United Kingdom
Debt Management
Office

Annual Report and Accounts 2019-2020

of the United Kingdom Debt Management Office

and the Debt Management Account

HC 590

United Kingdom Debt Management Office
Annual Report and Accounts 2019 – 2020

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 2019 – 2020

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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 2020.

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.

The **DMA** is one of the government's 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

This was the 22nd operational year for the DMO. Once again the DMO maintained its track record of successfully meeting the objectives of the financing and cash management remits set by HM Treasury ministers. £137.9 billion was raised by gilt sales compared with £98.6 billion in 2018-2019 against a challenging economic and political backdrop.

Of course, towards the end of the financial year, a new and unprecedented challenge emerged in the shape of the coronavirus (COVID-19) pandemic. COVID-19 is having a serious impact on the UK economy and public finances, which will lead to a significant increase in the DMO's financing remit in 2020-2021. This will have a material impact on the DMO's operations and its activities in 2020-2021.

Looking back to 2019-2020, auctions remained the DMO's primary means of selling gilts and accounted for £115.1 billion of gilt sales. This sum included proceeds from the Post Auction Option Facility, and represented 83.5% of the overall programme. The average cover ratio at gilt auctions in 2019-2020 increased slightly to 2.18 from 2.09 in 2018-2019.

The use of supplementary distribution methods, in the form of syndicated gilt offerings of long-dated conventional and index-linked gilts, again allowed the DMO to target its core domestic investor base directly. Five syndications were held in 2019-2020 (one more than in the previous financial year), raising £20.4 billion (14.8% of total gilt sales). Two of the syndications were increased in size above initial planning assumptions, resulting in £0.7 billion of the unallocated supplementary issuance amount being assigned to the syndication programme to accommodate these increases.

The DMO also held four gilt tenders in 2019-2020 (by contrast it held none in 2018-2019), raising £2.4 billion, 1.7% of total gilt sales in the financial year.

The bulk of the remaining unallocated supplementary issuance amount (£4.95 billion) was assigned to the auction programme to increase average auction sizes, which had been reduced due to take-up of the Post Auction Option Facility.

The gilt market continued to absorb the level of gilt supply in 2019-2020 smoothly. The gilt market has grown and developed significantly over the past decade or so, with a greater diversity of investors. At the end of 2007-2008, at the start of the global financial crisis, the nominal (uplifted) value of the gilt portfolio was £479 billion. At the end of 2019-2020, it was 3.38 times larger at £1,619 billion. Average daily turnover in the gilt market increased by 2.86% compared to the previous year to £37.4 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 2019-2020, with all related objectives achieved despite very 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 47% of the amount outstanding at 31 December 2019 being held by this group.

The PWLB lending facility has continued to fulfil its statutory function. At 31 March 2020, the PWLB's loan book was £85.7 billion. 1,094 new loans totalling £10.4 billion were advanced during the financial 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 £43.7 billion at 31 March 2020.

Looking ahead, the DMO's financing remit for 2020-2021, was published on 11 March 2020. Planned gilt sales of £156.1 billion were announced, an increase of £42.0 billion (36.8%) compared to the initial planned sales in 2019-2020.

However, the size of the DMO's remit soon needed to be revised due to the scale of the measures announced by HM Treasury to support the economy through the period of disruption caused by COVID-19. As a result, on 31 March 2020, the size of the planned gilt programme in April 2020 was more than doubled to £45 billion and 11 gilt auctions were added to the calendar. On 23 April 2020, the size of the planned gilt programme was significantly increased again: planned gilt sales for May-July 2020 of £180.0 billion were announced, taking planned sales for the first four months of 2020-2021 to £225.0 billion.

Overall, the DMO has continued to perform very strongly 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, particularly during the very challenging period during which coronavirus has affected the UK. 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, particularly during the unprecedented challenges that lie ahead in 2020-2021.

Sir Robert Stheeman
Chief Executive
01 July 2020

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, 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 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 40 to 51.

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 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 distribution 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'.

Offsetting these net cash flows 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 Cash Management Operational Notice and UK T-bills Information Memorandum (which is available on the DMO website at www.dmo.gov.uk).

PWLB lending facility (formerly Public Works Loan Board)

The PWLB lending facility is operated by the DMO on behalf of HM Treasury. It provides loans to local authorities, and other specified bodies, using funding from the National Loans Fund, and collects repayments. The PWLB lending facility operates within a policy framework set by HM Treasury. The loans are for capital projects.

Prior to 25 February 2020, PWLB loans were provided by the Public Works Loan Board. The Public Bodies (Abolition of Public Works Loan Commissioners) Order 2020 abolished the Public Works Loan Commissioners on 25 February 2020 and transferred their statutory powers to HM Treasury. From that point, the function has been managed within a new reporting entity called the PWLB lending facility.

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

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 2020, the advance was £2 million (31 March 2019: £23,024 million). The DMA pays interest at the Bank Rate on any advance from the National Loans Fund.

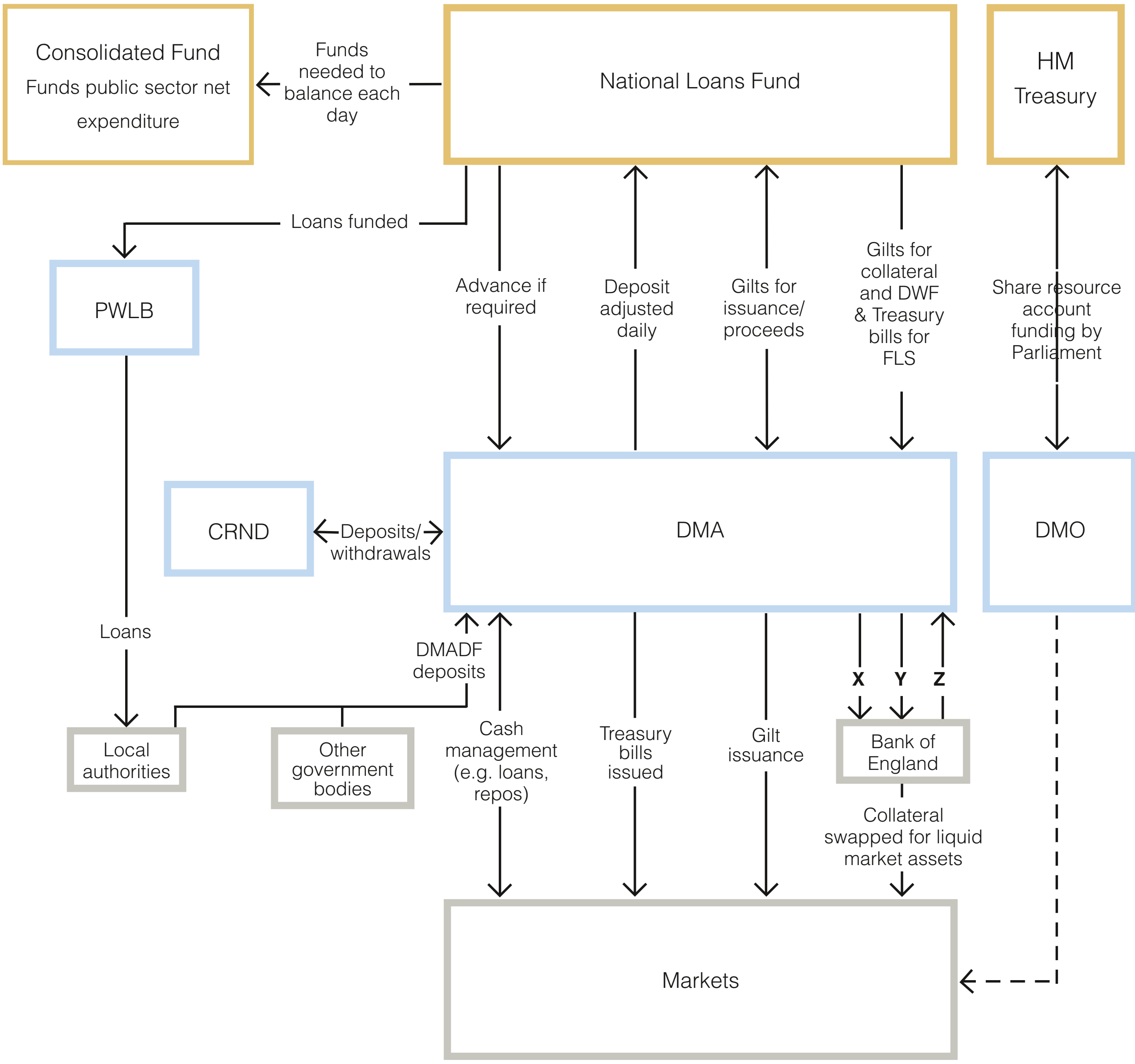
In order for the DMA to balance the daily financing needs of the National Loans Fund, the DMA actively manages its daily cashflows to ensure that the DMA is able to deposit sufficient funds with the National Loans Fund so that the National Loans Fund has a nil cash balance at the end of each day. The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



Key

Operations of HM Treasury

Operations of the DMO

X = Loan of collateral
Y = Loan of DBV gilts
Z = Loan of specific gilts

Note:

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

Performance summary

2019-2020 was a successful year for the DMO, including meeting its debt and cash management remits.

Debt management

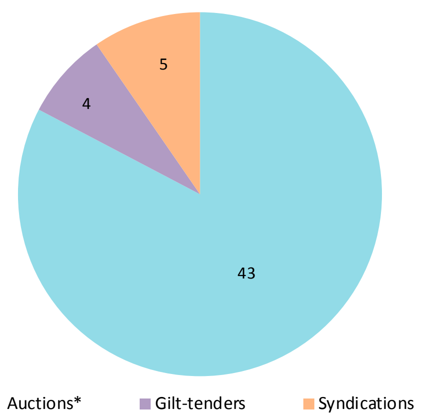
Debt issuance

In 2019-2020, 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 planned gilt sales started the year at £114.2 billion, as announced in the Spring Budget on 11 March 2019. This amount was increased slightly to £117.8 billion, following the outturn for Central Government's Net Cash Requirement (ex NRAM, B&B and NR)[1] for 2018-2019 on 24 April 2019. It was further increased to £122.8 billion at a remit adjustment on 12 November 2019 and then to £136.8 billion at a remit adjustment on 7 January 2020.

Net sales of Treasury bills were initially planned to make a £4.0 billion contribution to debt financing in 2019-2020. This planning assumption was changed at the remit adjustment on 7 January 2020 when net sales of Treasury bills for debt management purposes were increased by £2.0 billion to a planned net contribution to financing of £6.0 billion.

A total of 43 gilt auctions were held in 2019-2020, with an average release time for auction results of 4.0 minutes. Gilt auctions remained the core of the financing programme, raising £115.1 billion (83.5% of total gilt sales).

Figure 1: Gilt 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)).

The auction programme was supplemented by a programme of five syndicated offerings (three of long-dated conventional and two of index-linked gilts) which raised £20.4 billion (14.8% of total gilt sales). Two of the syndications were increased in size above initial planning assumptions. This resulted in £0.7 billion of a £8.0 billion unallocated supplementary issuance amount being allocated to the syndication programme to accommodate these increases.

The bulk of the unallocated supplementary issuance amount (£4.95 billion) was allocated to the auction programme to increase average auction sizes, which had been reduced due to take-up of the Post Auction Option Facility (PAOF). In addition, £2.4 billion of the unallocated amount was sold at the four gilt tenders held in 2019-2020.

The PAOF, through which successful bidders at gilt auctions have the right to acquire up to an additional 15% of their auction allocation, was activated 26 times out of 43 auctions, raising £7.8 billion of the £115.1 billion proceeds from gilt auctions.

The major differences in the gilt issuance profile in 2019-2020 compared to the previous financial year were increases in the short-dated and medium-dated proportions - reflecting the impact of the January 2020 remit adjustment (which focused on these maturities) and a further reduction in the proportion of index- linked issuance. The reduction in the index-linked proportion reflected the government's stated intention to reduce, in a measured fashion, the proportion of index-linked issuance as a share of total

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

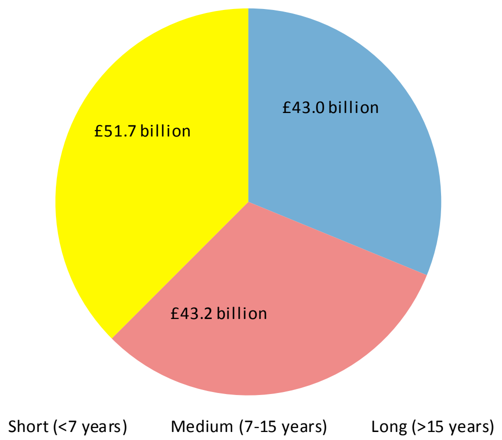
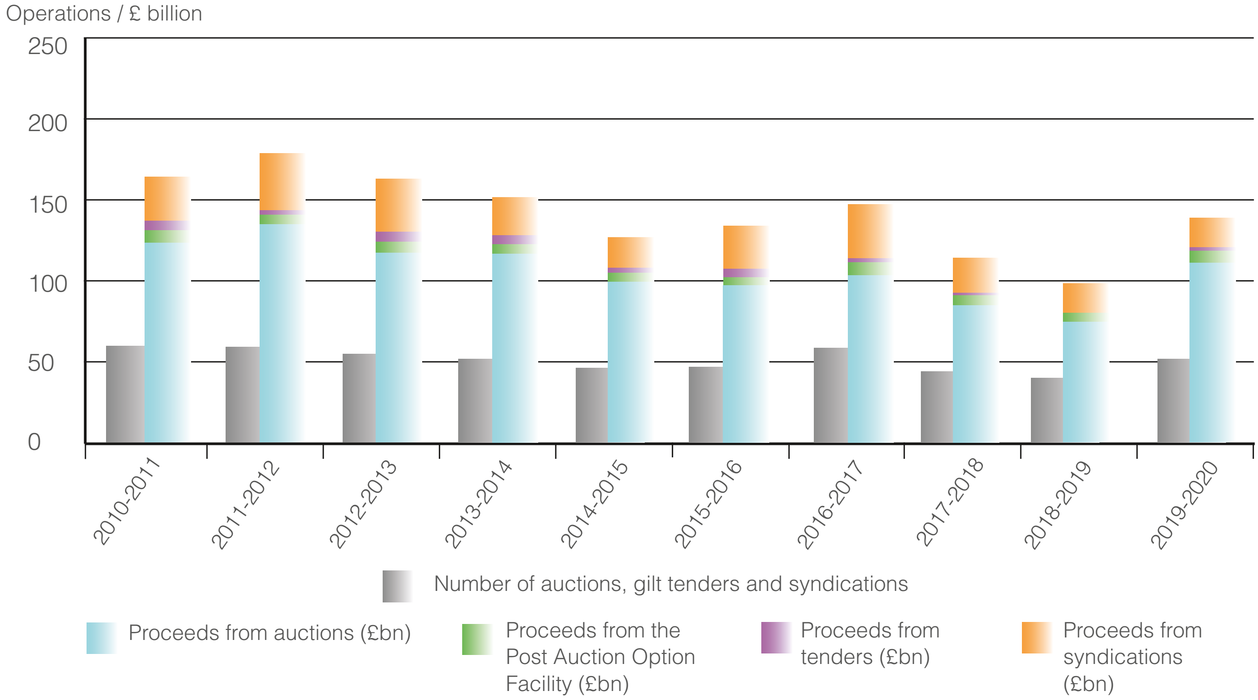


Figure 3: Number of gilt issuance operations and proceeds



issuance over the medium-term. This reflected the government's planned reform of RPI and preferences regarding inflation exposure.

