending Scheme. These assets had a carrying value of £149,117 million at 31 March 2019 (31 March 2018: £185,191 million). This decrease was principally due to the change in classification of these assets following the introduction of IFRS 9, as described above, so that they are now held at amortised cost rather than market value (which was higher). This is in addition to redemptions in the gilt collateral pool (£3,922 million nominal) and net redemptions of Treasury bills in relation to the Funding for Lending scheme (£15,999 million nominal).

These assets continued to be funded in part by the advance from the National Loans Fund to the DMA. As at 31 March 2019, the carrying value of the National Loans Fund advance was £23,024 million (31 March 2018: £48,030 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 financial counterparties, securities held for trading, and deposits by financial counterparties 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 2019, securities held for trading were £959 million (31 March 2018: £2,534 million), loans and advances to financial counterparties were £31,907 million (31 March 2018: £22,434 million), deposits by financial counterparties were £16,402 million (31 March 2018: £16,991 million), and the DMA deposit at the National Loans Fund was £16,546 million (31 March 2018: £27,616 million).

During the year, the DMA issued Treasury bills by weekly tender with a nominal value of £219,000 million (see figure 13) (2018: £224,000 million). Treasury bills still in issue at 31 March 2019 had a carrying value of £79,662 million (31 March 2018: £68,660 million). The change in Treasury bills in issue was planned in order for the DMO to meet its debt and cash management remit for 2018-2019.

The DMA also received deposits from government customers throughout the year. This liability due to government customers was £36,780 million at 31 March 2019 (31 March 2018: £33,762 million). The increase was primarily due to a net increase of £3,033 million in deposits from the CRND, partially off-set by a £15 million reduction in deposits from other government counterparties.

Figure 12: Assets and liabilities of the DMA

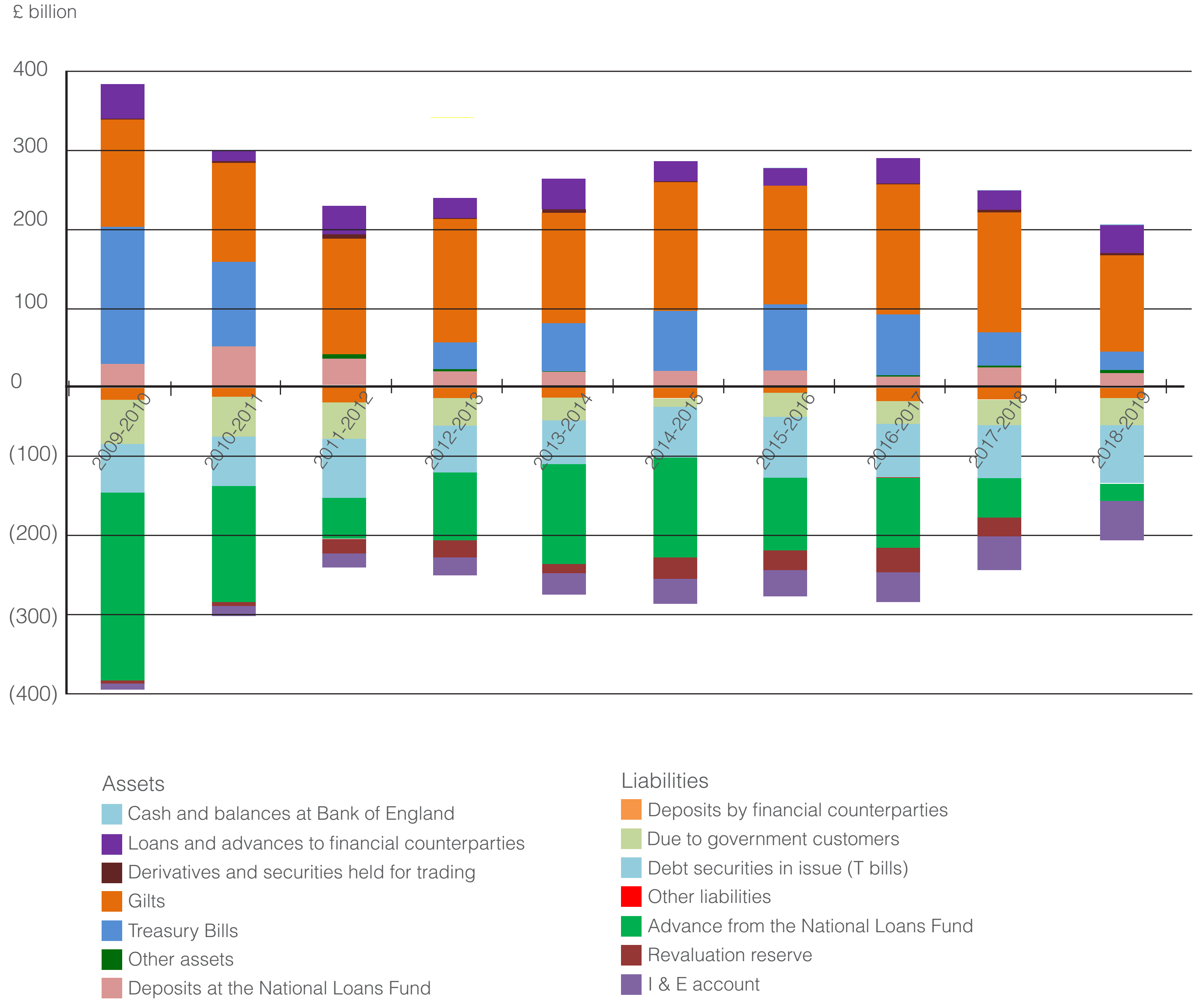
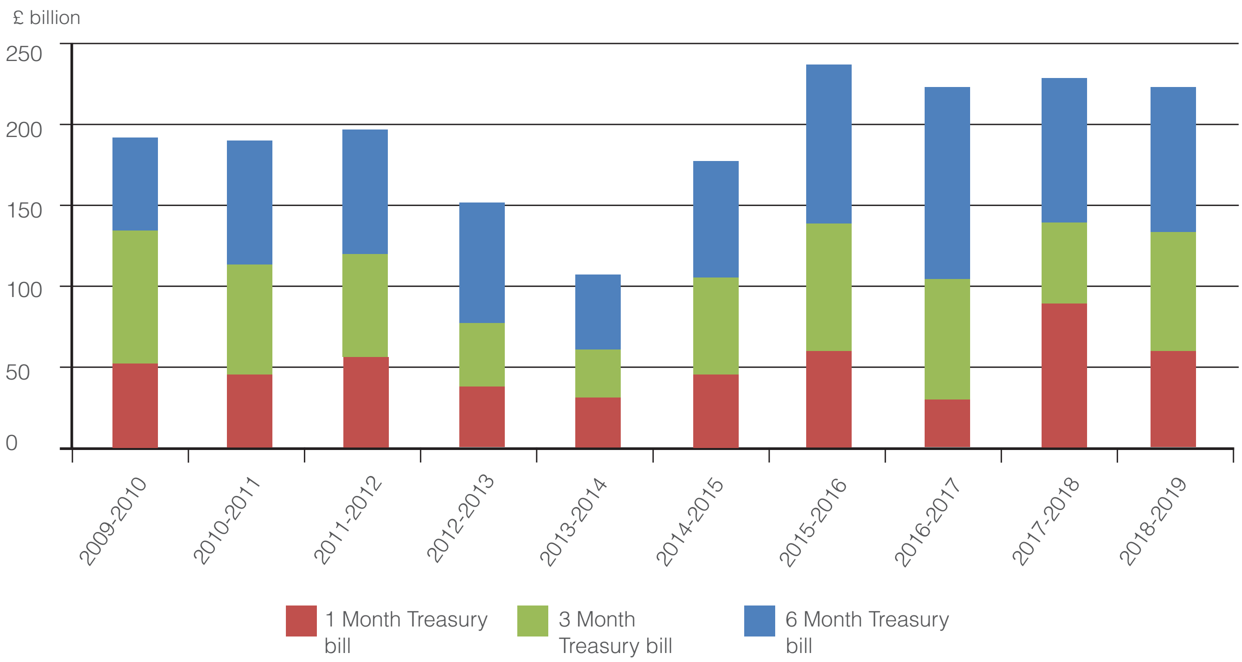


Figure 13: Treasury bill issuance by weekly tender



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.

Sir Robert Stheeman
Chief Executive
16 July 2019

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 for central government departments. 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 (until 30 April 2019)
- **Brian Duffin**
  Non-executive director
- **Paul Fisher**
  Non-executive director

Paul Richards was appointed as a non-executive director of the DMO on 10 May 2019.

Sir Robert Stheeman
Chief Executive
16 July 2019

Directors’ conflicts of interest

In 2018-2019, 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 2018-2019.

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 80.

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 121.

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, statement of financial position 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;
- 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;
- prepare the accounts on a going concern basis; and
- confirm that the annual report and accounts as a whole are fair, balanced and understandable, and take personal responsibility for the annual report and accounts and the judgements required for determining they are fair, balanced and understandable.

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 the 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 the DMA accounts, as specified by the Government Resource Accounts Act 2000 and the National Loans Act 1968 respectively.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the DMO's and the DMA's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the DMO's and the DMA's auditors are unaware.


EASTCHEAP
BUILDINGS

Governance statement

Scope of responsibility

Since January 2018, ministerial responsibility for the United Kingdom Debt Management Office (DMO) has been vested in John Glen, who was appointed Economic Secretary to the Treasury and City Minister. 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 including 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 2018-2019 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
  Non-executive HM Treasury representative
- 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
  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 December 2017 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 2018.

2018-2019 Board activities

Board meetings were held regularly throughout 2018-2019. 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 leaving the EU;
- Syndication process review;
- Review of the gilt issuance strategy;
- Proposed reforms to the governance of PWLB;
- Procurement and implementation in upgrading the DMO's core systems;
- IT and data security including key supplier data controls; and
- Accommodation review.

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

Table 4: Board and Audit Committee attendance

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

Audit Committee

The Accounting Officer was supported during 2018-2019 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 2018-2019 were:

- Brian Duffin (Chairman);
- Paul Fisher;
- 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 Committee of the Corporation of London and its Performance and Resource Management Sub (Police) Committee and one of three external members of the Audit Progress Committee of the European Commission. She is also a trustee of the Wimbledon Guild charity.

Although a departure from the Corporate Governance Code for central government departments, the Audit Committee Chairman's membership was extended by an additional year to 31st December 2019 in view of the need for continuity and to retain knowledge during a period of considerable change both externally (in particular, the implications of the UK leaving the EU) and also internal to the DMO (including the Trading Systems Replacement project).