Short-dated conventional gilt issuance was £43.0 billion (31.2% of sales), medium-dated conventional gilt issuance was £35.2 billion (25.5% of sales), and long-dated conventional gilt issuance was £36.6 billion (26.5% of sales). Index-linked gilt issuance was £23.1 billion (16.8% of sales, compared to a share of 21.7% in 2018-2019).

Average daily turnover in the gilt market in 2019-2020 was £37.4 billion, an increase of £1.1 billion from 2018-2019. Maintaining market liquidity is a key factor in addressing the needs of a diversified investor base.

The DMO also delivered a large Treasury bill sales programme comprising sales for both debt and cash management purposes. The stock of Treasury bills issued for debt management purposes rose by £6.0 billion during the year to £62.0 billion at 31 March 2020, more than reversing the reduction of £4.0 billion in 2018-2019.

The DMO received its financing remit for 2020-2021 in the Budget on 11 March 2020. Planned gilt sales of £156.1 billion were announced, an increase of £42.0 billion (36.8%) compared to the initial planned sales in 2019-2020. Planned net sales of Treasury bills were not expected to contribute to debt management.

The DMO's remit was revised on 23 April 2020 to take into account implications for the government's borrowing requirement of all measures announced by government to that date to support the economy through the period of disruption caused by COVID-19 and the outturn of the 2019-2020 CGNCR (ex NRAM, B&B and NR).

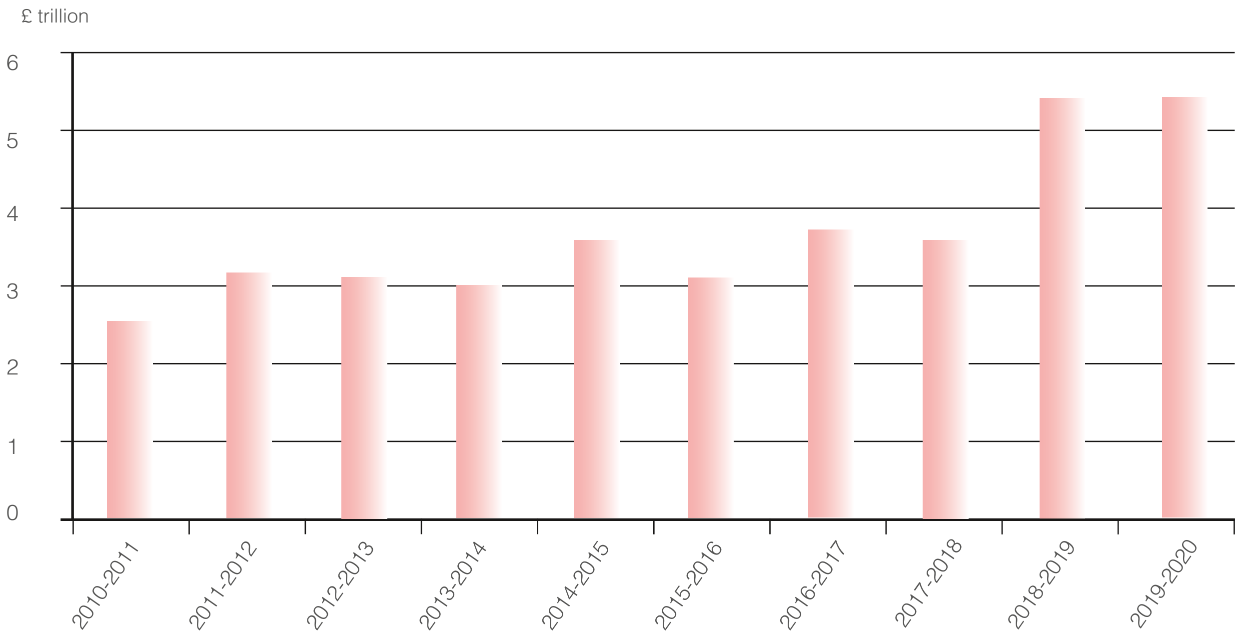
At the remit revision on 23 April 2020, the DMO announced plans to raise £180 billion during the May to July period (inclusive). This announcement took planned gilt sales in the period from April to July 2020 to £225 billion. A further update to the financing remit for 2020-21 will be announced on 29 June 2020.

Gilt holdings

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

- Purchase and sale service (fair value of £13 million at 31 March 2020) - these gilts are used for purchase and sale transactions with retail investors.
- Other gilt holdings (fair value of £224 million at 31 March 2020) - 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 2019-2020. 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 2019-2020 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 2019-2020, the DMA held gilts for use as collateral in repo transactions. The collateral has been purchased from the National Loans Fund on various occasions since 3 February 2000. At 31 March 2020, gilts held specifically for use as cash management collateral had a carrying value of £68.4 billion.

The high value of DMA turnover during 2019-2020, as visible in Figure 4, represents the large 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 1,094 new loans to borrowers totalling £10.4 billion (2019: £9.1 billion). This resulted in fee income for the DMO of £3.6 million (2019: £3.2 million). At 31 March 2020, the loan assets outstanding to the PWLB were £86.6 billion (31 March 2019: £78.3 billion).

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

CRND

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

This resulted in fee income for the DMO of £0.4 million (2019: £0.4 million). At 31 March 2020, the market value of funds under management was £43.7 billion (2019: £35.0 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 2019-2020, this service transacted 470 gilt sales with a value of £20.0 million and 656 gilt purchases with a value of £19.3 million. This resulted in fee income for the DMO of less than £1 million (2019: less than £1 million).

Discount Window Facility

Under the Discount Window Facility, the DMO may lend gilts 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 2020, the DMA held Treasury bills to facilitate this scheme with a value of £3.2 billion (2019: £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 2020, the DMA had no funds on deposit with the Bank of England in relation to the Asset Purchase Facility.

Also during 2019-2020, 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

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 40 to 51. 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 2020-2021

The key business planning themes for 2020-2021 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 2020-2021

1. Delivery of the 2020-21 financing remit – to be achieved primarily through sales of conventional and index-linked gilts.

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 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.

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

8. 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 2020-2021

The DMO's objectives for 2020-2021 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 PWLB lending facility.

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 2020-2021

1. To ensure full compliance with the government's remit for the DMO (which is set out in the Debt Management Report 2020-21).

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, evolving market conditions and the necessity for adaptations to working practices related to COVID-19 and the UK leaving the European Union, the DMO will particularly need to retain the flexibility and capability to prioritise and to adapt quickly to changing conditions in the year ahead.

Key issues and risks

The key issues and risks facing the DMO are considered in the governance statement on page 40 to 51.

Sir Robert Stheeman
Chief Executive
01 July 2020

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 2019-2020 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 2019-2020 ahead of Spring Statement 2019. Once again the advice focussed on designing a debt issuance programme to deliver the government's debt management objective against the backdrop of an ongoing high forecast financing requirement in volatile market conditions. The advice continued to take into account the government's stated preferences for limiting exposure to inflation risk in its debt portfolio.

The advice provided reflected the DMO's continuing assessment that the gilt market backdrop remained challenging, reflecting ongoing volatility in international capital markets and in particular Brexit related uncertainty. In recognition of these trends, the advice recommended the removal of certain restraints on in-year modifications to the financing programme (see below).

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 well-diversified issuance programme across maturities was judged to best meet the debt management objective, albeit skewed modestly more towards short-dated and medium-dated gilts relative to 2018-2019, reflecting expectations of higher risk, the record total of redemptions (£98.9 billion), and market feedback on the relative strength of demand at different maturities.

This backdrop led to a recommendation of a similar split of issuance to the preceding five financial years, with modest increases of 1.5% and 2.1% respectively in the planned proportion of short-dated and medium-dated issuance being balanced by reductions of 1.6% and 2.0% in the planned proportions of long-dated and index-linked issuance. Initially planned gilt sales were £114.1 billion, compared 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 75.2% of total planned sales), but this programme was again supplemented by sales of long-dated conventional and index-linked gilts via syndicated offerings (18.4% 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.

The responsiveness of the auction calendar to unforeseen or changing market circumstances was enhanced by explicitly permitting it to be altered to accommodate the Chancellor's decisions on the fiscal events calendar, any significant data releases, or newly announced market sensitive events, as well as the scheduling of a syndicated offering. In addition, it was provided that the planned auction calendar may also be changed on a quarterly basis following consultation with the market.

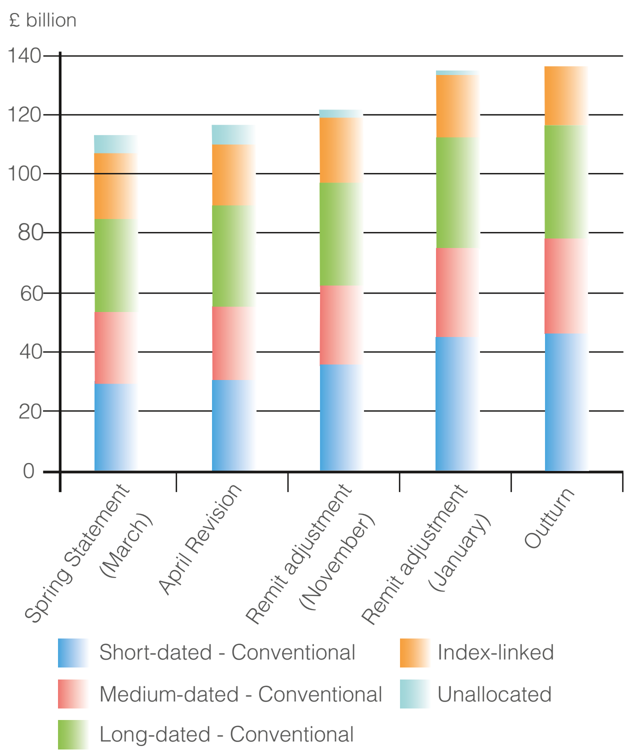
Planned gilt sales rose by £3.7 billion to £117.8 billion following the publication of the outturn CGNCR (ex NRAM, B&B and NR)[1] for 2018-2019 on 24 April 2019. This increase was achieved principally via slightly increased average auction sizes. The increases were designed to maintain the planned split by maturity and type of gilt announced at Spring Statement 2019.

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

Planned gilt sales rose by £5.0 billion to £122.8 billion at an adjustment to the remit revision on 12 November 2019: planned sales of short-dated conventional gilts rose by £3.0 billion and planned sales of long-dated conventional gilts rose by £2.0 billion and one additional auction of each type was scheduled. The revision was an interim technical adjustment reflecting the postponement of the Budget ahead of an announced General Election.

Planned gilt sales rose by a further £14.0 billion to £136.8 billion at a second adjustment to the financing remit on 7 January 2020. Planned sales of short-dated and medium-dated conventional gilts were increased by £7.25 billion and £6.25 billion respectively and two additional auctions of each maturity were scheduled. The size of the remaining unallocated portion of gilt issuance was also increased by £0.5 billion. In addition, planned sales of Treasury bills for debt financing purposes were increased by £2.0 billion, taking their net contribution to financing in 2019-2020 to £6.0 billion.

Figure 5: Gilt sales in 2019-2020



The DMO successfully delivered the financing remit in 2019-2020, with gilt sales of £137.9 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, rising by £6.0 billion and resulting in a stock (for debt management purposes) of £62.0 billion at 31 March 2020.

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

The DMO successfully delivered its cash management objectives for 2019-2020, 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 2019-2020, 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 as requested.

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 2019-2020 for services relating to the management of these funds, which had a value of £43.7 billion at 31 March 2020.

The operating cost of CRND in 2019-2020 is disclosed in the fees and charges section on page 61.

6. To provide a cost-effective lending service to local authorities through the Public Works Loan Board (subsequently the PWLB lending facility).

The PWLB lending facility (formerly Public Works Loan Board) agreed £10.4 billion of new loans to borrowers in 2019-2020. The DMO charged £3.6 million in 2019-2020 for services relating to this lending.

The operating cost of the PWLB in 2019-2020 is disclosed in the fees and charges section on page 61. Full details of the PWLB's operations appear in the PWLB Report and Accounts 2019-2020.

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

During 2019-2020, the DMO employed an average of 125 full-time equivalent staff, of which 99 were permanent civil servants and 26 were short-term contract staff.

The DMO was most recently re-accredited as an 'Investor in People' in October 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 40 to 51.

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 2019-2020 and the DMO's performance against them are summarised below.

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

Achieved. The DMO complied fully with the financing remit in 2019-2020.

The gilt sales outturn was £137.9 billion (cash) relative to the revised target of £136.8 billion as restated on 7 January 2020. The final gilts sales figure was £1.1 billion above the revised target. Sales were achieved through the conduct of 43 auctions (33 conventional and 10 index-linked), 5 syndicated offerings, and 4 gilt tenders. 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 2019-2020.

Outright gilt sales of £114.1 billion had initially been planned for 2019-2020, as announced at the Spring Statement in March 2019. This comprised a gilt auction programme of £85.8 billion via 37 auctions (75.2% of total planned sales). It was also intended that a minimum £21.0 billion (18.4% of total planned sales) would be raised via the syndication programme and £7.3 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 2019, the gilt sales requirement rose by £3.7 billion to £117.8 billion reflecting the outturn Central Government Net Cash Requirement (excluding NRAM, Bradford and Bingley, and Network Rail) for 2018-2019. The change was accommodated by an increase in the size of the gilt auction programme – the distribution of issuance announced at Spring Statement was broadly maintained.

A technical remit adjustment was announced on 12 November 2019, reflecting the government's decision to postpone Budget 2019, previously scheduled for earlier in the month, to allow for a General Election to take place. It is standard practice for the DMO to announce a remit revision in the autumn to accommodate any change to the financing requirement following publication of an updated public finances forecast. However, in the absence of an updated public finances forecast due to postponement of the Budget, this technical adjustment was based on a broad assessment of the in-year financing position and, in order to accommodate the adjustment within the calendar year, it was necessary for it to be published during the pre-General Election period. The DMO's gilt sales requirement rose by £5.0 billion, taking total planned sales to £122.8 billion. Planned sales of short-dated conventional gilts rose by £3.0 billion to £34.3 billion and planned sales of long-dated conventional rose by £2.0 to £35.9 billion. Two additional gilt auctions were scheduled.

A second adjustment to the remit was published on 7 January 2020 reflecting the latest estimate of the government's financing requirement for the remainder of 2019-2020. Planned gilt sales rose by £14.0 billion, taking total planned sales to £136.8 billion. Planned sales of short-dated conventional gilts rose by £7.25 billion to £42.8 billion, planned sales of medium-dated conventional gilts rose by £6.25 billion to £33.8 billion and the size of the remaining unallocated portion of issuance was increased by £0.5 billion to £1.25 billion. Four additional gilt auctions (two short-dated and two medium-dated) were scheduled.

Net sales of Treasury bills were initially planned to make a contribution of £4.0 billion to meeting the net financing requirement in 2019-2020. At the January 2020 remit adjustment Treasury bill sales for debt financing purposes rose by £2.0 billion, taking their planned net contribution to financing in 2019-2020 to £6.0 billion.

The evolution of planned and actual issuance by maturity and type through 2019-2020 is presented in the table opposite.

Table 1: 2019-2020 Gilt sales

	Conventional gilts (£bn)			Index-linked gilts (£bn)	Unallocated gilts (£bn)*	Total (£bn)
	Short-dated	Medium-dated	Long-dated			
Planned gilt sales						
Spring Statement (March)	29.4	24.8	30.8	21.8	7.3	114.1
April revision	30.5	25.8	31.9	22.6	7.0	117.8
Remit adjustment (November)	34.3	26.9	35.9	22.6	3.1	122.8
Remit adjustment (January)**	42.8	33.8	36.4	22.6	1.3	136.8
Actual gilt Sales						
Outturn	**43.0**	**35.2**	**36.6**	**23.1**	**-**	**137.9**

* Unallocated gilts were initially unallocated and were then allocated to conventional and index-linked gilt operations throughout the year.

**Figures may not sum due to rounding.

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.

Achieved. The release time for the 43 auctions held during 2019-2020 ranged from 3 to 7 minutes and averaged 4.0 minutes (2018-2019: 3.8 minutes).

The release time for the 4 gilt tenders held during 2019-2020 ranged from 3 to 5 minutes and averaged 3.5 minutes (2018-2019: no gilt tenders).

The release time for the 51 Treasury bill tenders conducted during 2019-2020 ranged from 4 to 11 minutes and averaged 4.9 minutes (2018-2019: 4.7 minutes).

Table 2: Gilt auctions

Date	Gilt	Release time (mins)
2 Apr 19	1% Treasury Gilt 2024	7
9 Apr 19	1 5/8% Treasury Gilt 2028	4
16 Apr 19	1¾% Treasury Gilt 2037	4
9 May 19	1% Treasury Gilt 2024	4
23 May 19	0 1/8% Index-linked Treasury Gilt 2028	3
4 Jun 19	1% Treasury Gilt 2024	3
12 Jun 19	0 1/8% Index-linked Treasury Gilt 2048	4
18 Jun 19	0 7/8% Treasury Gilt 2029	5
25 Jun 19	1¾% Treasury Gilt 2049	4
2 Jul 19	0 7/8% Treasury Gilt 2025	6
16 Jul 19	1¾% Treasury Gilt 2037	3
23 Jul 19	0 7/8% Treasury Gilt 2029	4
6 Aug 19	0 7/8% Treasury Gilt 2025	5
13 Aug 19	1¾% Treasury Gilt 2049	4
20 Aug 19	0 1/8% Index-linked Treasury Gilt 2028	4
3 Sep 19	0 7/8% Treasury Gilt 2025	3
5 Sep 19	0 7/8% Treasury Gilt 2029	4
24 Sep 19	0 1/8% Index-linked Treasury Gilt 2048	3
1 Oct 19	1¾% Treasury Gilt 2037	3
8 Oct 19	0 1/8% Index-linked Treasury Gilt 2036	3
15 Oct 19	0 7/8% Treasury Gilt 2029	4
22 Oct 19	0 7/8% Treasury Gilt 2025	5
29 Oct 19	0 1/8% Index-linked Treasury Gilt 2048	3
5 Nov 19	0 7/8% Treasury Gilt 2029	4

Date	Gilt	Release time (mins)
14 Nov 19	1¾% Treasury Gilt 2049	4
26 Nov 19	0 7/8% Treasury Gilt 2025	3
3 Dec 19	0 7/8% Treasury Gilt 2029	4
5 Dec 19	1¾% Treasury Gilt 2049	3
11 Dec 19	0 1/8% Index-linked Treasury Gilt 2048	4
17 Dec 19	2% Treasury Gilt 2025	5
7 Jan 20	0 7/8% Treasury Gilt 2029	4
9 Jan 20	0 1/8% Index-linked Treasury Gilt 2028	4
14 Jan 20	0 7/8% Treasury Gilt 2025	3
21 Jan 20	1¼% Treasury Gilt 2041	3
28 Jan 20	0 7/8% Treasury Gilt 2029	3
4 Feb 20	0 1/8% Index-linked Treasury Gilt 2036	3
20 Feb 20	1½% Treasury Gilt 2026	4
25 Feb 20	0 7/8% Treasury Gilt 2029	3
4 Mar 20	0 7/8% Treasury Gilt 2025	5
5 Mar 20	0 1/8% Index-linked Treasury Gilt 2028	5
10 Mar 20	4¾% Treasury Gilt 2030	4
17 Mar 20	1¾% Treasury Gilt 2049	4
20 Mar 20	0 7/8% Treasury Gilt 2025	6

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.

Achieved. Internal control procedures identified no significant errors. The Comptroller and Auditor General certified that the 2018-2019 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 23 July 2019. 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 and is compliant with all General Data Protection Regulation (GDPR) requirements.

Achieved. All of the DMO's responses to Freedom of Information Act requests were within the statutory 20 working day limit. The DMO complied with all GDPR requirements.

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

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

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

Achieved. All loan and early settlement applications from local authorities were processed within two working days.

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

Achieved. The gilt purchase and sale service during 2019-2020 was conducted fully in line with its terms and conditions.

Financial results of the United Kingdom Debt Management Office

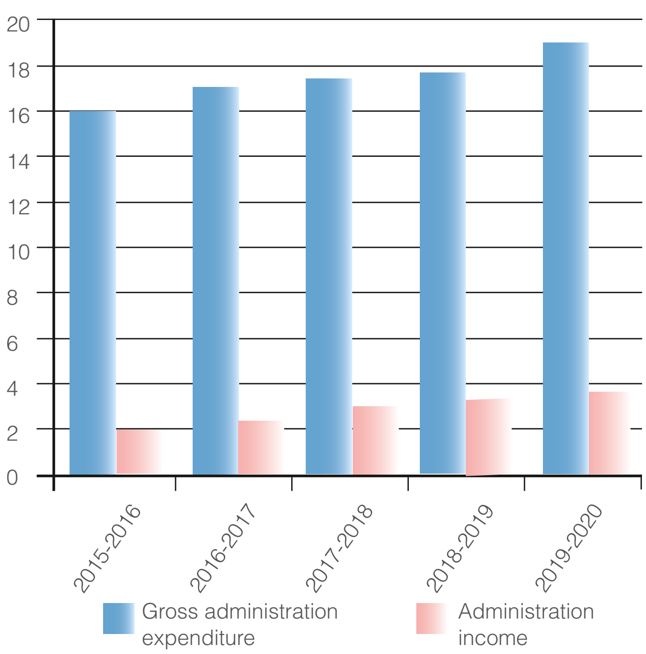
The DMO is financed through an allocation of HM Treasury's net funding approved by Parliament.

The DMO's net operating cost for 2019-2020 increased by £0.4 million to £18.8 million (2018-2019: £18.4 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.

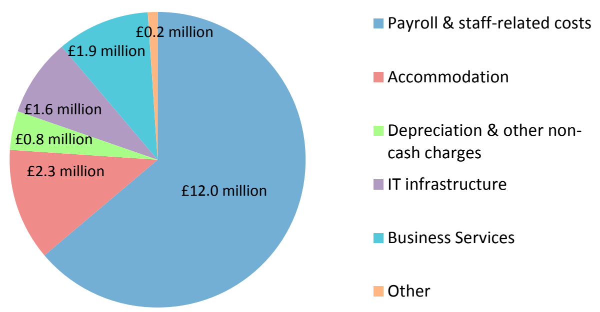
Figure 6: Administration expenditure and income



During 2019-2020, **gross administration expenditure increased by £1.1 million** to £18.8 million (2018-2019: £17.7 million). There was an increase in various payroll and staff-related costs (£1.0 million), though this is largely attributable to the increase in pension costs due to the change in employer contribution rates. There was an increase in depreciation costs, legal services and consultancy fees that also contributed to the overall increase. Though there was a decrease in IT costs and last year saw a one-off adjustment required for an accommodation-related provision.

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

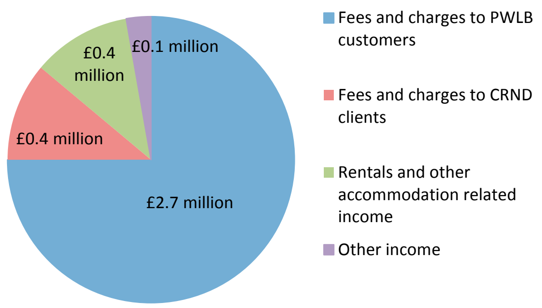
Income received by the DMO principally comprised fees charged for issuing new loans to PWLB customers and for the provision of fund management services to other government clients of CRND. In addition, the DMO recovered costs associated with various other activities it undertakes on behalf of others, 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 2019-2020, **administration income increased by £0.4 million** to £3.6 million (2018-2019: £3.2 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. 1,094 new loans totalling £10.4 billion were lent in 2019-2020 (2018-2019: 1,308 loans, £9.1 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 2019-2020, **gross programme expenditure decreased by £0.2 million** to £4.5 million (2018-2019: £4.7 million).

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

Figure 9: Programme expenditure and income

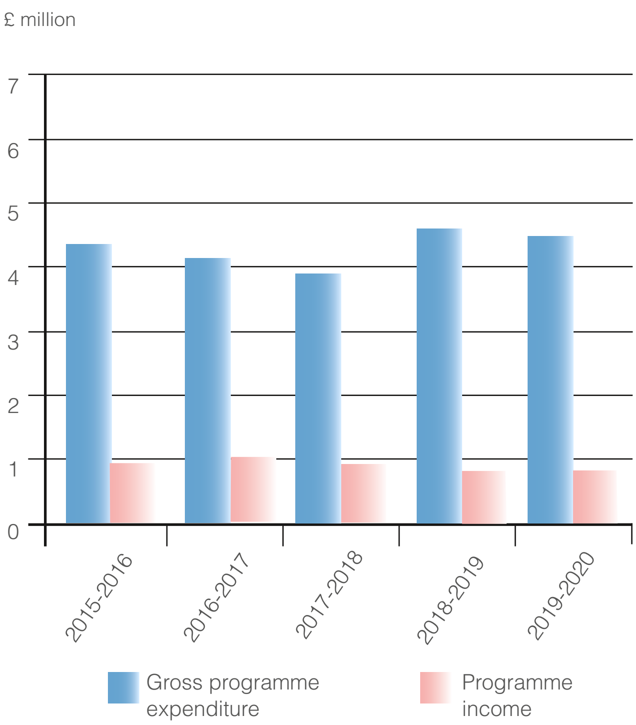
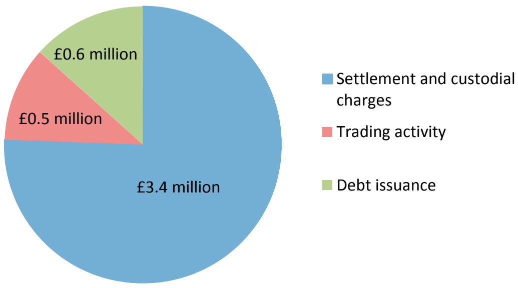


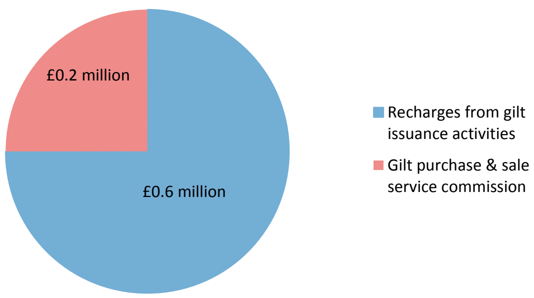
Figure 10: Gross programme expenditure



Programme income

During 2019-2020, **programme income remained constant at £0.8 million** (2018-2019: £0.8 million). There were similar levels of commission received from Computershare Investor Services PLC due to the comparable secondary market trading activity in the gilt purchase and sale service.