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, the Head of Finance, and the National Audit Office.

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;
- Whistleblowing 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:

- Trading Systems Replacement (TSR) Project;
- General Data Protection Regulation (GDPR);
- Dispute Resolution Policies and Staff Conduct;
- Operational Risk Framework Risk Registers;
- Pension Contributions;
- Critical Suppliers – Use of Subcontractors;
- Business Continuity Management;
- Cyber Security;
- Disclosure of Market Sensitive Information;
- User Access and Permission Rights;
- PWLB Lending;
- Gilt Purchase and Sale Service;
- International Financial Reporting Standard (IFRS) 9; and
- Programme management.

The Audit Committee covers a regular programme of agenda items, together with other current topics, and met five times during the year.

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 Spring Statement. The Debt Management Committee also ensures that sound evidence is available for the setting of the DMO's quarterly issuance strategy, including GEMM and counterparty reorganisation.

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 eleven times in 2018-2019.

- 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; 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 2018-2019.

- 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 2018-2019.

- Business Delivery Committee

The Business Delivery Committee (BDC) 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 most significant initiative monitored by the BDC during the year was the project to implement a trading systems replacement.

The BDC met regularly (typically weekly) throughout 2018-2019.

- 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, against a backdrop of changing regulations. The CMRC 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 eight times during 2018-2019.

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, key supplier risks 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 ORC has focused this year on supplier risk, data protection, IT and data security and business continuity planning. The ORC met seven times during 2018-2019.

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 Controls 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 Controls Group has also advised the Accounting Officer on suitable mitigating action where appropriate.

During the year the Controls Group review work has covered process and control changes as a result of the DMO's trading system replacement, simplifying the settlement of successful auction bids, and enhanced the contingency process for closing prices for Gilts and STRIPS.

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 presented to Audit Committee at the start of each year and approved by the Audit Committee at the start of each quarter. All audits make a series of findings relating to control weaknesses. Progress against agreed management 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 2018-2019, this included policies relating to anti-fraud, telephony and voice recording, data protection, health & safety and spreadsheet controls.

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 whistleblowing, anti-fraud, 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.

During 2018-2019 no concerns were raised by staff under the DMO's whistleblowing policy.

Key developments

- UK leaving the EU

During the year the DMO has continued to work with HM Treasury and other stakeholders to identify, assess and raise awareness of potential direct or indirect impacts on all operational activities resulting from the United Kingdom's exit from the European Union and take mitigating actions where possible.

- Trading Systems Replacement Project

The Trading Systems Replacement Project has been a significant multi-year project for the DMO which aims to update its IT systems for deal input, settlement, risk management and accounting, as well as to simplify the current transaction processing architecture. During 2018-2019 the focus of the implementation stage of the project has been on the design, build and testing of the new systems and processes. The project has been overseen through an established governance framework in order to maintain the strength and resilience of all operational processes and to make improvements where appropriate.

Risk profile

The Accounting Officer and the Board believe that the principal risks and uncertainties facing the DMO are outlined 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 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 so as to put the DMO 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. To help ensure that liquidity in the gilt market is maintained in all market conditions, the GEMMs are required by the DMO 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. The DMO actively tracks relevant regulatory initiatives and developments, and maintains close contact with regulators and HM Treasury, providing expert advice on the potential impacts of regulation on its markets and operations. In 2018-2019, the primary focus of work in this area was in identifying and assessing potential direct and indirect impacts of the UK leaving the EU on the DMO's activities and engaging with HM Treasury on these implications.

Principal risks and uncertainties	Mitigation and management
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 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.	During the year the DMO has progressed initiatives to further strengthen the resilience and security of its IT network. The Public Service Network (PSN) accreditation was reconfirmed as a result of an IT health check. 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. Elements of these arrangements were invoked during the year and proved effective with no external impact. 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.
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 2018-2019 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 ensuring the DMO's policies and processes are compliant with the new General Data Protection Regulation (GDPR) which came into force in May 2018. This included documenting personal data assets and security arrangements.
Reliance on third parties	
A number of the operational systems and services on which the DMO relies are provided or supported by third party suppliers.	To mitigate the risk of failure of a key third party supplier the DMO undertakes regular corporate risk assessments of each key supplier in order to assess

Principal risks and uncertainties	Mitigation and management
	a range of factors including its 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 where appropriate. The procurement manager and the recently formed vendor management group have been working to embed consistent standards of supplier management across account managers by improving visibility of key contracts, sharing best practice to ensure relationships start on a firm footing. The supplier of the new trading system will become a key long-term partner. During the year more focus has been given to understanding where key suppliers are themselves reliant on sub-contractors to supply business critical services to the DMO and this is an area where greater assurance will be sought in future procurements.
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. The main focus of improvements to transaction processing has been the trading system implementation which covers the full trade life-cycle. The implementation is focussed on maintaining control standards and improving processes and resilience.

Principal risks and uncertainties	Mitigation and management
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.	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. 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 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 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 2017.

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 2018-2019. 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 2018-2019 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
16 July 2019


HM TREASURY
United Kingdom
Debt
Management
Office

Remuneration report and staff report

The DMO has a Pay Committee, which during 2018-2019 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 Duffin**
  Non-executive director
- **Paul Fisher**
  Non-executive director

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 the 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 2020. 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 Duffin was contracted for an initial 3 year period from 1 January 2010. His contract has been extended for two further 3 year periods followed by a further 1 year period and is due to end on 31 December 2019.

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. The sums set out in the table relate to staff performance in respect of the relevant financial year, except for the performance related payments and the pivotal role allowance which relate to performance in 2017-2018, and the comparative awards reported for 2017-2018 which relate to performance in 2016-2017.

Table 5: Remuneration of senior DMO staff and non-executive directors

		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	2018-2019	150 - 155	10 - 15	25	185 - 190	57	245 - 250
	2017-2018	145 - 150	10 - 15	25	185 - 190	36	220 - 225
Jo Whelan - Deputy Chief Executive and Co-Head of Policy and Markets***	2018-2019	110 - 115	10 - 15	-	120 - 125	41	160 - 165
Full-time equivalent		*150 - 155*	*15 - 20*	-	*170 - 175*	*56*	*225 - 230*
	2017-2018	105 - 110	10 - 15	-	120 - 125	26	145 - 150
Full-time equivalent		*145 - 150*	*15 - 20*	-	*165 - 170*	*36*	*200 - 205*
Jim Juffs - Chief Operating Officer	2018-2019	150 - 155	15 - 20	-	165 - 170	31	195 - 200
	2017-2018	145 - 150	15 - 20	-	160 - 165	23	185 - 190
Jessica Pulay - Co-Head of Policy and Markets	2018-2019	140 - 145	15 - 20	-	160 - 165	56	215 - 220
	2017-2018	135 - 140	15 - 20	-	155 - 160	54	210 - 215
Non-executive directors							
Brian Duffin	2018-2019	15 - 20	-	-	15 - 20	-	15 - 20
	2017-2018	15 - 20	-	-	15 - 20	-	15 - 20
Paul Fisher	2018-2019	15 - 20	-	-	15 - 20	-	15 - 20
	2017-2018	15 - 20	-	-	15 - 20	-	15 - 20

(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 2018-2019 (2017-2018: 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).

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.

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.

Table 6: Remuneration multiples

	2019	2018
Total remuneration of the Chief Executive (£000)	185-190	185-190
Median remuneration total of other DMO employees	53,089	53,832
Ratio	3.5	3.5

(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 2018-2019, remuneration of the DMO's workforce excluding the Chief Executive, ranged from £26,000 to £172,000 (2017-2018: £28,000 to £169,000).

Pension benefits

Table 7: Pension benefits of senior DMO staff

	Accrued pension and related lump sum at pension age at 31 March 2019	Real increase in pension and related lump sum at pension age	CETV at 31 March 2019	CETV at 31 March 2018	Real increase in CETV
	£000	£000	£000	£000	£000
Sir Robert Stheeman	40 – 45	2.5 – 5	900	756	59
Jo Whelan	25 – 30	0 – 2.5	563	468	38
Jim Juffs	35 – 40	0 – 2.5	829	720	32
- plus lump sum	105 – 110	5 – 7.5			
Jessica Pulay	10 – 15	2.5 – 5	151	97	31

(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 or 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 sections: 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 sections of the PCSPS having those benefits based on their final salary when they leave alpha.

The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two 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 4.6 per cent and 8.05 per cent for members of classic, premium, classic plus, nuvos and 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 for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out 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 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 quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from 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 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 buying additional pension benefits at their own cost.

CETVs are worked out 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

Table 8: Staff costs

	Permanent staff £000	Others £000	2019 Total £000
Staff costs			
Salaries	6,272	4,452	10,724
Social security costs	744	60	804
Other pension costs	1,229	91	1,320
	8,245	**4,603**	**12,848**
Amounts charged to capital	-	(2,048)	(2,048)
	8,245	**2,555**	**10,800**
Recoveries in respect of outward secondments	(47)	-	(47)
Total net costs	**8,198**	**2,555**	**10,753**
Average number of full-time equivalent persons employed by the DMO	97	38	135
Of which, staff employed on capital projects	-	12	12

	Permanent staff £000	Others £000	2018 Total £000
Staff costs			
Salaries	6,234	2,675	8,909
Social security costs	745	61	806
Other pension costs	1,209	91	1,300
	8,188	**2,827**	**11,015**
Amounts charged to capital	-	(305)	(305)
	8,188	**2,522**	**10,710**
Recoveries in respect of outward secondments	(91)	-	(91)
Total net costs	**8,097**	**2,522**	**10,619**
Average number of full-time equivalent persons employed by the DMO	97	25	122
Of which, staff employed on capital projects	-	*2*	*2*

(This disclosure has been audited.)

Staff numbers in 2018-2019 and 2017-2018 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 exit costs for three members of staff during 2018-2019. One was paid under the civil service compensation scheme and was in the range £25,000 to £50,000. The other two were ex-gratia payments agreed with HM Treasury: one was in the range £0 to £10,000 and the other was in the range £25,000 to £50,000. There were exit costs for two members of staff during 2017-2018. Both were ex-gratia payments agreed with HM Treasury. One of the exit payments was in the range of £10,000 to £25,000 and the other was in the range of £25,000 to £50,000. (This disclosure has been audited.)