Figure 11: Programme income



Statement of financial position

At 31 March 2020, 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 of 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

Statement of Comprehensive Income

The DMA's operations for the financial year 2019-2020 gave rise to **net interest income of £3,747 million** (2019: £3,796 million), **other gains of less than £1 million** (2019: other gains of £3 million) and **fee income of less than £1 million** (2019: less than £1 million). This resulted in a statement of comprehensive income **surplus for the year of £3,747 million** (2019: £3,799 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

Income net of associated cost of funds	**£m**
Cash management	35
Facilitation of HM Treasury and Bank of England schemes:	
Gilts held for the Discount Window Facility	1,730
Treasury bills held for the Funding for Lending Scheme	36
Other income	
Collateral pool	2,318
Net deposit at National Loans Fund (part not allocated as cost of funds)	327
Other	9
Other expense	
Deposits from CRND funds	(262)
Treasury bills (not part of cash management)	(446)
	3,747

Net interest income: £3,747 million

Interest income was generated mainly by the DMA's holding of collateral gilts for cash management operations (£2,318 million) and involvement in the Discount Window Facility (£1,730 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 2019-2020.

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

The DMA funds its purchase of such gilts and Treasury bills with an advance from the National Loans Fund, which incurs interest at the Bank Rate. The Bank Rate decreased from 0.75% to 0.25% on 11 March 2020 and from 0.25% to 0.10% on 19 March 2020.

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 2019-2020, which will be available on the DMO website at www.dmo.gov.uk.

Other gains and losses: less than £1 million gain

Changes in the value of cash management assets resulted in net income of less than £1 million (2019: net income of £3 million).

Fee income: less than £1 million

The DMA received a fee of less than £1 million (2019: less than £1 million) in relation to the Funding for Lending Scheme.

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

At 31 March 2020, the DMA held investment securities classified as held at 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 £120,286 million at 31 March 2020 (31 March 2019: £149,117 million). This decrease was principally due to redemptions in the gilt collateral pool (£8,054 million nominal) and net redemptions of Treasury bills in relation to the Funding for Lending scheme (£19,987 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 2020, the carrying value of the National Loans Fund advance was £2 million (31 March 2019: £23,024 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 2020, securities held for trading were £1,312 million (31 March 2019: £959 million), loans and advances to financial counterparties were £34,712 million (31 March 2019: £31,907 million), deposits by financial counterparties were £29,169 million (31 March 2019: £16,402 million), and the DMA deposit at the National Loans Fund was £55,333 million (31 March 2019: £16,546 million).

During the year, the DMA issued Treasury bills by weekly tender with a nominal value of £267,246 million (see figure 13) (2019: £219,000 million). Treasury bills still in issue at 31 March 2020 had a carrying value of £83,705 million (31 March 2019: £79,662 million). The change in Treasury bills in issue was planned in order for the DMO to meet its debt and cash management remit for 2019-2020.

The DMA also received deposits from government customers throughout the year. This liability due to government customers was £47,446 million at 31 March 2020 (31 March 2019: £36,780 million). The increase was primarily due to a net increase of £8,761 million in deposits from the CRND, along with a £1,905 million increase in deposits from other government counterparties.

Figure 12: Assets and liabilities of the DMA

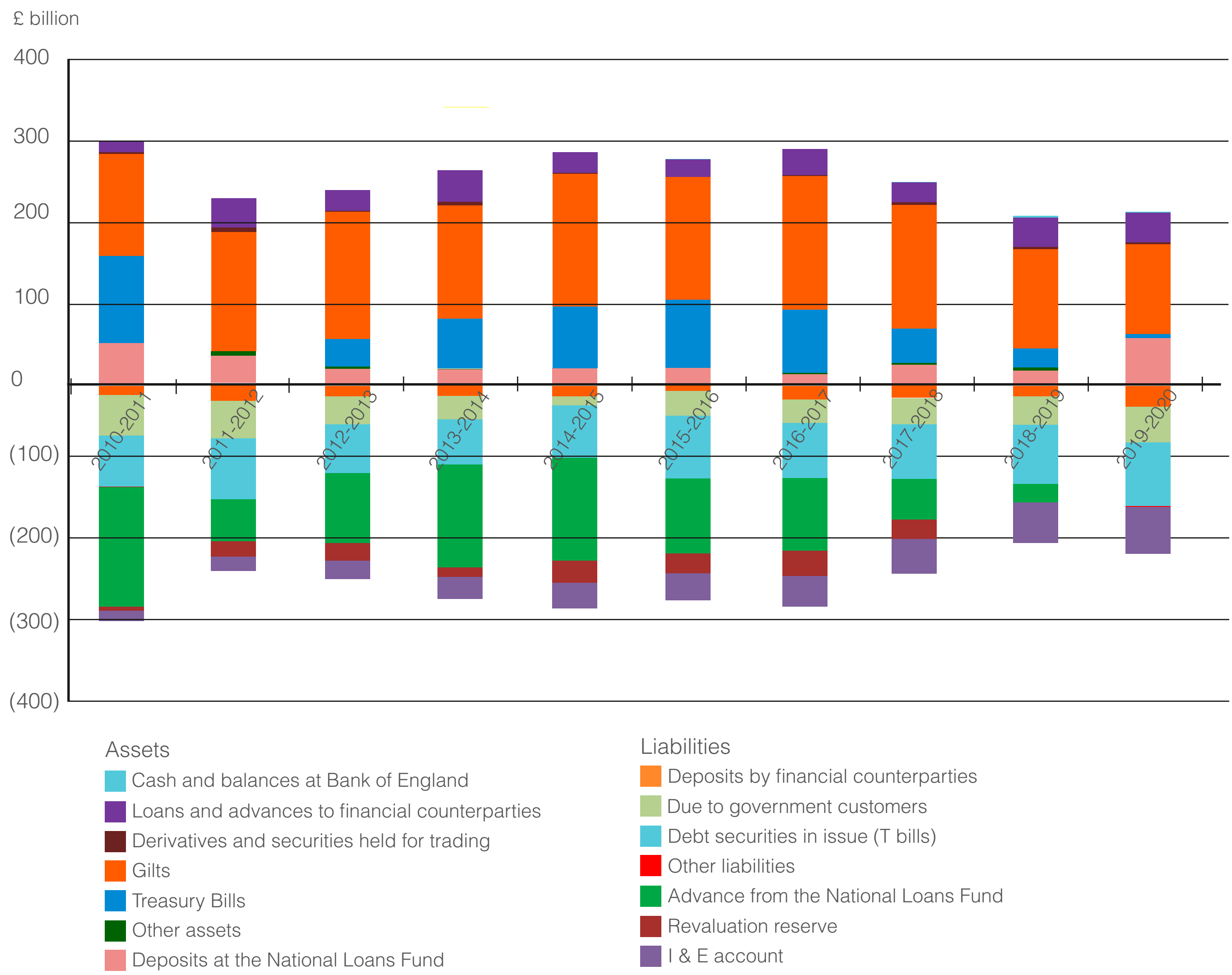
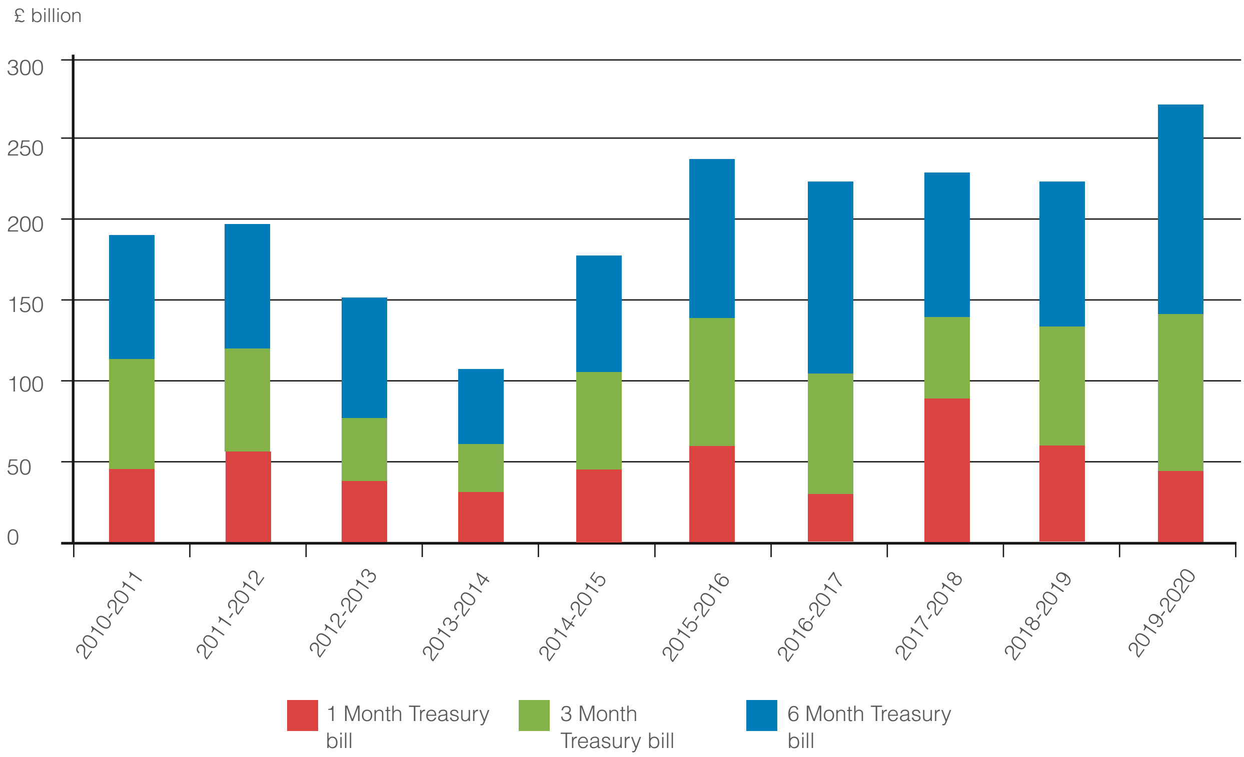


Figure 13: Treasury bill issuance by weekly tender



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
01 July 2020

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 40 to 51.

- **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)
- **Tom Josephs**
  Non-executive HM Treasury representative (from 2 September 2019)
- **Brian Duffin**
  Non-executive director (until 31 December 2019)
- **Paul Fisher**
  Non-executive director
- **Paul Richards**
  Non-executive director (from 13 May 2019)

Sir Robert Stheeman
Chief Executive
01 July 2020

Directors' conflicts of interest

In 2019-2020, no material conflicts of interest have been declared by Managing Board members.

Reporting of personal data related incidents

During 2019-2020, there was one personal data breach. The breach was considered to be low risk to data subjects. Nevertheless, it was reported to the Information Commissioner's Office which concluded that no further action was required.

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 82.

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 123 .

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 Commissioners for the Reduction of the National Debt (CRND) is a separate business entity within the DMO. Responsibility for the reports and accounts of CRND lies with the Secretary and Comptroller General of CRND. The Secretary and Comptroller General of CRND is responsible for maintaining a sound system of internal control that supports the delivery of the entity's agreed policies, objectives and targets. As Accounting Officer, I am responsible for the wider DMO control framework within which the CRND is managed. The Secretary and Comptroller General of CRND takes assurance from me as to the continued sound maintenance of this framework in relation to their own control responsibilities. Prior to 25 February 2020 PWLB loans were provided by the Public Works Loan Commissioners. Following a government consultation in 2016 the Public Bodies (Abolition of Public Works Loan Commissioners) Order 2020 abolished the Commissioners and transferred their statutory powers to HM Treasury. The PWLB lending facility then became a function within the DMO.

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 2019-2020 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 (until 30 April 2019)
  Non-executive HM Treasury representative
- Tom Josephs (from 2 September 2019)
  Non-executive HM Treasury representative
- Brian Duffin (until 31 December 2019)
  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.
- Paul Richards (from 13 May 2019)
  Non-executive director - During a 29 year career at Bank of America Merrill Lynch, Paul was MD of business in fixed income trading, Debt Capital Markets and Corporate Banking across Europe, the Americas and Asia Pacific. Following his retirement from banking, he spent 18 months as a senior consultant to the FCA. He is currently Chairman of Insignis, a FinTech company he launched in 2015.

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 last undertook a formal self-evaluation of its performance led by a non-executive director 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. Between formal reviews the Board considers its effectiveness on an ongoing basis. The Terms of Reference underwent a review by the Board in 2020.

2019-2020 Board activities

Board meetings were held regularly throughout 2019-2020. 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;
- Exchequer cash management and managing potential liquidity risks;
- Reform to the governance of the PWLB;
- Potential impacts of leaving the EU;

- Project delivery and implementation of the DMO's trading systems replacement;
- DMO accommodation & data centres review;
- Business continuity planning;
- Staff engagement survey; and
- DMO values.

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	1	0		
Tom Josephs	5	5		
Brian Duffin	6	6	3	3
Paul Fisher	8	8	4	4
Paul Richards	7	7	3	3
Caroline Mawhood	n/a	n/a	2	2
Rodney Norman	n/a	n/a	2	2

Audit Committee

The Accounting Officer was supported during 2019-2020 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 lending facility. The members of the Audit Committee during 2019-2020 were:

- Paul Fisher (Chairman from 1 January 2020)
- Brian Duffin (Chairman and Audit Committee member until 31 December 2019);
- Paul Richards (from 13 May 2019)
- Caroline Mawhood (until 30 June 2019)
  Audit Committee member - 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.
- Rodney Norman (from 1 July 2019)
  Audit Committee member - Rodney Norman was Finance Director of NS&I until 2018. Prior to that he was the Treasury Accountant at HM Treasury. This was preceded by a career in the City where he qualified as a Chartered Accountant with PWC and was Finance Director of the Banking Division of Close Brothers. He is currently a non-executive director of the Pension Protection Fund, a non-executive member of the Audit and Risk Committee of the Office of Rail and Road and is a senior advisor to the Bank of England.