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS), known as 'alpha', are unfunded multi-employer 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 2018–2019, employer contributions of £1,257,129 (2017–2018: £1,245,447) 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 (2017-2018: 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 2018-2019 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 £60,870 (2017-2018: £53,414) 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 (2017-2018: 8.0 per cent to 14.75 per cent of pensionable pay). Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £2,277, 0.5 per cent of pensionable pay (2017-2018: £1,993, 0.5 per cent of pensionable pay), 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 2019 were £5,913 (31 March 2018: £5,673). Contributions prepaid at that date were £nil (31 March 2018: £nil).

Male / female staff breakdown

The number of male and female staff at the DMO at 31 March 2019 was:

Table 9: Male/female breakdown

	Male	Female
Managing Board members	5	2
Employees	72	38
Total	**77**	**40**

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

Off-payroll engagements

Off-payroll arrangements are engagements where staff, either self-employed or acting through an intermediary company, are paid by invoice rather than via payroll.

The DMO contracts with some staff off-payroll. These are typically specialists whom the DMO expects to require for only a short-term period.

The tables below show off-payroll engagements by the DMO during the year. In addition there have been no board members and/or senior officials with significant financial responsibility engaged off-payroll between 1 April 2018 and 31 March 2019.

Total off-payroll engagements as at 31 March 2019:

Table 10: Off-payroll engagements

Total off-payroll engagements for more than £245 per day and for longer than six months duration	18
Of which, have an engagement duration of:	
Less than 1 year	7
Between 1 & 2 years	6
Between 2 & 3 years	1
Between 3 & 4 years	3
Between 5 & 6 years	1

New off-payroll engagements during the year:

Table 11: New off-payroll engagements

Total new engagements exceeding 6 months duration between 1 April 2018 and 31 March 2019 for more than £245 per day	10
Of which, have been assessed as:	
Within IR35	7
Outside IR35	3
Number of off-payroll engagements who have transferred to the DMO payroll during the year	0
Number of engagements reassessed for consistency/ assurance purposes during the year	0
Number of engagements for which IR35 status changed as a result of the assessment	0

Expenditure on consultancy

Expenditure on consultancy by the DMO in 2018-2019 was £50,000 (2017-2018: £23,000).

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 2017. 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 2018-2019 were 511 or 2.0 per cent of the total available (2017-2018: 363 or 1.5 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.

Health and Safety

The DMO is committed to complying with health and safety at work legislation. The DMO follows procedures and maintains policies that aim to achieve higher standards than the legal requirements. Annually, the DMO undergoes an independent health and safety audit and has no issues to report.

Sir Robert Stheeman
Chief Executive
16 July 2019

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 2019.

(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 the DMA can be found preceding their accounts on page 61 to 63 and page 83 to 85 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.

Table 12: Fees and charges

	CRND £000	PWLB £000	Gilt purchase and sale service £000
Full cost	403	1,154	325
Income	(410)	(2,256)	(174)
Deficit / (surplus)	(7)	(1,102)	151

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.

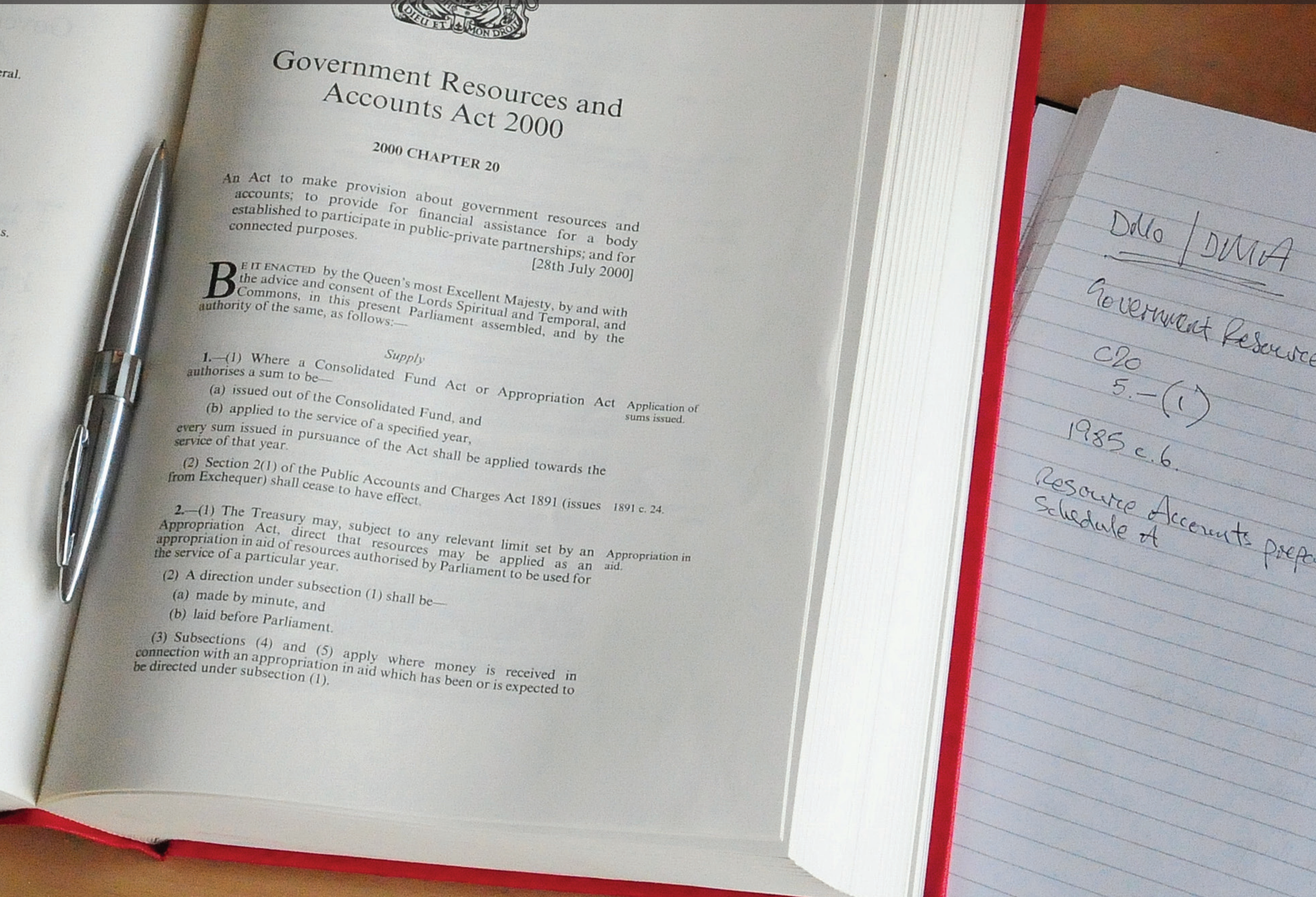
(The above section on fees and charges has been audited.)

Sir Robert Stheeman
Chief Executive
16 July 2019

Accounts of the United Kingdom Debt Management Office

Year ended 31 March 2019
Presented to the House of Commons on 23 July 2019

United Kingdom Debt Management Office: 2018-2019 Accounts



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

Opinion on financial statements

I certify that I have audited the financial statements of the Debt Management Office for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise: Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements give a true and fair view of the state of the Debt Management Office's affairs as at 31 March 2019 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 regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Debt Management Office in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

We are required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Debt Management Office's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Debt Management Office's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am also 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.

Other information

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report 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.

Gareth Davies
Comptroller and Auditor General
17 July 2019

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 2019

	Note	2019 £000	2018 £000
Staff costs	2	10,800	10,710
Purchase of goods and services	3	6,094	5,954
Issuance and transaction costs	4	4,693	3,931
Depreciation and impairment charges	6	385	670
Provision expense	12	375	-
Total operating expenditure		**22,347**	**21,265**
Operating income	5	(4,024)	(3,737)
Net operating expenditure		**18,323**	**17,528**

All income and expenditure are derived from continuing operations.

The notes on page 68 to 79 form part of these accounts.

United Kingdom Debt Management Office Statement of financial position

As at 31 March 2019

	Note	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	6(i)	754	642
Intangible assets	6(ii)	6,635	2,566
Trade and other receivables	7	99	121
Total non-current assets		**7,488**	**3,329**
Current assets			
Trade and other receivables	7	1,874	2,398
Cash and cash equivalents		1	1
Total current assets		**1,875**	**2,399**
Total assets		**9,363**	**5,728**
Current liabilities			
Trade payables and other liabilities	9	(5,168)	(3,128)
Total current liabilities		**(5,168)**	**(3,128)**
Total assets less current liabilities		**4,195**	**2,600**
Non-current liabilities			
Provisions for liabilities	9	(375)	-
Contract liabilities	9	(8,200)	-
Total non-current liabilities		**(8,575)**	**-**
Total net assets		**(4,380)**	**2,600**
Taxpayers' equity			
General fund		**(4,380)**	**2,600**

The notes on page 68 to 79 form part of these accounts.

Sir Robert Stheeman
Chief Executive
16 July 2019

United Kingdom Debt Management Office Statement of cash flows

For the year ended 31 March 2019

	Note	2019 £000	2018 £000
Cash outflow from operating activities			
Net operating cost		**(18,323)**	**(17,528)**
Adjustment for non-cash transactions			
Depreciation and amortisation of fixed assets	6	385	590
Impairment of fixed assets	6	-	80
Provision provided in year	12	375	-
Auditors' fee	3	45	42
		805	**712**
Adjustment for movements in working capital other than cash			
Decrease / (increase) in receivables		546	(591)
Increase in current payables		1,635	1,049
Increase in contract liabilities		942	-
Less movement in payables relating to items not passing through the statement of comprehensive net expenditure	9	(1,374)	(743)
		1,749	**(285)**
Net cash outflow from operating activities		**(15,769)**	**(17,101)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(29)	(156)
Purchase of intangible assets		(3,163)	(1,694)
Net cash outflow from investing activities		**(3,192)**	**(1,850)**
Cash flows from financing activities			
From the Consolidated Fund (supply)		18,961	18,951
Net financing		**18,961**	**18,951**
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 68 to 79 form part of these accounts.

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

For the year ended 31 March 2019

	Note	General Fund £000
Balance at 31 March 2017		**1,135**
Funding from HM Treasury		18,951
Comprehensive net expenditure for the year		(17,528)
Non-cash auditors' remuneration	3	42
Balance at 31 March 2018		**2,600**
Adjustment of general fund upon adoption of IFRS 15 - to reflect contract liability at 1 April 2018		(7,663)
Balance at 1 April 2018		**(5,063)**
Funding from HM Treasury		18,961
Comprehensive net expenditure for the year		(18,323)
Non-cash auditors' remuneration	3	45
Balance at 31 March 2019		**(4,380)**

The notes on page 68 to 79 form part of these accounts.

Notes to the accounts

For the year ended 31 March 2019

1 Statement of accounting policies

(i) Basis of preparation

The accounts have been prepared in accordance with the 2018–2019 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 80, 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:

- 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 2018-2019.

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 borrowers in so far as it relates to performance obligations of the DMO that have been delivered in the reporting period.

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.

IFRS 15 Revenue from Contracts with Customers has replaced IAS 18 and application is required for reporting periods beginning on or after 1 January 2018. The core purpose of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard sets out principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The DMO has assessed the changes to the standard and concluded that there is a minimal impact on the financial statements, with the exception of PWLB fee income, though some changes have been made to presentation and terminology.

With respect to the treatment of PWLB fee income under IFRS 15, in providing lending services to PWLB borrowers, the DMO is considered to be the agent of the PWLB Commissioners. In this way, the PWLB Commissioners, rather than the PWLB borrowers, are deemed to be the customer of the DMO although the relevant consideration is the fee paid to the DMO by the PWLB borrowers. Fees are paid by PWLB borrowers on initial agreement of each loan and the fee value is determined by reference to the loan value and type. Except for some loans with very long maturities, most PWLB fee income for each loan is recognised in the period in which the loan is issued. With respect to services provided to PWLB Commissioners, the remainder of the fee income on each loan is considered to relate to subsequent management of the loan by the DMO, comprising activities such as reconciliation of interest repayments, and maintaining appropriate computer systems to monitor the loan repayment as part of a portfolio of similar loans. Such income is reported as a contract liability representing outstanding performance obligations for which payment has been received.

The proportion of loan fee income deferred for recognition in years subsequent to the year of issue varies according to the duration of the loan and is spread evenly over the years to maturity such that an equal portion is recognised each year. This reflects the DMO's estimate of the transfer of services over the life of the loan. The proportion of fee income recognised in the period of issue relative to fee income recognised in each subsequent period to maturity is based on the DMO's assessment of the relative effort based on the average annual issuance of new loans and the entire portfolio of open loans. The proportion of the fee associated to each loan that is expected to be recognised in future years have not been increased to reflect inflation. While the DMO will be exposed to inflation-driven cost pressures over the period of the loans, technology-driven efficiency improvements have tended to negate the most significant effects of inflation on the running costs of delivering the services to the PWLB Commissioners. Similarly, the DMO does not consider that there is a significant financing component to the contract such that the effects should be presented separately. This is because the DMO considers that the PWLB Commissioners would not pay a materially different amount for future performance obligations if they were sold as stand-alone services at the time of service delivery. The PWLB lending fee rate is determined by HM Treasury. The last inflation-driven increase in PWLB lending fees was 28 years ago. The performance obligations of the DMO to the PWLB Commissioners with respect to a single loan are considered to be satisfied when the loan matures. If a loan is repaid early, then all residual fee income associated with that loan that has not yet been recognised is recognised in the period of cancellation.

Future changes to estimates of the potential effect of inflation on the annual cost of providing PWLB services may have a significant effect on the valuation of the contract liability for future PWLB performance obligations. An assumption around increased costs would not influence the total fee receivable, but could change assumptions about the rate at which the DMO would expect to recognise income over the life of each loan. By way of illustration, had a 2% annual increase been applied to the base costs for delivering the service without any assumption of moderating efficiency savings, the total PWLB contract liability would increase from £8.6 million to £10.5 million (an increase of 22%). PWLB income recognised in 2018-2019 would decrease by £0.2 million (9%). Management estimates of the relative effort required to deliver PWLB services with respect to issuing new loans and administering previously issued loans in a given year is also influential in determining the value of the contract liability. By way of illustration, a 25% increase in the estimate of relative effort applied to administering previously issued loans (from 33% to 41%) would increase the PWLB contract liability from £8.6 million to £10.2 million (an increase of 19%). PWLB income recognised in 2018-2019 would decrease by £0.2 million (8%). Conversely, a 25% decrease in the estimate of relative effort applied to administering previously issued loans (from 33% to 25%) would decrease the PWLB contract liability from £8.6 million to £6.8 million (a decrease of 21%), while PWLB income recognised in 2018-2019 would increase by £0.2 million (8%).

The impact of first time adoption of IFRS 15 on PWLB fee income is described in note 8.

(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 that are currently in-use, 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 3 and 8 years
- Plant and machinery — between 5 and 16 years
- Furniture and fittings — lesser of 10 years or outstanding lease term (where appropriate)
- Software licences — between 4 and 15 years (licence duration where relevant)
- Internally generated software — between 4 and 20 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 off-set 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) 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.

(xiv) Financial instruments

IFRS 9 Financial Instruments has replaced IAS 39 for reporting periods beginning on or after 1 January 2018. The standard sets out requirements for recognition, measurement, impairment and de-recognition of financial instruments. The DMO has assessed the changes to the standard and concluded that they have an immaterial impact on the financial statements; therefore no alterations have been made to the reporting of financial instruments.

(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

	2019 £000	2018 £000
Permanent staff costs	8,245	8,188
Temporary staff costs	2,555	2,522
Total staff costs	**10,800**	**10,710**

Permanent staff costs reported for 2018-2019 include exit costs for three members of staff. One was paid under the civil service compensation scheme and was in the range £25,000 to £50,000. The other two were ex-gratia payments agreed with HM Treasury: one was in the range £0 to £10,000 and the other was in the range £25,000 to £50,000. There were exit costs for two members of staff during 2017-2018. Both were ex-gratia payments agreed with HM Treasury. One of the exit payments was in the range of £10,000 to £25,000 and the other was in the range of £25,000 to £50,000.

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

3 Purchase of goods and services

	2019 £000	2018 £000
IT and telecommunications	1,691	1,435
Accommodation rent	1,326	1,324
Business and information services	1,320	1,238
Other accommodation related costs	963	864
Legal services	319	556
Travel, subsistence and hospitality	72	59
Recruitment	66	127
Training	61	108
Consultancy	50	23
Printing and stationery	48	49
Non-cash auditors' remuneration	45	42
Other costs	133	129
	6,094	**5,954**

£45,000 (2017-2018: £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.

	2019 £000	2018 £000
DMA, CRND and PWLB transaction costs		
Settlement and custodial charges	3,496	2,765
Brokerage	529	507
	4,025	**3,272**
Gilt issuance costs		
Stock Exchange listing fees (reimbursed – see note 5)	630	600
Gilt purchase and sale service costs - Computershare	38	59
	4,693	**3,931**

5 Operating income

	2019 £000	2018 £000
Administration income		
Revenue from contracts with customers		
Fees and charges to PWLB customers	2,256	1,807
Fees and charges to CRND clients	410	410
Rentals and other accommodation related income - internal to government	434	417
Funding for Lending Scheme - Bank of England	70	70
	3,170	**2,704**
Other operating income		
Other income	50	92
	3,220	**2,796**
Programme income		
Revenue from contracts with customers		
Recharges to the National Loans Fund	630	600
Gilt purchase and sale service commission - Computershare	174	341
	804	**941**
Other operating income	-	-
	4,024	**3,737**

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 2018	2,063	937	130	3,130
Additions	392	-	-	392
Impairments	-	-	-	-
Disposals	-	-	-	-
At 31 March 2019	**2,455**	**937**	**130**	**3,522**
Depreciation				
At 1 April 2018	1,516	935	37	2,488
Charged in year	271	1	8	280
Disposals	-	-	-	-
At 31 March 2019	**1,787**	**936**	**45**	**2,768**
Net book value				
At 31 March 2019	**668**	**1**	**85**	**754**
At 31 March 2018	**547**	**2**	**93**	**642**

	Information technology £000	Furniture and fittings £000	Plant and machinery £000	Total £000
Cost or valuation				
At 1 April 2017	1,924	937	101	2,962
Additions	156	-	29	185
Impairments	(17)	-	-	(17)
Disposals	-	-	-	-
At 31 March 2018	**2,063**	**937**	**130**	**3,130**
Depreciation				
At 1 April 2017	1,230	934	29	2,193
Charged in year	286	1	8	295
Disposals	-	-	-	-
At 31 March 2018	**1,516**	**935**	**37**	**2,488**
Net book value				
At 31 March 2018	**547**	**2**	**93**	**642**
At 31 March 2017	**694**	**3**	**72**	**769**

(ii) Intangible assets

	Software licences £000	Internally generated software £000	Assets under construction (software) £000	Total £000
Cost or valuation				
At 1 April 2018	2,226	3,831	2,340	8,397
Additions	-	563	3,611	4,174
Impairments	-	-	-	-
Disposals	-	-	-	-
At 31 March 2019	**2,226**	**4,394**	**5,951**	**12,571**
Amortisation				
At 1 April 2018	2,152	3,679	-	5,831
Charged in year	27	78	-	105
Disposals	-	-	-	-
At 31 March 2019	**2,179**	**3,757**	**-**	**5,936**
Net book value				
At 31 March 2019	**47**	**637**	**5,951**	**6,635**
At 31 March 2018	**74**	**152**	**2,340**	**2,566**

	Software licences £000	Internally generated software £000	Assets under construction (software) £000	Total £000
Cost or valuation				
At 1 April 2017	2,224	4,176	-	6,400
Additions	15	53	2,340	2,408
Impairments	-	(63)	-	(63)
Disposals	(13)	(335)	-	(348)
At 31 March 2018	**2,226**	**3,831**	**2,340**	**8,397**
Amortisation				
At 1 April 2017	2,040	3,844	-	5,884
Charged in year	125	170	-	295
Disposals	(13)	(335)	-	(348)
At 31 March 2018	**2,152**	**3,679**	**-**	**5,831**
Net book value				
At 31 March 2018	**74**	**152**	**2,340**	**2,566**
At 31 March 2017	**184**	**332**	**-**	**516**

The intangible asset under construction is a replacement of legacy trading systems which is expected to be brought into service in early 2019-2020.

7 Trade and other receivables

	2019 £000	2018 £000
Amounts falling due within one year		
Prepayments	1,511	1,822
Accrued income	294	309
Other receivables	69	267
	1,874	**2,398**
Amounts falling due after more than one year		
Prepayments	99	121
	1,973	**2,519**

8 Application of IFRS 15

The DMO adopted IFRS 15 on 1 April 2018. IFRS 15 Revenue from Contracts with Customers supersedes IAS 18 Revenue. Upon this change in accounting policy, a contract liability of £7.7 million was established (of which £7.3 million was due after more than one year) representing future performance obligations with respect to the PWLB. The DMO manages the functions of the PWLB on behalf of the PWLB commissioners, including receiving repayments of interest and loan principal from borrowers.