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 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 Project;
- DMO Accommodation and Data Centres review;
- Reform to the governance of the PWLB;
- Cyber Security;
- Disclosure of Market Sensitive Information;

- Data Governance, Protection and Reporting;
- Processes and Controls to Mitigate Internal and External Fraud;
- Follow up on Management Actions arising from previous Internal Audit Reports;
- Security Clearance Requirements and Adherence;
- Governance and Remit over Contractors;
- Health and Safety;
- Anti-Money Laundering Arrangements;
- Reporting Requirements to the Information Commissioner's Office (ICO);
- Risk Management Framework; and
- International Financial Reporting Standards (IFRS) 9, 15 and 16.

The Audit Committee covers a regular programme of agenda items, together with other current topics, and met four 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 thirteen times in 2019-2020.

- 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 2019-2020.

- 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 2019-2020.

- 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 2019-2020.

- 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. The CMRC met six times during 2019-2020.

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 awareness, cyber security and business continuity planning. The ORC met six times during 2019-2020.

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 stemming from the implementation of the Trading Systems Replacement project, including access control. In addition, the Controls Group reviewed enhancements to the market sensitive documents publication process and changes to the BACS process.

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 2019-2020, this included policies relating to anti-fraud, telephony and voice recording, remote access, clear desk, 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 2019-2020 no concerns were raised by staff under the DMO's whistleblowing policy.

Key developments

- UK leaving the European Union
  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 delays to the United Kingdom's expected exit from the European Union and taken mitigating actions where possible.
- Trading Systems Replacement project
  The Trading Systems Replacement project had been a significant multi-year project for the DMO which updated its IT systems for deal input, settlement, risk management and accounting, as well as simplifying the current transaction processing architecture. During 2019-2020 the focus of the implementation stage of the project had been on the building and testing of the new systems and processes. The project was overseen through an established governance framework in order to maintain the strength and resilience of all operational processes and to make improvements where appropriate. Following the successful implementation, the Controls Group have been tracking the resolution of areas that were subject to workarounds, as well as the benefits realisation of streamlined processes. Automated processes will continue to be monitored and system performance has also been a key oversight control.
- COVID-19
  The DMO has been actively reviewing and strengthening its contingency arrangements in order to minimise the impact of the COVID-19 outbreak on its core activities. A robust assurance framework has been implemented to ensure the maintenance of control standards for critical operations in an environment where the majority of staff are working remotely.

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 credit and market 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 2019-2020, the primary focus of work in this area was in identifying and assessing potential direct and indirect impacts of COVID-19 and 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 trading systems replacement went live in August 2019 in which operational efficiencies and improved resilience were achieved. 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 could be the subject 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 continued to be a specific area of focus in 2019-2020 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 continued the embedding of the General Data Protection Regulation (GDPR) which came into force in May 2018. This included additional training and awareness for all staff and reviewing existing controls for data protection.
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 a range of factors including its financial strength

Principal risks and uncertainties	Mitigation and management
	and operational capacity and reliance on sub-contractors. 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 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 has become a key long-term partner. During the year more focus has been given to monitoring compliance with current policies and procedures.
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 of the Trading Systems Replacement project generally went smoothly although some transitional issues were encountered and resolved. In light of this, the DMO will continue to enhance its control framework for transaction processing as necessary.

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 2019-2020. 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 2019-2020 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
01 July 2020

Remuneration report and staff report

The DMO has a Pay Committee, which during 2019-2020 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 (until 31 December 2019)
- **Paul Fisher**
  Non-executive director
- **Paul Richards**
  Non-executive director (from 13 May 2019)

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.

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 ended on 31 December 2019.

Paul Fisher was contracted for an initial 3 year period from 1 December 2016. His contract has been extended for a further 3 year period and is due to end on 30 November 2022.

Paul Richards was contracted for a 3 year period from 13 May 2019. His contract is due to end on 12 May 2022.

The employment contracts for Paul Fisher and Paul Richards 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 2018-2019, and the comparative awards reported for 2018-2019 which relate to performance in 2017-2018.

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	2019-2020	155 - 160	10 - 15	25	190 -195	58	250 - 255
	2018-2019	150 - 155	10 - 15	25	185 - 190	57	245 - 250
Jo Whelan - Deputy Chief Executive and Co-Head of Policy and Markets***	2019-2020	110 - 115	10 - 15	-	125 - 130	48	170 - 175
Full-time equivalent		*155 - 160*	*15 - 20*	-	*170 - 175*	*67*	*240 - 245*
	2018-2019	110 - 115	10 - 15	-	120 - 125	41	160 - 165
Full-time equivalent		*150 - 155*	*15 - 20*	-	*170 - 175*	*56*	*225 - 230*
Jim Juffs - Chief Operating Officer	2019-2020	155 - 160	15 - 20	-	170 - 175	41	215 - 220
	2018-2019	150 - 155	15 - 20	-	165 - 170	31	195 - 200
Jessica Pulay - Co-Head of Policy and Markets	2019-2020	150 - 155	15 - 20	-	170 - 175	58	225 - 230
	2018-2019	140 - 145	15 - 20	-	160 - 165	56	215 - 220
Non-executive directors							
Brian Duffin (to 31 December 2019)	2019-2020	10 – 15	-	-	10 – 15	-	10 – 15
Full-year equivalent		*15 – 20*	-	-	*15 – 20*	-	*15 – 20*
	2018-2019	15 - 20	-	-	15 - 20	-	15 - 20
Paul Fisher	2019-2020	15 – 20	-	-	15 – 20	-	15 – 20
	2018-2019	15 - 20	-	-	15 - 20	-	15 - 20
Paul Richards (from 13 May 2019)	2019-2020	15 – 20	-	-	15 – 20	-	15 – 20
Full-year equivalent		*15 – 20*	-	-	*15 – 20*	-	*15 – 20*
	2018-2019	-	-	-	-	-	-

(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 HM 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 2019-2020 (2018-2019: 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 (Tom Joseph), 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

	2020	2019
Total remuneration of the Chief Executive (£000)	190-195	185-190
Median remuneration total of other DMO employees (£)	55,250	53,089
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 2019-2020, remuneration of the DMO's workforce excluding the Chief Executive, ranged from £28,000 to £176,000 (2018-2019: £26,000 to £172,000).

Pension benefits

Table 7: Pension benefits of senior DMO staff

	Accrued pension and related lump sum at pension age at 31 March 2020	Real increase in pension and related lump sum at pension age	CETV at 31 March 2020	CETV at 31 March 2019	Real increase in CETV
	£000	£000	£000	£000	£000
Sir Robert Stheeman	45 – 50	2.5 – 5	987	900	60
Jo Whelan	30 – 35	2.5 – 5	632	563	39
Jim Juffs	35 – 40	0 – 2.5	919	829	43
- plus lump sum	115 – 120	5 – 7.5			
Jessica Pulay	15 – 20	2.5 – 5	202	151	33

(This disclosure has been audited.)

CETV is an abbreviation for 'Cash Equivalent Transfer Value'. This measure of value is explained on page 56.

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 their 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	2020 Total £000
Staff costs			
Salaries	6,654	3,231	9,885
Social security costs	794	44	838
Other pension costs	1,597	89	1,686
	9,045	**3,364**	**12,409**
Amounts charged to capital	-	(658)	(658)
	9,045	**2,706**	**11,751**
Recoveries in respect of outward secondments	-	-	-
Total net costs	**9,045**	**2,706**	**11,751**
Average number of full-time equivalent persons employed by the DMO	99	26	125
Of which, staff employed on capital projects	-	4	4

	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

(This disclosure has been audited.)

Staff numbers in 2019-2020 and 2018-2019 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.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Permanent staff costs reported for 2019-2020 include no exit costs. 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. Where the DMO has agreed early retirements, the additional costs are met by the DMO and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the reported staff costs.

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 2019–2020, employer contributions of £1,624,791 (2018–2019: £1,257,129) were payable to the civil service pension schemes at one of four rates in the range 26.6 per cent to 30.3 per cent (2018-2019: 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 2019-2020 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 £59,675 (2018-2019: £60,870) 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 (2018-2019: 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 £2,129, 0.5 per cent of pensionable pay (2018-2019: £2,277, 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 2020 were £5,881 (31 March 2019: £5,913). Contributions pre-paid at that date were £nil (31 March 2019: £nil).

One person (2018-2019: no persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2018-2019: £nil).

Male / female staff breakdown

The number of male and female staff at the DMO at 31 March 2020 was:

Table 9: Male/female breakdown

	Male	Female
Managing Board members	5	2
Employees	73	37
Total	**78**	**39**

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 2019 and 31 March 2020.

Total off-payroll engagements as at 31 March 2020:

Table 10: Off-payroll engagements

Total off-payroll engagements for more than £245 per day and for longer than six months duration	13
Of which, have an engagement duration of:	
Less than 1 year	2
Between 1 & 2 years	6
Between 2 & 3 years	2
Between 3 & 4 years	1
Between 4 & 5 years	2

New off-payroll engagements during the year:

Table 11: New off-payroll engagements

Total new engagements exceeding 6 months duration between 1 April 2019 and 31 March 2020 for more than £245 per day	5
Of which, have been assessed as:	
Within IR35	4
Outside IR35	1
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 2019-2020 was £90,000 (2018-2019: £50,000).

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 2019-2020 were 621 or 2.5 per cent of the total available (2018-2019: 511 or 2.0 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 follows procedures and maintains policies that aim to achieve higher standards than the requirements of health and safety at work legislation. Annually, the DMO undergoes an independent health and safety audit. There was one issue during 2019-2020. An engineer inadvertently activated argon-nitrogen gas canisters during a routine maintenance check of a fire suppression system. This event was reported to the Health & Safety Executive (HSE). There was no impact on staff or on business operations and all systems remained operational.

Sir Robert Stheeman
Chief Executive
01 July 2020

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 2020.

(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 62 to 82 and page 84 to 123 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	432	1,238	330
Income	(410)	(2,727)	(163)
Deficit / (surplus)	**22**	**(1,489)**	**167**

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.

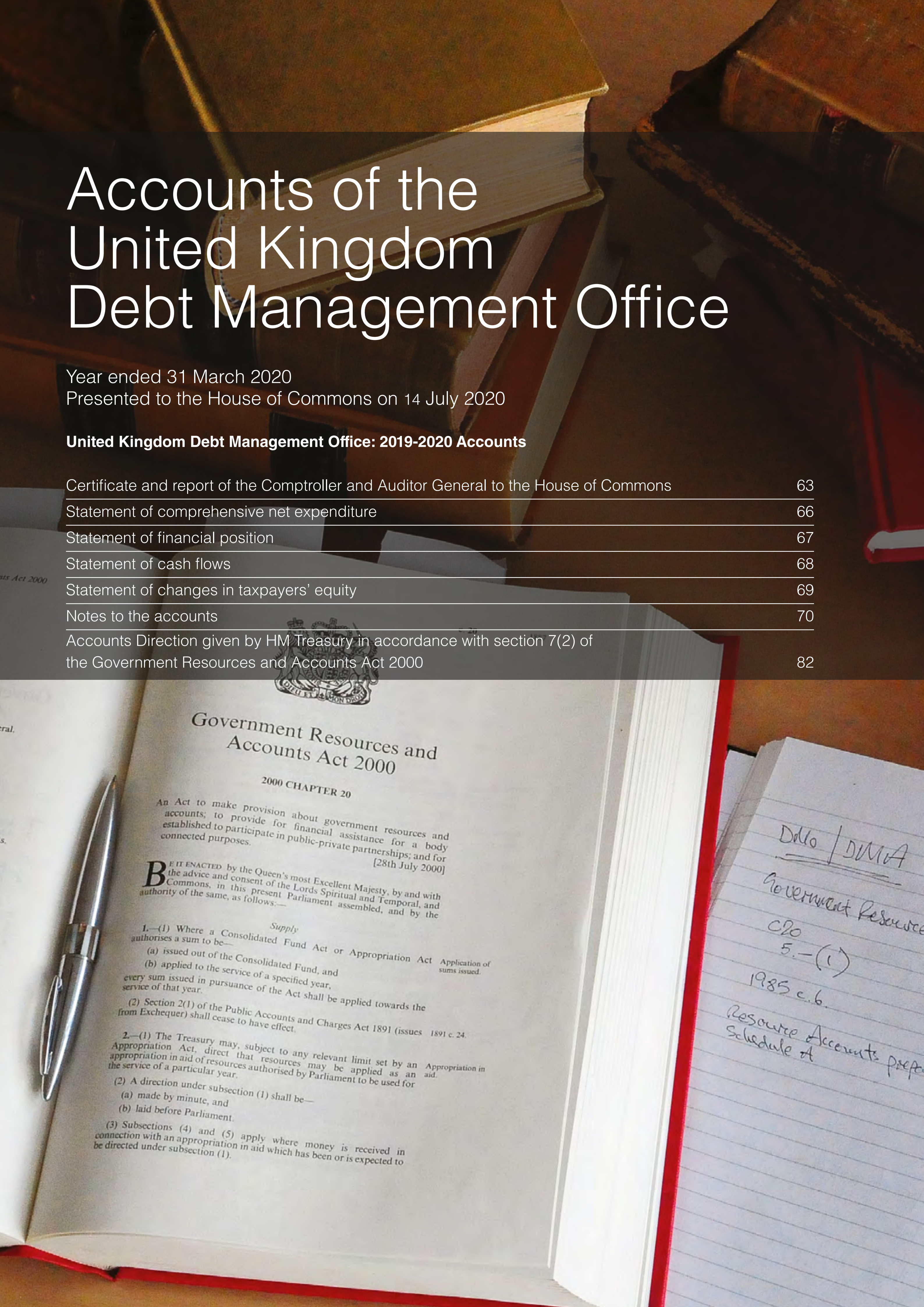
(The above section on fees and charges has been audited.)