A corresponding adjustment was made to taxpayers' equity representing a reclassification of income recognised in the statement of comprehensive net expenditure prior to 1 April 2018.

Income of £0.3 million which was recognised in 2018-19 was included in the contract liability balance at the beginning of the period. By 31 March 2019, the contract liability had increased to £8.6 million because of the high value of PWLB loan fees received in the period. The fee income received in 2018-19, and the proportion of income deferred to reflect future performance obligations, was significantly higher than usual, resulting in a larger contract liability. The DMO expects to recognise the £8.6 million income, which is related to performance obligations that are unsatisfied, over 50 years, the maximum period to maturity of the loans. The aggregate amount recognised in successive ten year periods will be as follows: £3.4 million; £2.3 million; £1.6 million; £1.0 million; £0.3 million.

According to the FReM, section 6.2 (IFRS 15: interpretations and adaptions for the public sector context) the accounting policy choice allowed under IFRS 15, which allows entities upon transition to restate prior periods, has been withdrawn, and therefore prior year comparative figures have not been restated under IFRS 15.

Had income continued to be accounted for under IAS 18, DMO would have recognised £0.9 million more income from the PWLB during 2018-2019.

9 Trade payables and other liabilities

	2019 £000	2018 £000
Amounts falling due within one year		
Taxation and social security	359	345
Accruals and trade payables	4,404	2,783
Contract liabilities	405	-
	5,168	**3,128**
Amounts falling due after more than one year		
Provision for liabilities	375	-
Contract liabilities	8,200	-
	8,575	**-**
	13,743	**3,128**

Reflected within the amounts falling due within one year is an increase of £1,374,273 (2017-2018: increase of £742,728) of capital expenditure payables and accruals, which is an adjustment to the movements in working capital recorded in the statement of cash flows.

10 Commitments under operating leases

At 31 March 2019, the total future minimum lease payments under non-cancellable operating leases are as follows:

	Buildings £000	Other £000	2019 Total £000	2018 Total £000
Obligations under operating leases for the following periods comprise:				
Less than one year	1,154	2	1,156	1,158
Between one and five years	865	-	865	2,021
Over five years	-	-	-	-
	2,019	**2**	**2,021**	**3,179**

11 Capital commitments

	2019 £000	2018 £000
Contracted capital commitments at 31 March not otherwise included in these financial statements		
Software licenses	63	2,735
	63	**2,735**

12 Provisions

	2019 £000	2018 £000
Balance at 1 April	-	-
Provided in the year - dilapidations	375	-
Balance at 31 March	**375**	**-**

A dilapidations provision is required in the financial statements in respect of the premises the DMO are renting. The current lease ends on 25 March 2021 and there is a contractual obligation to restore the building at the end of the lease term. Therefore a provision has been included to reflect the future expenditure that is likely to be incurred.

13 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 the DMO was £47,048 (2017-2018: £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 2018-2019.

Throughout 2018-2019, 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 the DMO was £139,695 (2017-2018: £136,437).

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 the DMO was £294,595 (2017-2018: £280,391).

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 (2017-2018: £94,000 and £52,000).

Public Works Loan Board

The 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 (2017-2018: £70,000).

Ministers and Managing Board

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

14 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 2019, 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.

15 Events after the reporting date

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the Accounting Officer authorises the accounts for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

Accounts Direction given by the Treasury in accordance with section 7(1) and 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 2019 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 2018-19.

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 2019 and of the income and expenditure (or, as appropriate, net resource outturn), changes in taxpayers' equity and cash flows of the agency 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.

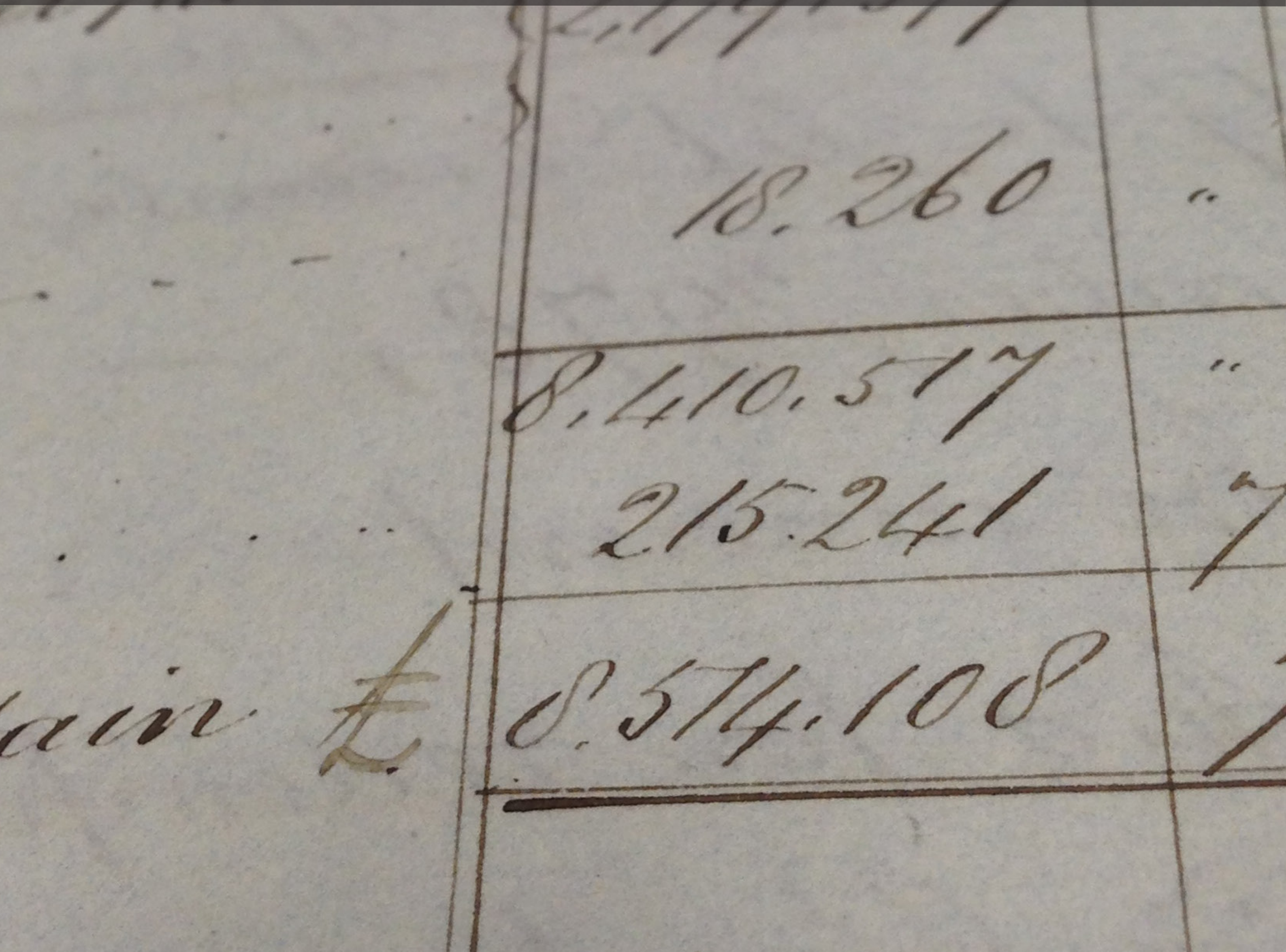
Vicky Rock
Interim Director, Government Financial Reporting
Her Majesty's Treasury
4 March 2019


PRET

Accounts of the Debt Management Account

Year ended 31 March 2019
Presented to Parliament on 23 July 2019

Debt Management Account: 2018-2019 Accounts



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

Opinion on financial statements

I certify that I have audited the financial statements of the Debt Management Account for the year ended 31 March 2019 under the National Loans Act 2018. The financial statements comprise: the Income Statement, Statements of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, the Statement of Changes in Net Funding by National Loans Fund and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

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 2019 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 regularity

In my opinion, in all material respects the receipts and payments 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Debt Management Account in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

We are required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Debt Management Account's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the National Loans Act 1968.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Debt Management Account's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments 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.

Other information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the part of the Accountability Report to be audited has been properly prepared in accordance with HM Treasury directions made under the National Loans Act 1968;
- in the light of the knowledge and understanding of the Debt Management Account and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; 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 and have been prepared in accordance with the applicable legal requirements.

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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report 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.

Gareth Davies
Comptroller and Auditor General
17 July 2019

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

Debt Management Account Income statement

For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Interest income	2	4,867	4,822
Interest expense	3	(1,071)	(590)
Net interest income		**3,796**	**4,232**
Other gains and losses	4	3	(2)
Fee income	5	-	1
Surplus for the year	6	**3,799**	**4,231**

All income and expenditure arose from continuing operations.

The notes on page 90 to 120 are an integral part of these accounts.

Debt Management Account Statement of comprehensive income

For the year ended 31 March 2019

	2019 £m	2018 £m
Surplus for the year from the income statement	**3,799**	**4,231**
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	-	(3,758)
Total comprehensive income	**3,799**	**473**

The notes on page 90 to 120 are an integral part of these accounts.

Debt Management Account
Statement of financial position

As at 31 March 2019

	Note	2019 £m	2018 £m
Assets			
Cash and balances at the Bank of England		1,785	1,106
Other assets	12	4,021	3,494
Derivative financial instruments	9	-	2
Loans and advances to financial counterparties	7	31,907	22,434
Securities held for trading	8	959	2,534
Investment securities:			
Treasury bills		23,165	39,165
UK government gilt-edged securities for use as collateral subject to sale and repurchase agreements		17,283	14,890
UK government gilt-edged securities for use as collateral not pledged		58,627	66,800
		75,910	**81,690**
Other UK government gilt-edged securities		50,042	64,336
	10, 11	**149,117**	**185,191**
Total assets before deposit at National Loans Fund		**187,789**	**214,761**
Deposit at National Loans Fund		16,546	27,616
Total assets		**204,335**	**242,377**
Liabilities			
Deposits by financial counterparties	13	16,402	16,991
Due to government customers	14	36,780	33,762
Other liabilities	16	87	117
Treasury bills in issue	15	79,662	68,660
Total liabilities before funding by the National Loans Fund		**132,931**	**119,530**
Advance from National Loans Fund		23,024	48,030
Revaluation reserve (removed due to introduction of IFRS 9)	10	-	30,236
Income and expenditure account		48,380	44,581
Total funding by National Loans Fund		**71,404**	**122,847**
Total liabilities		**204,335**	**242,377**

All income and expenditure arose from continuing operations.

The notes on page 90 to 120 are an integral part of these accounts.

Sir Robert Stheeman
Chief Executive
16 July 2019

Debt Management Account
Statement of cash flows

For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Net cash inflow from operating activities	17	**4,513**	**6,734**
Investing activities			
Interest received on investment securities		5,174	5,525
Sales of investment securities		65,030	285,489
Purchases of investment securities		(59,962)	(238,101)
Net cash from investing activities		**10,242**	**52,913**
Financing activities			
Interest received on deposit at National Loans Fund		177	67
Interest paid on advance from National Loans Fund		(325)	(320)
Increase in net funding by National Loans Fund		385,479	262,783
Decrease in net funding by National Loans Fund		(399,407)	(322,328)
Net cash used in financing activities		**(14,076)**	**(59,798)**
Increase/(decrease) in cash		**679**	**(151)**
Cash at the beginning of the year		**1,106**	**1,257**
Cash at the end of the year		**1,785**	**1,106**

The notes on page 90 to 120 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 2019

	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 2017	**13,061**	**93,020**	**33,994**	**40,350**	**167,364**	**154,303**
Surplus for year	-	-	-	4,231	4,231	4,231
Losses taken to revaluation reserve on revaluation of investment securities classified as available-for-sale	-	-	(3,758)	-	(3,758)	(3,758)
Change in advance from National Loans Fund	-	(44,990)	-	-	(44,990)	(44,990)
Change in deposit at National Loans Fund	14,555	-	-	-	-	(14,555)
At 31 March 2018	**27,616**	**48,030**	**30,236**	**44,581**	**122,847**	**95,231**
Impact of adoption of IFRS 9*	-	-	(30,236)	-	(30,236)	(30,236)
At 1 April 2018	**27,616**	**48,030**	**-**	**44,581**	**92,611**	**64,995**
Surplus for year	-	-	-	3,799	3,799	3,799
Change in advance from National Loans Fund	-	(25,006)	-	-	(25,006)	(25,006)
Change in deposit at National Loans Fund	(11,070)	-	-	-	-	11,070
At 31 March 2019	**16,546**	**23,024**	**-**	**48,380**	**71,404**	**54,858**

* Details of the impact of adopting IFRS 9 are disclosed in Note 10.

Each day, the DMA deposits any surplus cash with the Bank of England. 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 90 to 120 are an integral part of these accounts.

Notes to the accounts

For the year ended 31 March 2019

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 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 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
- IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments
- IFRS 13 Fair Value Measurement
- IFRS 15 Revenue from Contracts with Customers

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 1 Presentation of Financial Statements, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2020. The DMA expects to apply these revisions to IAS 1 in 2020-2021. The application of these revisions, which relate to a revised definition of 'material', are not expected to materially alter the presentation of the financial statements of the DMA.

- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2020. The DMA expects to apply these revisions to IAS 8 in 2020-2021. The application of these revisions, which relate to a revised definition of 'material', are not expected to materially alter the presentation of the financial statements of the DMA.

(ii) Financial assets

On 1 April 2018, the DMA adopted IFRS 9, which replaced IAS 39. As a result, the DMA no longer classifies financial assets under the IAS 39 category 'available-for-sale'; assets previously held under this reporting category are now measured at amortised cost. References to the value of these assets and their prior year comparatives are included in the statement of financial position, along with notes 11, 18, 20, 21, 22 and 23. Note 10 provides further details on the effect of the implementation of IFRS 9.

During the year, the DMA has invested in financial assets which have been recognised and measured according to the following categories: financial assets at fair value through profit or loss, financial assets at amortised cost. These categories are described in more detail below.

On initial recognition, the DMA classifies financial assets according to the categories above. 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.

In accordance with IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses, and changes in those expected credit losses, are continually assessed and valued at each reporting date. DMO management assess at the end of each reporting period whether there is any objective evidence that financial assets are materially impaired and hence whether any reduction in the carrying amount of these assets needs to be recognised. As directed by the FReM, the DMA does not assess its assets with any of: Government Exchequer Funds, the Bank of England or core central government departments, for impairments categorised as stage-1 (12 month expected credit losses) and stage-2 (lifetime expected credit losses) under IFRS 9. This is in accordance with the FReM's IFRS 9 adaptations, as recorded in its 'Interpretations and adaptations for the public sector context.' The results of this impairment review are detailed in Note 21.

(a) Financial assets at fair value through profit or 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 the intention 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) Financial assets at amortised cost
Debt securities are classified as held at amortised cost if they have been acquired with the intention to hold the security to collect contractual cash flows of principal and interest only, rather than to sell the assets prior to their contractual maturity to realise changes in fair value. 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, debt securities are subsequently measured at amortised cost using the effective interest rate method.

Also included within this category are loans and advances and other assets. Loans and advances to financial counterparties 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.

These assets 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 where the carrying value is a reasonable approximation of the fair value due to these assets and liabilities being held only for the short-term.

(iii) Financial liabilities

The DMA classifies financial liabilities, on initial recognition, in the following categories: financial liabilities at fair value through profit or 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 or 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 financial counterparties, amounts due to government customers, and Treasury bills in issue are measured at amortised cost using the effective interest rate. Deposits by financial counterparties 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 financial counterparties 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, forward starting reverse sale and repurchase agreements, and forward starting deposits.

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

Forward starting sale and repurchase agreements, reverse sale and repurchase agreements, and deposits 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 fair value through profit or loss. 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 off-set and the net amount reported in the statement of financial position only when there is a legally enforceable right to off-set 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 measured at fair value through profit or loss, (excluding interest income on securities held for trading), and gains or losses realised on the disposal of financial instruments classified as held at amortised cost.

(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

	2019 £m	2018 £m
Investment securities:		
UK government gilt-edged securities	4,209	4,377
Treasury bills	193	268
	4,402	**4,645**
Loans and advances to financial counterparties:		
Reverse sale and repurchase agreements	239	88
Deposits	10	6
	249	**94**
Securities held for trading:		
UK government gilt-edged securities	5	3
Other securities	31	3
	36	**6**
Deposit at National Loans Fund	180	77
	4,867	**4,822**

3 Interest expense

	2019 £m	2018 £m
Deposits by financial counterparties:		
Sale and repurchase agreements	(79)	(16)
Deposits	(19)	(4)
Due to government customers:		
Deposits	(232)	(104)
Treasury bills in issue	(423)	(136)
Advance from National Loans Fund	(318)	(330)
	(1,071)	**(590)**

4 Other gains and losses

	2019 £m	2018 £m
Change in the fair value of securities held for trading and held at year end:		
Other securities	3	(2)

5 Fee income and fee expense

The DMA received a fee of less than £1 million (2018: £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 (2018: 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 £1 million (2018: £5 million). These gains arose from the DMA's foreign currency assets.

7 Loans and advances to financial counterparties

	2019 £m	2018 £m
Reverse sale and repurchase agreements:		
Due in not more than 3 months	22,558	17,114
Due in more than 3 months but not more than 1 year	9,260	5,320
	31,818	**22,434**
Fixed term deposits:		
Due in not more than 3 months	89	-
	31,907	**22,434**

These assets are held at amortised cost in accordance with the accounting policy in Note 1.

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 include euro denominated transactions. The associated foreign currency risk is fully hedged through forward foreign exchange contracts (see note 9).

8 Securities held for trading

	2019 £m	2018 £m
UK government gilt-edged securities	213	544
Other securities	746	1,990
	959	**2,534**

	2019 Nominal £m	2019 Fair value £m	2018 Nominal £m	2018 Fair value £m
Maturity analysis				
Due within 1 year:				
In not more than 3 months	-	-	-	-
In more than 3 months but not more than 1 year	951	948	2,530	2,522
	951	**948**	**2,530**	**2,522**
Due after 1 year:				
In more than 1 year but not more than 5 years	2	3	4	5
In more than 5 years	5	8	5	7
	7	**11**	**9**	**12**
	958	**959**	**2,539**	**2,534**

These assets are held at fair value through profit or loss in accordance with the accounting policy in Note 1.

9 Derivative financial instruments

	2019 Asset £m	2019 Liability £m	2018 Asset £m	2018 Liability £m
Forward foreign exchange contracts	-	-	2	-
Unsettled deposits	-	-	-	-

	2019 Nominal £m	2019 Fair value £m	2018 Nominal £m	2018 Fair value £m
Maturity analysis				
Due within 1 year:				
In not more than 3 months	-	-	407	2
In more than 3 months but not more than 1 year	40,000	-	-	-
	40,000	**-**	**407**	**2**

These assets are held at fair value through profit or loss in accordance with the accounting policy in Note 1.

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

10 Application of IFRS 9

As referred to in note 1 (ii), the DMA adopted IFRS 9 on 1 April 2018, which replaced IAS 39. Following this change in accounting policy, asset securities previously classified as 'available-for-sale' have been reclassified as 'held at amortised cost' and are no longer subject to mark-to-market valuation changes.

Under the previous standard, IAS 39, following initial recognition, fair values were re-measured, and changes therein were recognised in the revaluation reserve until the securities were derecognised, at which point cumulative changes in fair value previously recognised in the revaluation reserve were recognised as other gains and losses.

According to the FReM, section 6.2 (IFRS 9: interpretations and adaptations for the public sector context) the accounting policy choice allowed under IFRS 9, which allows entities upon transition to restate prior periods, has been withdrawn, and therefore any prior year comparative figures under IAS 39 classifications have not been restated under IFRS 9.

The impact of this change in accounting policy on current year asset security valuations can be seen in note 11, which has been revised in accordance with IAS 8, paragraph 28, to include a 'fair value' comparative alongside the carrying value of those financial assets now measured at amortised cost.

Also, in accordance with the FReM and IFRS 9, the reversal of the cumulative historic valuation gains of these assets classified as available-for-sale under IAS 39 has led to a decrease of £30,236m in the revaluation reserve to nil from 1 April 2018, as highlighted in the statement of financial position and statement of changes in net funding.

Had valuation gains and losses continued to be recognised in 2018-2019 under IAS 39, a gain of £2,502m would have been recognised through other comprehensive income in respect of the movement in fair value of these assets.

The below table details the impact of IFRS 9, effective from 1 April 2018, on the carrying values of the DMA's assets at that date in the statement of financial position:

	31 March 2018 £m	Re-measurement under IFRS 9* £m	1 April 2018 £m
Cash and balances at Bank of England	1,106	-	1,106
Other assets	3,494	-	3,494
Derivative financial instruments	2	-	2
Loans and advances to financial counterparties	22,434	-	22,434
Securities held for trading	2,534	-	2,534
Investment securities:			
Treasury bills	39,165	(14)	39,151
UK government gilt-edged securities	146,026	(30,222)	115,804
Deposit at National Loans Fund	27,616	-	27,616
	242,377	(30,236)	**212,141**

* All assets that have been re-measured under IFRS 9 are due to reclassification from assets held as available-for-sale (under IAS 39) to assets held at amortised cost (under IFRS 9).