Sir Robert Stheeman
Chief Executive
01 July 2020

Accounts of the United Kingdom Debt Management Office

Year ended 31 March 2020
Presented to the House of Commons on 14 July 2020

United Kingdom Debt Management Office: 2019-2020 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 2020 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, 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 Office's affairs as at 31 March 2020 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

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Debt Management Office's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Debt Management Office have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Debt Management Office's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- conclude on the appropriateness of the Debt Management Office'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. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause the Debt Management Office to cease to continue as a going concern.

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 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, but does not include 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 and 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
03 July 2020

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 2020

	Note	2020 £000	2019 £000
Staff costs	2	11,751	10,800
Purchase of goods and services	3	6,195	6,094
Issuance and transaction costs	4	4,484	4,693
Depreciation and impairment charges	6	812	385
Provision movement	11	(4)	375
Total operating expenditure		**23,238**	**22,347**
Operating income	5	(4,422)	(4,024)
Net operating expenditure		**18,816**	**18,323**

All income and expenditure are derived from continuing operations.

The notes on page 70 to 81 form part of these accounts.

United Kingdom Debt Management Office Statement of financial position

As at 31 March 2020

	Note	2020 £000	2019 £000
Non-current assets			
Property, plant and equipment	6(i)	607	754
Intangible assets	6(ii)	6,592	6,635
Trade and other receivables	7	202	99
Total non-current assets		**7,401**	**7,488**
Current assets			
Trade and other receivables	7	1,531	1,874
Cash and cash equivalents		1	1
Total current assets		**1,532**	**1,875**
Total assets		**8,933**	**9,363**
Current liabilities			
Trade payables and other liabilities	8	(3,225)	(5,168)
Provisions for liabilities	8	(371)	-
Total current liabilities		**(3,596)**	**(5,168)**
Total assets less current liabilities		**5,337**	**4,195**
Non-current liabilities			
Provisions for liabilities	8	-	(375)
Contract liabilities	8	(9,083)	(8,200)
Total non-current liabilities		**(9,083)**	**(8,575)**
Total net liabilities		**(3,746)**	**(4,380)**
Taxpayers' equity			
General fund		**(3,746)**	**(4,380)**

The notes on page 70 to 81 form part of these accounts.

Sir Robert Stheeman
Chief Executive
01 July 2020

United Kingdom Debt Management Office Statement of cash flows

For the year ended 31 March 2020

	Note	2020 £000	2019 £000
Cash outflow from operating activities			
Net operating cost		**(18,816)**	**(18,323)**
Adjustment for non-cash transactions			
Depreciation and amortisation of fixed assets	6	812	385
Impairment of fixed assets	6	-	-
Provision movement in year	11	(4)	375
Auditors' fee	3	48	45
		856	**805**
Adjustment for movements in working capital other than cash			
Decrease in receivables		240	546
(Decrease) / Increase in current payables		(1,982)	1,635
Increase in contract liabilities		922	942
Plus / (Less) movement in payables relating to items not passing through the statement of comprehensive net expenditure	8	1,860	(1,374)
		1,040	**1,749**
Net cash outflow from operating activities		**(16,920)**	**(15,769)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(526)	(29)
Purchase of intangible assets		(1,956)	(3,163)
Net cash outflow from investing activities		**(2,482)**	**(3,192)**
Cash flows from financing activities			
From the Consolidated Fund (supply)		19,402	18,961
Net financing		**19,402**	**18,961**
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 70 to 81 form part of these accounts.

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

For the year ended 31 March 2020

	Note	General Fund £000
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)**
Funding from HM Treasury		19,402
Comprehensive net expenditure for the year		(18,816)
Non-cash auditors' remuneration	3	48
Balance at 31 March 2020		**(3,746)**

The notes on page 70 to 81 form part of these accounts.

Notes to the accounts

For the year ended 31 March 2020

1 Statement of accounting policies

(i) Basis of preparation

The accounts have been prepared in accordance with the 2019–2020 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 82, 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, but will not be effective in the public sector until 1 April 2021. 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 2021-2022. Upon initial application, with respect to its accommodation lease, the DMO expects to recognise an asset of £8.5 million and a corresponding lease liability of £8.5 million.

(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 2019-2020.

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.

The DMO adopted IFRS 15 Revenue from Contracts with Customers (which replaced IAS 18) in 2018-2019.

The standard requires an entity to recognise 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 only significant changes that resulted from the DMO's adoption of the standard were related to PWLB fee income.

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 HM Treasury. In this way, HM Treasury, 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 HM Treasury, 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 HM Treasury.

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 HM Treasury 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 29 years ago. The performance obligations of the DMO to HM Treasury 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 per cent 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 £9.5 million to £11.3 million (an increase of 19 per cent). PWLB income recognised in 2019-2020 would decrease by £0.2 million (6 per cent).

Management estimates of the relative resource effort required to deliver PWLB services with respect to each new loan in its year of initial execution and in each subsequent year is also influential in determining the value of the contract liability. By way of illustration, a 25 per cent increase in the estimate of relative resource effort to manage each trade in the year of agreement compared to each subsequent year of its total duration (from 45:1 to 56:1) would decrease the PWLB contract liability from £9.5 million to £8.4 million (a decrease of 12 per cent). PWLB income recognised in 2019-2020 would increase by £0.1 million (4 per cent). Conversely, a 25 per cent decrease in the estimate of relative resource effort to manage each trade in the year of agreement compared to each subsequent year of its total duration (from 45:1 to 34:1) would increase the PWLB contract liability from £9.5 million to £11.0 million (an increase of 16 per cent), while PWLB income recognised in 2019-2020 would decrease by £0.1 million (5 per cent).

Prior to 25 February 2020, the role of HM Treasury as described above was the responsibility of PWLB Commissioners. On that date, the powers, duties, assets and liabilities of the PWLB Commissioners were transferred to HM Treasury. From that point, the DMO was considered to be the agent of HM Treasury rather than the PWLB commissioners. The change does not affect existing PWLB loans other than to change the formal identity of the lender from the Public Works Loan Commissioners to HM Treasury. The role and responsibility of the DMO with respect to PWLB loans is unchanged. The DMO has made no changes to its recognition of PWLB fee income as a result of the transfer of responsibilities from PWLB Commissioners to HM Treasury.

(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 offset against a revaluation reserve created upon the upward revaluation of an asset or assets. 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 sets out requirements for recognition, measurement, impairment and de-recognition of financial instruments. The DMO has assessed the standard and concluded that it has an immaterial impact on the financial statements.

(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 payables and other liabilities) are classified as financial liabilities held 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

Permanent staff costs		
Temporary staff costs		
Total staff costs		

Permanent staff costs reported for 2019-2020 include no exit costs. 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.

Further information is included in the remuneration report and staff report on page 52 to 59.

3 Purchase of goods and services

	2020 £000	2019 £000
IT and telecommunications	1,604	1,691
Business and information services	1,373	1,320
Accommodation rent	1,333	1,326
Other accommodation related costs	949	963
Legal services	397	319
Consultancy	90	50
Recruitment	86	66
Training	75	61
Travel, subsistence and hospitality	56	72
Printing and stationery	49	48
Non-cash auditors’ remuneration	48	45
Other costs	135	133
	6,195	**6,094**

£48,000 (2018-2019: £45,000) 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.

	2020 £000	2019 £000
DMA, CRND and PWLB transaction costs		
Settlement and custodial charges	3,350	3,496
Brokerage	468	529
	3,818	**4,025**
Gilt issuance costs		
Stock Exchange listing fees (reimbursed – see note 5)	630	630
Gilt purchase and sale service costs - Computershare	36	38
	4,484	**4,693**

5 Operating income

	2020 £000	2019 £000
Administration income		
Revenue from contracts with customers		
Fees and charges to PWLB customers	2,727	2,256
Fees and charges to CRND clients	410	410
Rentals and other accommodation related income - internal to government	429	434
Funding for Lending Scheme - Bank of England	60	70
	3,626	**3,170**
Other operating income		
Other income	3	50
	3,629	**3,220**
Programme income		
Revenue from contracts with customers		
Recharges to the National Loans Fund	630	630
Gilt purchase and sale service commission - Computershare	163	174
	793	**804**
Other operating income	-	-
	4,422	**4,024**

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 2019	2,455	937	130	3,522
Additions	134	-	-	134
Impairments	-	-	-	-
Disposals	(534)	-	-	(534)
At 31 March 2020	**2,055**	**937**	**130**	**3,122**
Depreciation				
At 1 April 2019	1,787	936	45	2,768
Charged in year	196	-	85	281
Disposals	(534)	-	-	(534)
At 31 March 2020	**1,449**	**936**	**130**	**2,515**
Net book value				
At 31 March 2020	**606**	**1**	**-**	**607**
At 31 March 2019	**668**	**1**	**85**	**754**

	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**

(ii) Intangible assets

	Software licences £000	Internally generated software £000	Assets under construction (software) £000	Total £000
Cost or valuation				
At 1 April 2019	2,226	4,394	5,951	12,571
Additions	-	64	424	488
Impairments	-	-	-	-
Transfers on completion	6,375	-	(6,375)	-
Disposals	-	-	-	-
At 31 March 2020	**8,601**	**4,458**	**-**	**13,059**
Amortisation				
At 1 April 2019	2,179	3,757	-	5,936
Charged in year	446	85	-	531
Disposals	-	-	-	-
At 31 March 2020	**2,625**	**3,842**	**-**	**6,467**
Net book value				
At 31 March 2020	**5,976**	**616**	**-**	**6,592**
At 31 March 2019	**47**	**637**	**5,951**	**6,635**

	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**

The intangible asset under construction replaced legacy trading systems and was brought into service in 2019-2020.

7 Trade and other receivables

	2020 £000	2019 £000
Amounts falling due within one year		
Pre-payments	1,157	1,511
Accrued income	304	294
Other receivables	70	69
	1,531	**1,874**
Amounts falling due after more than one year		
Pre-payments	202	99
	1,733	**1,973**

8 Trade payables and other liabilities

	2020 £000	2019 £000
Amounts falling due within one year		
Taxation and social security	396	359
Accruals and trade payables	2,385	4,404
Contract liabilities	444	405
	3,225	**5,168**
Provisions for liabilities	371	-
	3,596	**5,168**
Amounts falling due after more than one year		
Provisions for liabilities	-	375
Contract liabilities	9,083	8,200
	9,083	**8,575**
	12,679	**13,743**

Reflected within the amounts falling due within one year is a decrease of £1,859,661 (2018-2019: increase of £1,374,273) of capital expenditure payables and accruals, which is an adjustment to the movements in working capital recorded in the statement of cash flows.

9 Commitments under operating leases

At 31 March 2020, the total future minimum lease payments under non-cancellable operating leases are as follows:

	Buildings £000	Other £000	2020 Total £000	2019 Total £000
Obligations under operating leases for the following periods comprise:				
Less than one year	865	2	867	1,156
Between one and five years	-	1	1	865
Over five years	-	-	-	-
	865	**3**	**868**	**2,021**

10 Capital commitments

	2020 £000	2019 £000
Contracted capital commitments at 31 March not otherwise included in these financial statements		
Software licenses	-	63
	-	**63**

11 Provisions

	2020 £000	2019 £000
Balance at 1 April	375	-
Movement in the year - dilapidations	(4)	375
Balance at 31 March	**371**	**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.

12 Related party transactions

HM Treasury

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

During the year HM Treasury continued to provide several support services to the DMO, including purchase order processing, invoice processing and payment, payroll processing and some financial accounting services. The total recharge paid by the DMO was £93,707 (2018-2019: £47,048).

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 2019-2020.

Throughout 2019-2020, 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 £142,237 (2018-2019: £139,695).

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 £287,258 (2018-2019: £294,595).

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 (2018-2019: £94,000 and £52,000).

Public Works Loan Board

The PWLB function has been administered by the DMO since July 2002. Since 25 February 2020, the DMO has administered the function on behalf of HM Treasury after the relevant powers to issue PWLB loans were formally transferred from the Commissioners to HM Treasury under the Public Bodies (Abolition of Public Works Loan Commissioners) Order 2020. On that date, the powers, duties, assets and liabilities of the PWLB Commissioners were transferred to HM Treasury. From that point, the DMO was considered to be the agent of HM Treasury rather than the PWLB Commissioners.

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 £60,000 (2018-2019: £70,000).

Ministers and Managing Board

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

13 Financial instruments

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

Therefore, at 31 March 2020, the DMO had no material exposure to liquidity risk, credit risk, interest rate risk or currency risk.

All material assets and liabilities were denominated in sterling.

14 Events after the 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.

On 17 June 2020, the DMO entered into a ten-year buildings lease. This was a non-adjusting event, as it did not affect the DMO's obligations as at 31 March 2020.

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 31st March 2020 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual ("the FReM") and the FReM Addendum issued by HM Treasury which is in force for 2019-20.

2. The accounts shall be prepared so as to:

   (a) give a true and fair view of the state of affairs as at 31st March 2020 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.

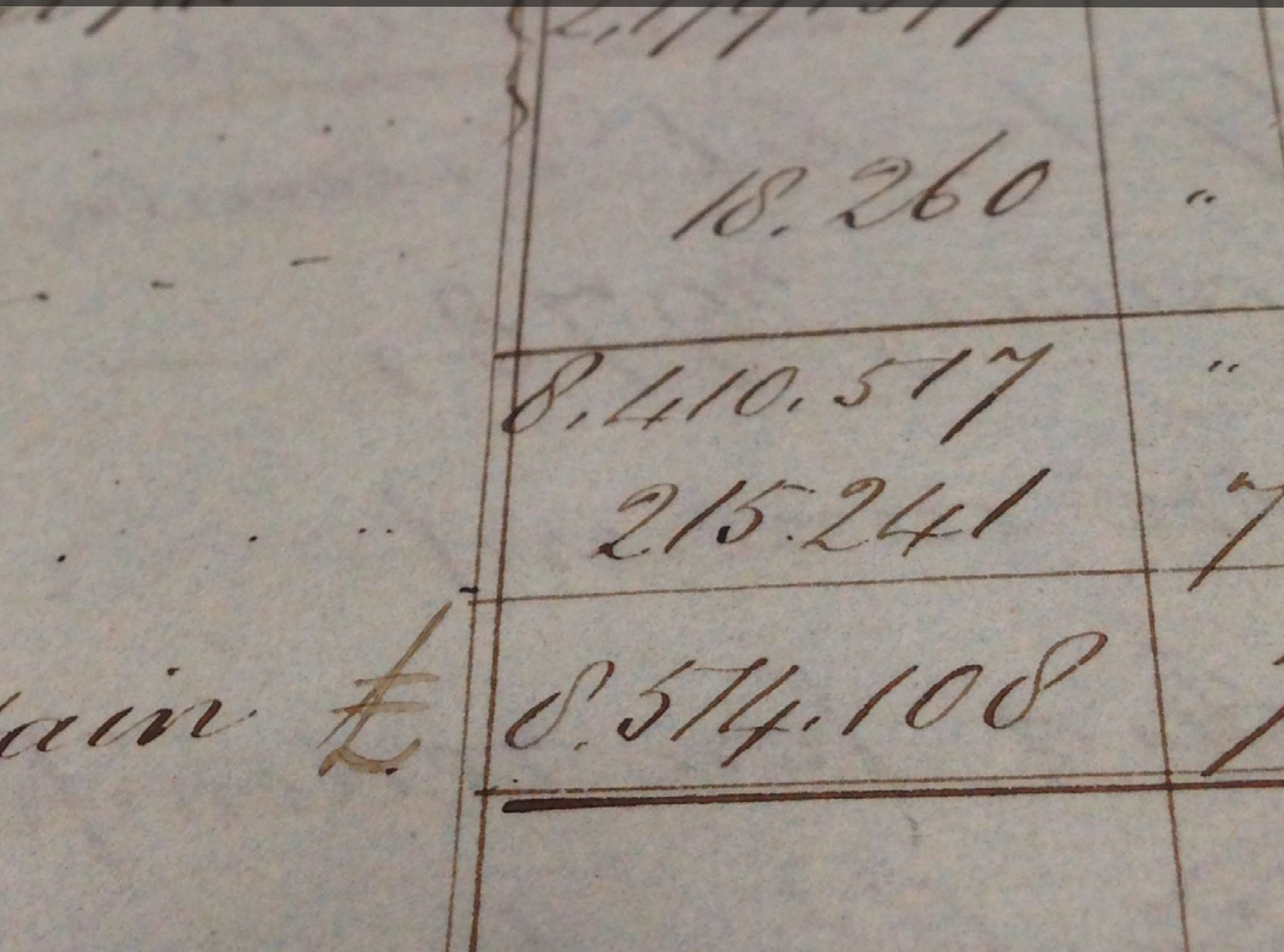
Vicky Rock
Director, Public Spending
Her Majesty's Treasury
18 June 2020


PRET

Accounts of the Debt Management Account

Year ended 31 March 2020
Presented to Parliament on 14 July 2020

Debt Management Account: 2019-2020 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 2020 under the National Loans Act 1968. The financial statements comprise: the Statement 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 2020 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

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Debt Management Account's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Debt Management Account has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Debt Management Account's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 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 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- conclude on the appropriateness of the Debt Management Account'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. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause the Debt Management Account to cease to continue as a going concern.

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, but does not include 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 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
03 July 2020

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

Debt Management Account
Statement of comprehensive income

For the year ended 31 March 2020

	Note	2020 £m	2019 £m
Interest income	2	4,913	4,867
Interest expense	3	(1,166)	(1,071)
Net interest income		**3,747**	**3,796**
Other gains and losses	4	-	3
Fee income	5	-	-
Surplus for the year	6	**3,747**	**3,799**

All income and expenditure arose from continuing operations.

The notes on page 92 to 122 are an integral part of these accounts.

Debt Management Account
Statement of financial position

As at 31 March 2020

	Note	2020 £m	2019 £m
Assets			
Cash and balances at the Bank of England		1,017	1,785
Other assets	11	2	4,021
Derivative financial instruments	9	-	-
Loans and advances to financial counterparties	7	34,712	31,907
Securities held for trading	8	1,312	959
Investment securities:			
Treasury bills		3,178	23,165
UK government gilts for use as collateral subject to sale and repurchase agreements		21,927	17,283
UK government gilts for use as collateral not pledged		46,489	58,627
		68,416	**75,910**
Other UK government gilts		48,692	50,042
	10	**120,286**	**149,117**
Total assets before deposit at National Loans Fund		**157,329**	**187,789**
Deposit at National Loans Fund		55,333	16,546
Total assets		**212,662**	**204,335**
Liabilities			
Deposits by financial counterparties	12	29,169	16,402
Due to government customers	13	47,446	36,780
Other liabilities	15	213	87
Treasury bills in issue	14	83,705	79,662
Total liabilities before funding by the National Loans Fund		**160,533**	**132,931**
Advance from National Loans Fund		2	23,024
Income and expenditure account		52,127	48,380
Total funding by National Loans Fund		**52,129**	**71,404**
Total liabilities		**212,662**	**204,335**

All income and expenditure arose from continuing operations.

The notes on page 92 to 122 are an integral part of these accounts.

Sir Robert Stheeman
Chief Executive
01 July 2020

Debt Management Account Statement of cash flows

For the year ended 31 March 2020

	Note	2020 £m	2019 £m
Net cash inflow from operating activities	16	**27,709**	**4,513**
Investing activities			
Interest received on investment securities		5,019	5,174
Sales of investment securities		34,051	65,030
Purchases of investment securities		(5,900)	(59,962)
Net cash from investing activities		**33,170**	**10,242**
Financing activities			
Interest received on deposit at National Loans Fund		284	177
Interest paid on advance from National Loans Fund		(140)	(325)
Increase in net funding by National Loans Fund		271,814	385,479
Decrease in net funding by National Loans Fund		(333,605)	(399,407)
Net cash used in financing activities		**(61,647)**	**(14,076)**
(Decrease)/increase in cash		**(768)**	**679**
Cash at the beginning of the year		**1,785**	**1,106**
Cash at the end of the year		**1,017**	**1,785**

The notes on page 92 to 122 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 2020

	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 / (lending) £m
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**
Surplus for year	-	-	-	3,747	3,747	3,747
Change in advance from National Loans Fund	-	(23,022)	-	-	(23,022)	(23,022)
Change in deposit at National Loans Fund	38,787	-	-	-	-	(38,787)
At 31 March 2020	**55,333**	**2**	**-**	**52,127**	**52,129**	**(3,204)**

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 92 to 122 are an integral part of these accounts.

Notes to the accounts

For the year ended 31 March 2020

1 Accounting policies

(i) Basis of preparation

The accounts have been prepared in accordance with the Accounts Direction given by HM Treasury. The accounts are consistent with relevant requirements of the Government Financial Reporting Manual and are in accordance with International Financial Reporting Standards (IFRS) in so far as they are appropriate for the DMA. The accounts have been prepared 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 'Definition of Material (Amendments to IAS 1 and IAS 8)'. 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 1 Presentation of Financial Statements, which has been revised as part of the IASB's 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2022. The DMA expects to apply these revisions to IAS 1 in 2022-2023. The application of these revisions, which affect only the presentation of liabilities in the statement of financial position and relate to a clarification of the classification of current and non-current liabilities, 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 'Definition of Material (Amendments to IAS 1 and IAS 8)'. 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.

- IFRS 7 – Financial Instruments: Disclosures, which has been revised as part of the IASB's 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)'. Application is required for reporting periods beginning on or after 1 January 2020. The DMA expects to apply these revisions to IFRS 7 in 2020-2021. The application of these revisions, which deal with issues affecting financial reporting for hedge accounting are not expected to materially alter the presentation of the financial statements of the DMA.

- IFRS 9 – Financial Instruments, which has been revised as part of the IASB's 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)'. Application is required for reporting periods beginning on or after 1 January 2020. The DMA expects to apply these revisions to IFRS 9 in 2020-2021. The application of these revisions, which deal with issues affecting financial reporting for hedge accounting are not expected to materially alter the presentation of the financial statements of the DMA.

A separate income statement, as required by the accounts direction, has not been presented as the content would be identical to the statement of comprehensive income. A statement of comprehensive income is required by IAS 1.

(ii) Financial assets

During the year, the DMA has invested in financial assets which have been recognised and measured according to the following categories: financial assets held at fair value through profit or loss, financial assets held 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 not 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 20.

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

(b) Financial liabilities held 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 method. 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 held at fair value through profit or loss. They are initially measured 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 statement of comprehensive income 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 statement of comprehensive income 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

	2020 £m	2019 £m
Investment securities:		
UK government gilts	4,251	4,209
Treasury bills	89	193
	4,340	**4,402**
Loans and advances to financial counterparties:		
Reverse sale and repurchase agreements	261	239
Deposits	17	10
	278	**249**
Securities held for trading:		
UK government gilts	7	5
Other securities	10	31
	17	**36**
Deposit at National Loans Fund	278	180
	4,913	**4,867**

3 Interest expense

	2020 £m	2019 £m
Deposits by financial counterparties:		
Sale and repurchase agreements	(94)	(79)
Deposits	(24)	(19)
Due to government customers:		
Deposits	(273)	(232)
Treasury bills in issue	(657)	(423)
Advance from National Loans Fund	(118)	(318)
	(1,166)	**(1,071)**

4 Other gains and losses

	2020 £m	2019 £m
Change in the fair value of securities held for trading and held at year end:		
Other securities	-	3

5 Fee income and fee expense

The DMA received a fee of less than £1 million (2019: less than £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 (2019: 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 nil (2019: £1 million). These gains arise from the DMA's foreign currency assets.

7 Loans and advances to financial counterparties

	2020 £m	2019 £m
Reverse sale and repurchase agreements:		
Due in not more than 3 months	26,558	22,558
Due in more than 3 months but not more than 1 year	8,023	9,260
	34,581	**31,818**
Fixed term deposits:		
Due in not more than 3 months	131	89
	34,712	**31,907**

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.

8 Securities held for trading

	2020 £m	2019 £m
UK government gilts	12	213
Other securities	1,300	746
	1,312	**959**

	2020 Nominal £m	2020 Fair value £m	2019 Nominal £m	2019 Fair value £m
Maturity analysis				
Due within 1 year:				
In not more than 3 months	1,300	1,301	-	-
In more than 3 months but not more than 1 year	1	1	951	948
	1,301	**1,302**	**951**	**948**
Due after 1 year:				
In more than 1 year but not more than 5 years	2	3	2	3
In more than 5 years	4	7	5	8
	6	**10**	**7**	**11**
	1,307	**1,312**	**958**	**959**

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

9 Derivative financial instruments

Forward foreign exchange contracts				
Unsettled deposits				

	2020 Nominal £m	2020 Fair value £m	2019 Nominal £m	2019 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	-	-	40,000	-
	-	**-**	**40,000**	**-**

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 Investment securities

	2020 Nominal £m	2020 Carrying value £m	2020 Fair value £m	2019 Nominal £m	2019 Carrying value £m	2019 Fair value £m
Maturity analysis						
Due within 1 year:						
In not more than 3 months	2,783	4,529	4,536	9,525	9,519	9,519
In more than 3 months but not more than 1 year	4,251	4,282	4,299	21,812	21,867	22,014
	7,034	**8,811**	**8,835**	**31,337**	**31,386**	**31,533**
Due after 1 year:						
In more than 1 year but not more than 5 years	24,621	27,501	29,895	20,695	22,029	22,972
In more than 5 years	73,730	83,974	123,398	86,012	95,702	127,352
	98,351	**111,475**	**153,293**	**106,707**	**117,731**	**150,324**
	105,385	**120,286**	**162,128**	**138,044**	**149,117**	**181,857**

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

11 Other assets

	2020 £m	2019 £m
Due from counterparties	2	4,021

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

At 31 March 2020, other assets of £2 million related to unsettled deposit interest from the Bank of England and less than £1 million related to unsettled security sales. 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.

All amounts are due in not more than 3 months.

12 Deposits by financial counterparties

	2020 £m	2019 £m
Sale and repurchase agreements:		
Due in not more than 3 months	17,744	13,802
Due in more than 3 months but not more than 1 year	865	-
	18,609	**13,802**
Fixed term deposits:		
Due in not more than 3 months	10,560	2,600
	29,169	**16,402**

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.

13 Due to government customers

	2020 £m	2019 £m
Counterparty analysis		
Commissioners for the Reduction of the National Debt:		
Call notice deposits	43,711	34,951
Other government counterparties:		
Fixed term deposits	3,735	1,829
	47,446	**36,780**
Maturity analysis		
In not more than 3 months:		
Fixed term deposits	3,652	1,829
Call notice deposits	43,711	34,951
In more than 3 months but not more than 1 year:		
Fixed term deposits	83	-
	47,446	**36,780**

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

Call notice deposits are repayable on demand.

14 Treasury bills in issue

	2020 £m	2019 £m
Carrying value		
Due in not more than 3 months	55,696	56,411
Due in more than 3 months but not more than 1 year	28,009	23,251
	83,705	**79,662**
Fair Value	**83,762**	**79,662**

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

15 Other liabilities

	2020 £m	2019 £m
Due to counterparties	213	87

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.

16 Analysis of cash flow

	2020 £m	2019 £m
Reconciliation of operating profit to net cashflow from operating activities		
Operating surplus	**3,747**	**3,799**
Less investment revenues:		
Interest on investment securities	(4,340)	(4,402)
Less financing costs:		
Interest income on deposit at National Loans Fund	(278)	(180)
Interest expense on advance from National Loans Fund	118	318
	(160)	**138**
Increase in loans and advances to financial counterparties	(2,805)	(9,473)
(Increase)/decrease in securities held for trading	(353)	1,575
Decrease in derivative assets	-	2
Decrease/(increase) in other assets	4,019	(527)
Increase/(decrease) in deposits by financial counterparties	12,767	(589)
Increase in amounts due to government customers	10,666	3,018
Decrease in derivative liabilities	(1)	-
Increase in Treasury bills in issue	4,043	11,002
Increase/(decrease) in other liabilities	126	(30)
Net cash inflow from operating activities	**27,709**	**4,513**

17 Fair value hierarchy

IFRS 7 defines three classifications of fair value measurement, using a fair value hierarchy. At 31 March 2020 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 2020			
Assets held at fair value:			
Securities held for trading	12	1,300	1,312
Derivative financial instruments	-	-	-
Assets held at amortised cost:*			
Investment securities	162,128	-	162,128
Liabilities held at amortised cost:*			
Treasury bills in issue	83,762	-	83,762
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 amortised cost:*			
Treasury bills in issue	79,662	-	79,662

* 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.