11 Investment securities

	2019 Nominal £m	2019 Carrying value £m	2019 Fair value £m	2018 Nominal £m	2018 Fair value / Carrying value £m
Maturity analysis					
Due within 1 year:					
In not more than 3 months	9,525	9,519	9,519	16,990	16,982
In more than 3 months but not more than 1 year	21,812	21,867	22,014	26,161	26,227
	31,337	**31,386**	**31,533**	**43,151**	**43,209**
Due after 1 year:					
In more than 1 year but not more than 5 years	20,695	22,029	22,972	24,204	27,455
In more than 5 years	86,012	95,702	127,352	78,087	114,527
	106,707	**117,731**	**150,324**	**102,291**	**141,982**
	138,044	**149,117**	**181,857**	**145,442**	**185,191**

These assets are held at amortised cost in accordance with the accounting policy in Note 1. The prior year comparatives have an identical fair value and carrying value due to the prior year application of IAS 39 (rather than IFRS 9) as set out in Note 10.

12 Other assets

	2019 £m	2018 £m
Due from counterparties	4,021	3,494

These liabilities are held at amortised cost in accordance with the accounting policy in Note 1.

At 31 March 2019, other assets of £4,020 million related to unsettled Treasury bill sales and less than £1 million related to other unsettled security sales. At 31 March 2018, other assets of £3,493 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.

13 Deposits by financial counterparties

	2019 £m	2018 £m
Sale and repurchase agreements:		
Due in not more than 3 months	13,802	14,671
Fixed term deposits:		
Due in not more than 3 months	2,600	2,320
	16,402	**16,991**

These liabilities are held at amortised cost in accordance with the accounting policy in Note 1.

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.

14 Due to government customers

	2019 £m	2018 £m
Counterparty analysis		
Commissioners for the Reduction of the National Debt:		
Call notice deposits	34,951	31,918
Other government counterparties:		
Fixed term deposits	1,829	1,844
	36,780	**33,762**
Maturity analysis		
In not more than 3 months:		
Fixed term deposits	1,829	1,844
Call notice deposits	34,951	31,918
	36,780	**33,762**

These liabilities are held at amortised cost in accordance with the accounting policy in Note 1.

Call notice deposits are repayable on demand.

15 Treasury bills in issue

	2019 £m	2018 £m
Carrying value		
Due in not more than 3 months	56,411	41,710
Due in more than 3 months but not more than 1 year	23,251	26,950
	79,662	**68,660**
Fair Value	**79,662**	**68,659**

These liabilities are held at amortised cost in accordance with the accounting policy in Note 1.

16 Other liabilities

	2019 £m	2018 £m
Due to counterparties	87	99
Cash collateral	-	18
	87	**117**

These liabilities are held at amortised cost in accordance with the accounting policy in Note 1.

All amounts are due in not more than 3 months.

17 Analysis of cash flow

	2019 £m	2018 £m
Reconciliation of operating profit to net cashflow from operating activities		
Operating surplus	**3,799**	**4,231**
Less investment revenues:		
Interest on investment securities	(4,402)	(4,645)
Less financing costs:		
Interest income on deposit at National Loans Fund	(180)	(77)
Interest expense on advance from National Loans Fund	318	330
	138	**253**
(Increase)/decrease in loans and advances to financial counterparties	(9,473)	9,972
Decrease/(increase) in securities held for trading	1,575	(1,493)
Decrease in derivative assets	2	1
Increase in other assets	(527)	(1,494)
Decrease in deposits by financial counterparties	(589)	(2,205)
Increase in amounts due to government customers	3,018	2,914
Decrease in derivative liabilities	-	(10)
Increase /(decrease) in Treasury bills in issue	11,002	(892)
(Decrease)/increase in other liabilities	(30)	102
Net cash inflow from operating activities	**4,513**	**6,734**

18 Fair value hierarchy

IFRS 7 defines three classifications of fair value measurement, using a fair value hierarchy. At 31 March 2019 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
At 31 March 2019			
Assets held at fair value:			
Securities held for trading	213	746	959
Derivative financial instruments	-	-	-
Assets held at amortised cost:*			
Investment securities	181,857		181,857
Liabilities held at fair value:			
Derivative financial instruments	-	-	-
Liabilities held at amortised cost:*			
Treasury bills in issue	79,662	-	79,662
At 31 March 2018			
Assets held at fair value:			
Securities held for trading	544	1,990	2,534
Derivative financial instruments	-	2	2
Investment securities classified as available-for-sale	185,191	-	185,191
Liabilities held at fair value:			
Derivative financial instruments	-	-	-
Liabilities held at amortised cost:*			
Treasury bills in issue	68,659	-	68,659

* The fair value of other financial assets and liabilities held at amortised cost are not disclosed in the table above since their carrying values are a reasonable approximation of their fair values.

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

19 Gilt issuance

	2019 £m	2018 £m
Nominal value of gilts issued on behalf of National Loans Fund *	92,524	103,919
Proceeds paid to National Loans Fund (excluding accrued interest)	98,604	115,487

* This excludes gilts issued for short periods to facilitate the DMA's special and standing repo facilities.

During the year, there were no uncovered gilt auctions (2018: none).

During the year, £12,265 million nominal of gilts (2018: none) 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.

20 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.

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 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**
- **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, public corporations, other central government bodies, and local authorities
Various government departments, public corporations, other central government bodies, and local authorities may enter into repurchase agreements with the DMA or 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 2019 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	1,785	-	-	-	1,785	-	1,785
Other assets	-	-	-	39	39	3,982	4,021
Derivative financial instruments	-	-	-	-	-	-	-
Loans and advances to financial counterparties	-	-	-	-	-	31,907	31,907
Securities held for trading	213	-	-	498	711	248	959
Investment securities:							
Treasury bills	23,165	-	-	-	23,165	-	23,165
UK government gilt-edged securities	125,952	-	-	-	125,952	-	125,952
Deposit at National Loans Fund	16,546	-	-	-	16,546	-	16,546
Liabilities							
Deposits by financial counterparties	-	-	-	-	-	16,402	16,402
Due to government customers	35,075	675	1,030	-	36,780	-	36,780
Other liabilities	-	-	-	-	-	87	87
Advance from National Loans Fund	23,024	-	-	-	23,024	-	23,024

Treasury bills issued by the DMA have been excluded from the list of liabilities in the above table since these Treasury bills are traded in a secondary market and so the initial counterparty with whom the DMA transacted is not necessarily reflective of whom the DMA is due to pay on redemption of the Treasury bills.

21 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 counterparties, 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;
- providing collateral for borrowings;
- 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 2019 were the same as in the prior year. The DMO continued to analyse financial markets, in particular how credit conditions, regulatory developments, market liquidity and potential direct or indirect impacts resulting from the United Kingdom's exit from the European Union 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 counterparty 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. An internal ratings methodology is applied to counterparties that are not rated externally, for example in the case of funds managed by certain asset managers.

(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 2019 (31 March 2018: 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 2019 (31 March 2018: 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 off-set 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 a liquid market or late settlement. Collateral is valued on a daily basis.

As at 31 March 2019, in accordance with the impairment policy for IFRS 9 disclosed in Note 1, DMO management assessed that there was no material impairment of its financial assets (31 March 2018: none).

There were no assets whose terms had been renegotiated in the year (31 March 2018: none).

No credit related losses were incurred by the DMA during the year (2018: none), and no provisions were considered necessary at 31 March 2019 (31 March 2018: 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	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Cash and balances at the Bank of England	1,785	1,106	-	-	1,785	1,106
Other assets	-	-	4,021	3,494	4,021	3,494
Derivative financial instruments	-	-	-	2	-	2
Loans and advances to financial counterparties:						
Fixed term deposits	-	-	89	-	89	-
Reverse repos	-	-	31,818	22,434	31,818	22,434
Securities held for trading	213	544	746	1,990	959	2,534
Investment securities:						
Treasury bills	23,165	39,165	-	-	23,165	39,165
UK government gilt-edged securities for use as collateral	75,910	81,690	-	-	75,910	81,690
Other UK government gilt-edged securities	50,042	64,336	-	-	50,042	64,336
Deposit at National Loans Fund	16,546	27,616	-	-	16,546	27,616
Total gross exposure	**167,661**	**214,457**	**36,674**	**27,920**	**204,335**	**242,377**

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:

	2019 Carrying value* £m	2019 Fair value of securities collateral £m	2018 Carrying value* £m	2018 Fair value of securities collateral £m
Reverse repos (within loans and advances to financial counterparties)	31,818		22,434	
Repos (within deposits by financial counterparties)	13,802		14,671	
Net fair value of collateral		18,559		8,128
Collateral shortfall (excluding Bank of England)		19		18
Collateral surplus (excluding Bank of England)		563		383

* 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 2019.

Unsettled transactions:

	2019 Unsettled value £m	2019 Weighted average days to settlement	2018 Unsettled value £m	2018 Weighted average days to settlement
Reverse repos	603	1	-	-
Repos	2,536	1	1,672	3

All reverse repos and repos are with financial counterparties 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.

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: the unsettled reverse repos comprised £580 million with counterparties whose ultimate parent entity was based in the United Kingdom with a credit rating of A+ and £23 million with unrated counterparties; and the unsettled repos comprised £2,536 million with counterparties whose ultimate parent entity was based in the United Kingdom with a credit rating of A+.

(b) Derivative financial instruments

	2019 Carrying value* £m	2019 Fair value of securities collateral £m	2018 Carrying value* £m	2018 Fair value of securities collateral £m
Assets	-		2	
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. Where neither the individual contracting entity nor its parent entity are rated externally, balances are categorised as unrated, as described in note 21 (i).

At 31 March 2019

	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	-	1,785	-	-	-	1,785
Other assets	-	2,349	1,205	179	288	4,021
Derivative financial instruments*	-	-	-	-	-	-
Loans and advances to financial counterparties:						
Fixed term deposits	-	-	89	-	-	89
Reverse repos**	-	400	21,253	98	10,067	31,818
Securities held for trading	746	-	-	-	-	746
	746	**4,534**	**22,547**	**277**	**10,355**	**38,459**
Liabilities						
Deposits by financial counterparties:						
Repos	-	-	13,802	-	-	13,802

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

** Includes exposure to non-bank financial counterparties.

At 31 March 2018

	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	-	1,106	-	-	-	1,106
Other assets	-	1,093	2,230	32	139	3,494
Derivative financial instruments*	-	-	2	-	-	2
Loans and advances to financial counterparties:						
Fixed term deposits	-	-	-	-	-	-
Reverse repos**	-	-	16,437	-	5,997	22,434
Securities held for trading***	1,491	-	-	-	499	1,990
	1,491	**2,199**	**18,669**	**32**	**6,635**	**29,026**
Liabilities						
Deposits by financial counterparties:						
Repos	-	3,993	10,678	-	-	14,671

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

** Includes exposure to non-bank financial counterparties.

*** £499 million of securities held for trading at 31 March 2018 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-.

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 2019, other assets of £4,020 million related to unsettled Treasury bill sales and less than £1 million related to other unsettled security sales. At 31 March 2018, other assets of £3,493 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 2019

	United Kingdom £m	Rest of Europe £m	North America £m	Asia-Pacific £m	Total £m
Assets					
Cash and balances at the Bank of England	1,785	-	-	-	1,785
Other assets	540	423	3,058	-	4,021
Derivative financial instruments*	-	-	-	-	-
Loans and advances to financial counterparties:					
Fixed term deposits	89	-	-	-	89
Reverse repos	31,720	98	-	-	31,818
Securities held for trading	497	249	-	-	746
	34,631	**770**	**3,058**	**-**	**38,459**
Liabilities					
Deposits by financial counterparties:					
Repos	13,802	-	-	-	13,802

At 31 March 2018

	United Kingdom £m	Rest of Europe £m	North America £m	Asia-Pacific £m	Total £m
Assets					
Cash and balances at the Bank of England	1,106	-	-	-	1,106
Other assets	444	699	2,351	-	3,494
Derivative financial instruments*	-	2	-	-	2
Loans and advances to financial counterparties:					
Reverse repos	21,808	613	13	-	22,434
Securities held for trading	-	1,990	-	-	1,990
	23,358	**3,304**	**2,364**	**-**	**29,026**
Liabilities					
Deposits by financial counterparties:					
Repos	14,671	-	-	-	14,671

* 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. Where neither the individual contracting entity nor its parent entity are rated externally, balances are categorised as unrated, as described in note 21 (i).

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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
AAA	497	-	249	1,491	-	-	-	-	746	1,491
AA- to AA+	2,301	5,268	-	-	2,233	924	-	-	4,534	6,192
A- to A+	35,241	26,595	283	1,314	825	1,438	-	-	36,349	29,347
BBB- to BBB+	39	30	238	-	-	2	-	-	277	32
Unrated*	10,355	6,136	-	499	-	-	-	-	10,355	6,635
	48,433	**38,029**	**770**	**3,304**	**3,058**	**2,364**	**-**	**-**	**52,261**	**43,697**

* Includes exposure to non-bank financial counterparties.

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.

22 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 time 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

	2019 £m	2018 £m
VaR at 31 March	0.66	0.30
The range of end-of-day VaR in the year ended 31 March was:		
Highest	1.17	2.57
Average	0.60	0.71
Lowest	0.29	0.16

(b) Interest rate risk – retail gilts

	2019 £m	2018 £m
VaR at 31 March	0.06	0.05
The range of end-of-day VaR in the year ended 31 March was:		
Highest	0.10	0.09
Average	0.06	0.06
Lowest	0.04	0.04

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 2019 were: index-linked gilts, with a carrying value of £8,761 million (31 March 2018: £11,508 million); the deposit at the National Loans Fund, with a carrying value of £16,546 million (31 March 2018: £27,616 million); the advance from the National Loans Fund, with a carrying value of £23,024 million (31 March 2018: £48,030 million); and call notice deposits from customers, with a carrying value of £34,951 million (31 March 2018: £31,918 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	Fixed rate instruments	Fixed rate instruments	Floating rate instruments
	Weighted average interest rate	Weighted average period	Statement of financial position carrying value	
	2019 %	2019 Years	2019 £m	2019 £m
Sterling				
Assets*	3.24	10.12	173,222	25,307
Liabilities (before funding by National Loans Fund)	0.75	0.15	97,893	34,951

	2018 %	2018 Years	2018 £m	2018 £m
Sterling				
Assets*	3.33	11.16	198,653	39,124
Liabilities (before funding by National Loans Fund)	0.35	0.17	87,513	31,918

* This excludes cash and balances at the Bank of England

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

	2019 £m	2018 £m
PV01 at 31 March	(0.37)	(0.43)
The range of end-of-day PV01 in the year ended 31 March was:		
Highest positive	(0.37)	(0.10)
Average	(0.60)	(0.45)
Highest negative	(0.79)	(0.81)

Interest rate risk - retail gilts

	2019 £m	2018 £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 23(iii).

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

23 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 2019

	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	1,785	-	-	-	-	-	-	-	-	1,785
Other assets	-	4,021	-	-	-	-	-	-	-	4,021
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Loans and advances to financial counterparties	-	14,318	8,329	7,208	1,309	743	-	-	-	31,907
Securities held for trading	-	-	-	451	497	-	1	2	8	959
Investment securities	-	7,213	2,306	6,547	9,533	5,787	5,622	16,407	95,702	149,117
Total assets before deposit at National Loans Fund	**1,785**	**25,552**	**10,635**	**14,206**	**11,339**	**6,530**	**5,623**	**16,409**	**95,710**	**187,789**
Deposit at National Loans Fund	16,546	-	-	-	-	-	-	-	-	16,546
	18,331	**25,552**	**10,635**	**14,206**	**11,339**	**6,530**	**5,623**	**16,409**	**95,710**	**204,335**
Liabilities										
Deposits by financial counterparties	-	16,402	-	-	-	-	-	-	-	16,402
Due to government customers	34,951	1,298	530	1	-	-	-	-	-	36,780
Other liabilities	87	-	-	-	-	-	-	-	-	87
Treasury bills in issue	-	27,446	28,965	22,941	310	-	-	-	-	79,662
Total liabilities before funding by National Loans Fund	**35,038**	**45,146**	**29,495**	**22,942**	**310**	**-**	**-**	**-**	**-**	**132,931**
Advance from National Loans Fund	23,024	-	-	-	-	-	-	-	-	23,024
	58,062	**45,146**	**29,495**	**22,942**	**310**	**-**	**-**	**-**	**-**	**155,955**

Maturity analysis of assets and liabilities at 31 March 2018

	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	1,106	-	-	-	-	-	-	-	-	1,106
Other assets	-	3,494	-	-	-	-	-	-	-	3,494
Derivative financial instruments	-	-	2	-	-	-	-	-	-	2
Loans and advances to financial counterparties	-	11,892	5,222	4,727	179	414	-	-	-	22,434
Securities held for trading	-	-	-	1,032	-	1,490	1	4	7	2,534
Investment securities classified as available-for-sale	-	5,380	11,602	13,831	9,198	3,198	8,217	19,238	114,527	185,191
Total assets before deposit at National Loans Fund	**1,106**	**20,766**	**16,826**	**19,590**	**9,377**	**5,102**	**8,218**	**19,242**	**114,534**	**214,761**
Deposit at National Loans Fund	27,616	-	-	-	-	-	-	-	-	27,616
	28,722	**20,766**	**16,826**	**19,590**	**9,377**	**5,102**	**8,218**	**19,242**	**114,534**	**242,377**
Liabilities										
Deposits by financial counterparties	-	16,928	63	-	-	-	-	-	-	16,991
Due to government customers	31,918	1,338	506	-	-	-	-	-	-	33,762
Other liabilities	117	-	-	-	-	-	-	-	-	117
Treasury bills in issue	-	20,223	21,487	24,956	1,994	-	-	-	-	68,660
Total liabilities before funding by National Loans Fund	**32,035**	**38,489**	**22,056**	**24,956**	**1,994**	**-**	**-**	**-**	**-**	**119,530**
Advance from National Loans Fund	48,030	-	-	-	-	-	-	-	-	48,030
	80,065	**38,489**	**22,056**	**24,956**	**1,994**	**-**	**-**	**-**	**-**	**167,560**

(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 2019

	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 financial counterparties	-	16,403	-	**16,403**	(1)	**16,402**
Due to government customers	34,950	1,831	-	**36,781**	(1)	**36,780**
Other liabilities	87	-	-	**87**	-	**87**
Treasury bills in issue	-	79,465	311	**79,776**	(114)	**79,662**
Total non-derivative liabilities before funding by National Loans Fund	**35,037**	**97,699**	**311**	**133,047**	**(116)**	**132,931**

* Carrying value per the statement of financial position

At 31 March 2018

	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 financial counterparties	-	16,992	-	**16,992**	(1)	**16,991**
Due to government customers	31,918	1,844	-	**33,762**	-	**33,762**
Other liabilities	117	-	-	**117**	-	**117**
Treasury bills in issue	-	66,726	2,000	**68,726**	(66)	**68,660**
Total non-derivative liabilities before funding by National Loans Fund	**32,035**	**85,562**	**2,000**	**119,597**	**(67)**	**119,530**

* Carrying value per the statement of financial position

At 31 March 2019 there were no liabilities that the DMA intended to repay before maturity (31 March 2018: 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 2019

	0-6 months £m	7-12 months £m	Total undiscounted flows £m
Sterling			
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, unsettled sale and repurchase agreements and unsettled deposits:			
Outflow	40,000	-	**40,000**
Inflow	-	-	**-**

	€m	€m	€m
Euro			
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, unsettled sale and repurchase agreements, and unsettled deposits:			
Outflow	-	-	**-**
Inflow	-	-	**-**

At 31 March 2018

	0-6 months £m	7-12 months £m	Total undiscounted flows £m
Sterling			
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, unsettled sale and repurchase agreements, and unsettled deposits:			
Outflow	1	-	**1**
Inflow	358	-	**358**

	€m	€m	€m
Euro			
Forward foreign exchange contracts, unsettled reverse sale and repurchase agreements, unsettled sale and repurchase agreements, and unsettled deposits:			
Outflow	405	-	**405**
Inflow	1	-	**1**

Carrying values are shown in note 9.

(b) Derivatives settled on a net basis
At 31 March 2019 the DMA held no derivatives settled on a net basis (31 March 2018: none).

At 31 March 2019 there were no derivative contracts that the DMA intended to terminate before maturity (31 March 2018: none). Management expects actual undiscounted cash flows in relation to derivatives to be the same as contractual undiscounted cash flows.

24 Events after the reporting date

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the Accounting Officer authorises the accounts for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

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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