18 Gilt issuance

	2020 £m	2019 £m
Nominal value of gilts issued on behalf of National Loans Fund *	123,085	92,524
Proceeds paid to National Loans Fund (excluding accrued interest)	137,867	98,604

* 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 (2019: none).

During the year, no gilts (2019: £12,265 million nominal) were created by the National Loans Fund and sold to the DMA for use as collateral in its cash management operations. Specific gilts issued in this way are not available to the repo market until three months after their creation. However, during this period, these gilts may be used in delivery by value (DBV) transactions.

19 Related party transactions

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

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 2020 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	1,017	-	-	-	1,017	-	1,017
Other assets	-	-	-	-	-	2	2
Derivative financial instruments	-	-	-	-	-	-	-
Loans and advances to financial counterparties	-	-	-	-	-	34,712	34,712
Securities held for trading	12	-	-	-	12	1,300	1,312
Investment securities:							
Treasury bills	3,178	-	-	-	3,178	-	3,178
UK government gilts	117,108	-	-	-	117,108	-	117,108
Deposit at National Loans Fund	55,333	-	-	-	55,333	-	55,333
Liabilities							
Deposits by financial counterparties	-	-	-	1,998	1,998	27,171	29,169
Due to government customers	43,921	2,282	1,243	-	47,446	-	47,446
Other liabilities	-	-	-	-	-	213	213
Advance from National Loans Fund	2	-	-	-	2	-	2

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.

20 Credit risk

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

Exposure is primarily to financial counterparties, non-UK sovereign-related entities and central clearing counterparties. Intra-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.

The risk management framework employed during the year to manage credit risk was 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 COVID-19 and 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 2020 (31 March 2019: 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 2020 (31 March 2019: 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 2020, 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 2019: none).

There were no assets whose terms had been renegotiated in the year (31 March 2019: none).

No credit related losses were incurred by the DMA during the year (2019: none), and no provisions were considered necessary at 31 March 2020 (31 March 2019: 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	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Cash and balances at the Bank of England	1,017	1,785	-	-	1,017	1,785
Other assets	-	-	2	4,021	2	4,021
Derivative financial instruments	-	-	-	-	-	-
Loans and advances to financial counterparties:						
Fixed term deposits	-	-	131	89	131	89
Reverse repos	-	-	34,581	31,818	34,581	31,818
Securities held for trading	12	213	1,300	746	1,312	959
Investment securities:						
Treasury bills	3,178	23,165	-	-	3,178	23,165
UK government gilts for use as collateral	68,416	75,910	-	-	68,416	75,910
Other UK government gilts	48,692	50,042	-	-	48,692	50,042
Deposit at National Loans Fund	55,333	16,546	-	-	55,333	16,546
Total gross exposure	**176,648**	**167,661**	**36,014**	**36,674**	**212,662**	**204,335**

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:

	2020 Carrying value* £m	2020 Fair value of securities collateral £m	2019 Carrying value* £m	2019 Fair value of securities collateral £m
Reverse repos (within loans and advances to financial counterparties)	34,581		31,818	
Repos (within deposits by financial counterparties)	18,609		13,802	
Net fair value of collateral		16,022		18,559
Collateral shortfall (excluding Bank of England)		250		19
Collateral surplus (excluding Bank of England)		301		563

* 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 2020.

Unsettled transactions:

	2020 Unsettled value £m	2020 Weighted average days to settlement	2019 Unsettled value £m	2019 Weighted average days to settlement
Reverse repos	12	1	603	1
Repos	19,332	1	2,536	1

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 equal to the value of the unsettled cash amounts is taken upon settlement.

Based on the risk tiers defined for table (vi), at 31 March the unsettled reverse repos and repos transactions were with counterparties in Tier 2 and Tier 3.

(b) Derivative financial instruments

	2020 Carrying value* £m	2020 Fair value of securities collateral £m	2019 Carrying value* £m	2019 Fair value of securities collateral £m
Assets	-		-	
Collateral shortfall		-		-

* Carrying value per the statement of financial position

Derivative assets had a value of less than £1 million in 2019 and included 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 are calculated at the level of individual counterparties.

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

(vi) Analysis by credit rating

The credit rating tiers below are based on the external long-term rating of the counterparty (or issuer for securities). If this is not available, where possible the DMO will use the most appropriate of (a) a long term rating of the parent entity or (b) an internally assessed rating, based on an internal score card and review, approved by the Credit and Market Risk Committee. If neither (a) nor (b) are appropriate, balances are categorised as unrated. A credit rating of Tier 1 is aligned with entities with an external rating of AAA, Tier 2 is aligned with an external rating of AA+ to AA-, Tier 3 is aligned with an external rating of A+ to A-, and Tier 4 is aligned with an external rating of BBB+ to BBB-.

At 31 March 2020

	Tier 1 £m	Tier 2 £m	Tier 3 £m	Tier 4 £m	Unrated £m	Total £m
Assets						
Cash and balances at the Bank of England	-	1,017	-	-	-	1,017
Other assets	-	2	-	-	-	2
Derivative financial instruments*	-	-	-	-	-	-
Loans and advances to financial counterparties:						
Fixed term deposits	-	131	-	-	-	131
Reverse repos**	812	29,187	3,199	1,383	-	34,581
Securities held for trading	300	1,000	-	-	-	1,300
	1,112	**31,337**	**3,199**	**1,383**	**-**	**37,031**
Liabilities						
Deposits by financial counterparties:						
Repos	-	15,688	2,921	-	-	18,609

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

** Includes exposure to non-bank financial counterparties.

At 31 March 2019*

	Tier 1 £m	Tier 2 £m	Tier 3 £m	Tier 4 £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***	469	5,155	24,537	1,657	-	31,818
Securities held for trading	746	-	-	-	-	746
	1,215	**9,289**	**25,831**	**1,836**	**288**	**38,459**
Liabilities						
Deposits by financial counterparties:						
Repos	-	-	13,802	-	-	13,802

* The credit rating analysis table has been recalculated to enable comparisons with the approach adopted for 2020

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

*** Includes exposure to non-bank financial counterparties.

UK government gilts, 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 2020, other assets of £2 million related to unsettled deposit interest from the Bank of England and less than £1 million related to other unsettled security sales. 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.

(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 2020

	United Kingdom £m	Rest of Europe £m	North America £m	Asia-Pacific £m	Total £m
Assets					
Cash and balances at the Bank of England	1,017	-	-	-	1,017
Other assets	2	-	-	-	2
Derivative financial instruments*	-	-	-	-	-
Loans and advances to financial counterparties:					
Fixed term deposits	131	-	-	-	131
Reverse repos	34,581	-	-	-	34,581
Securities held for trading	300	1,000	-	-	1,300
	36,031	**1,000**	**-**	**-**	**37,031**
Liabilities					
Deposits by financial counterparties:					
Repos	17,873	-	736	-	18,609

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

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

UK government gilts, 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

The credit rating tiers below are based on the external long-term rating of the counterparty (or issuer for securities). If this is not available, where possible the DMO will use the most appropriate of (a) a long term rating of the parent entity or (b) an internally assessed rating, based on an internal score card and review, approved by the Credit and Market Risk Committee. If neither (a) nor (b) are appropriate, balances are categorised as unrated. A credit rating of Tier 1 is aligned with entities with an external rating of AAA, Tier 2 is aligned with an external rating of AA+ to AA-, Tier 3 is aligned with an external rating of A+ to A-, and Tier 4 is aligned with an external rating of BBB+ to BBB-.

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, securities held for trading, derivatives, other assets, reverse repos and repos were:

	United Kingdom		Rest of Europe		North America		Asia- Pacific		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Tier 1	1,112	966	-	249	-	-	-	-	1,112	1,215
Tier 2	46,024	7,056	1,000	-	-	2,233	-	-	47,024	9,289
Tier 3	5,385	38,525	-	283	736	825	-	-	6,121	39,633
Tier 4	1,383	1,598	-	238	-	-	-	-	1,383	1,836
Unrated	-	288	-	-	-	-	-	-	-	288
	53,904	**48,433**	**1,000**	**770**	**736**	**3,058**	**-**	**-**	**55,640**	**52,261**

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

21 Market risk

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

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

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

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

The scope of market risk monitoring excludes interest rate risk arising from cash at the Bank of England, gilts and Treasury bills for use as collateral or for lending to the Bank of England, Treasury bills issued by tender, amounts due to the funds managed by CRND and all balances with the National Loans Fund. Intra-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. 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. A new risk management system was implemented during the year and for interest rate risk, the VaR methodology was changed from a variance-covariance parametric model to a historic simulation model. Assumptions as to how data will be distributed are based on historical data. Historical returns are simulated using current positions and then ranked to determine the 90th percentile. 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 they are independent and unrelated.

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

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

	2020 £m	*2019 £m
VaR at 31 March	0.04	0.42
The range of end-of-day VaR in the year ended 31 March was:		
Highest	0.43	1.05
Average	0.22	0.75
Lowest	0.03	0.4

*VaR results for 2019 have been recalculated using the historic simulation model adopted during 2020 to enable comparisons with the VaR results for 2020.

(b) Interest rate risk – retail gilts

	2020 £m	*2019 £m
VaR at 31 March	0.06	0.05
The range of end-of-day VaR in the year ended 31 March was:		
Highest	0.06	0.05
Average	0.06	0.05
Lowest	0.05	0.04

* VaR results for 2019 have been recalculated using the historic simulation model adopted during 2020 to enable comparison with the VaR results for 2020.

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 2020 were: index-linked gilts, with a carrying value of £9,030 million (31 March 2019: £8,761 million); the deposit at the National Loans Fund, with a carrying value of £55,333 million (31 March 2019: £16,546 million); the advance from the National Loans Fund, with a carrying value of £2 million (31 March 2019: £23,024 million); and call notice deposits from customers, with a carrying value of £43,711 million (31 March 2019: £34,951 million). The index-linked gilts are linked to the General Index of Retail Prices in the UK (RPI).

(a) Interest rate risk profile

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

	Fixed rate instruments Weighted average interest rate 2020 %	Fixed rate instruments Weighted average period 2020 Years	Fixed rate instruments Statement of financial position carrying value 2020 £m	Floating rate instruments Statement of financial position carrying value 2020 £m
Sterling				
Assets*	3.48	11.02	147,280	64,363
Liabilities (before funding by National Loans Fund)	0.45	0.16	116,609	43,711

	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

* 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

	2020 £m	2019 £m
PV01 at 31 March	(0.16)	(0.37)
The range of end-of-day PV01 in the year ended 31 March was:		
Highest positive	0.47	(0.37)
Average	(0.05)	(0.60)
Highest negative	(0.54)	(0.79)

Interest rate risk - retail gilts

	2020 £m	2019 £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	(0.02)	(0.01)

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

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

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

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

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

22 Liquidity risk

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

The DMO manages the DMA's liquidity primarily by:

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

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

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

Maturity analysis of assets and liabilities at 31 March 2020

	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	1,017	-	-	-	-	-	-	-	-	1,017
Other assets	-	2	-	-	-	-	-	-	-	2
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Loans and advances to financial counterparties	-	22,644	4,045	5,331	1,448	1,244	-	-	-	34,712
Securities held for trading	-	1,302	-	-	-	-	-	3	7	1,312
Investment securities	-	2,475	2,054	3,255	291	736	12,920	14,580	83,975	120,286
Total assets before deposit at National Loans Fund	**1,017**	**26,423**	**6,099**	**8,586**	**1,739**	**1,980**	**12,920**	**14,583**	**83,982**	**157,329**
Deposit at National Loans Fund	55,333	-	-	-	-	-	-	-	-	55,333
	56,350	**26,423**	**6,099**	**8,586**	**1,739**	**1,980**	**12,920**	**14,583**	**83,982**	**212,662**
Liabilities										
Deposits by financial counterparties	10,560	17,638	106	756	109	-	-	-	-	29,169
Due to government customers	43,711	2,919	733	83	-	-	-	-	-	47,446
Other liabilities	213	-	-	-	-	-	-	-	-	213
Treasury bills in issue	-	20,295	35,401	28,009	-	-	-	-	-	83,705
Total liabilities before funding by National Loans Fund	**54,484**	**40,852**	**36,240**	**28,848**	**109**	**-**	**-**	**-**	**-**	**160,533**
Advance from National Loans Fund	2	-	-	-	-	-	-	-	-	2
	54,486	**40,852**	**36,240**	**28,848**	**109**	**-**	**-**	**-**	**-**	**160,535**

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**

(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 2020

	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	10,560	18,503	110	**29,173**	(4)	**29,169**
Due to government customers	43,711	3,734	-	**47,445**	1	**47,446**
Other liabilities	213	-	-	**213**	-	**213**
Treasury bills in issue	-	83,796	-	**83,796**	(91)	**83,705**
Total non-derivative liabilities before funding by National Loans Fund	**54,484**	**106,033**	**110**	**160,627**	**(94)**	**160,533**

* Carrying value per the statement of financial position

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 2020 there were no liabilities that the DMA intended to repay before maturity (31 March 2019: 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 2020

	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	-	-	-
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 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	-	-	-

Carrying values are shown in note 9.

(b) Derivatives settled on a net basis
At 31 March 2020 the DMA held no derivatives settled on a net basis (31 March 2019: none).

At 31 March 2020 there were no derivative contracts that the DMA intended to terminate before maturity (31 March 2019: none). Management expects actual undiscounted cash flows in relation to derivatives to be the same as contractual undiscounted cash flows.

23 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;
- press releases;
- gilt auction announcements and gilt auction results; and
- Treasury bill tender results.

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