



HM Treasury

Debt management report: 2021-22

March 2021

Debt management report 2021-22



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Chapter 1

Introduction

- 1.1 The 'Debt management report' is published in accordance with the 'Charter for Budget Responsibility'.¹ The Charter requires the Treasury to "report through a debt management report – published annually – on its plans for borrowing for each financial year" and to set remits for its agents. The Charter requires the report to include:
- the overall size of the debt financing programme for each financial year
 - the planned maturity structure of gilt issuance and the proportion of index-linked and conventional gilt issuance
 - a target for net financing through NS&I
- 1.2 The UK Debt Management Office (DMO) publishes detailed information on developments in debt management and the gilt market over the previous year in its 'Annual Review'.²
- 1.3 Chapters 2 and 3 along with Annexes A and B contain information on the government's wholesale debt management activities. Information about financing from NS&I is set out in Annex C. The Exchequer cash management remit for 2021-22 is contained in Annex D.

¹ 'Charter for Budget Responsibility: autumn 2016 update', HM Treasury, January 2017.

² www.dmo.gov.uk/publications/annual-reviews

Chapter 2

Debt management policy

Introduction

2.1 This chapter provides an overview of the government’s debt management framework and sets out medium-term considerations for debt management policy. The debt management framework is part of the overall macroeconomic framework, which includes the fiscal, macro prudential and monetary policy frameworks. These are outlined in the Budget 2021 document.¹

Debt management framework

2.2 The debt management framework includes:

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

Debt management objective

2.3 The debt management objective, originally established in 1995 following the ‘Debt Management Review’ and set out in the ‘Charter for Budget Responsibility’,² is:

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

2.4 While decisions on debt management policy must be taken with a long-term perspective, specific decisions on funding the government’s gross financing requirement are taken annually. Those decisions are announced in advance for the forthcoming year and can be updated during the year.

¹ ‘Budget 2021’, HM Treasury, March 2021.

² ‘Report of the Debt Management Review’, HM Treasury and the Bank of England, July 1995 – available at: www.dmo.gov.uk/media/2083/report95.pdf – and ‘Charter for Budget Responsibility: autumn 2016 update’, HM Treasury, January 2017.

Components of debt management objective

- 2.5 The costs of meeting the government's financing needs arise directly from the interest payable on debt (coupon payments and the difference between issuance proceeds and redemption payments) and the costs associated with issuance. "Over the long term" means that the government expects to issue debt beyond the forecast period. This expectation is reflected in the government's choice of debt management strategies.
- 2.6 A number of risks are taken into account when selecting possible debt management strategies. Five particularly important risks are:
- interest rate risk – interest rate exposure arising when new debt is issued
 - refinancing risk – interest rate exposure arising when debt is rolled over, with an increase in refinancing risk if redemptions are concentrated in particular years
 - inflation risk – exposure to inflation from the indexation of coupons and principal of index-linked gilts
 - liquidity risk – the risk that the government may not be able to borrow from a particular part of the market in the required size at a particular time because that part of the market is insufficiently liquid
 - execution risk – the risk that the government is not able to sell the offered amount of debt at a particular time, or must sell it at a large discount to the market price
- 2.7 These are the major risks that the government has taken into account in recent years and expects to take into account in future years. The weight placed on each risk can change over time. An explanation of how risk is taken into account in determining the DMO's financing remit for 2021-22 is set out in Annex B.

Debt management policy principles

- 2.8 The debt management objective is achieved by:
- meeting the principles of openness, predictability and transparency
 - encouraging the development of a liquid and efficient gilt market
 - issuing gilts that achieve a benchmark premium
 - adjusting the maturity and nature of the government's debt portfolio
 - offering cost-effective retail financing through NS&I while balancing the interests of taxpayers, savers and the wider financial sector
- 2.9 The framework is underpinned by the institutional arrangements for debt management policy established in 1998, in particular the creation of the DMO with responsibility for the implementation and operation of debt management policy.³

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

Roles of HM Treasury and the DMO

- 2.10 The respective roles of HM Treasury and the DMO are set out in the DMO's 'Executive Agency Framework Document'.⁴
- 2.11 In support of the government's approach to debt management policy:
- the DMO will conduct its operations in accordance with the principles of openness, predictability and transparency
 - HM Treasury and the DMO will explain the basis for their decisions on debt issuance as fully as possible to allow market participants to understand the rationale behind the decisions
 - the DMO will advise on and encourage the development of liquid and efficient gilt and Treasury bill markets
- 2.12 HM Treasury sets the annual financing remit using the projected financing requirement prepared on the basis of the Office for Budget Responsibility's (OBR) forecasts for the fiscal policy aggregates. The DMO has responsibility for pre-announcing the details of its issuance plans to the market, including a planned auction calendar setting out the dates and type of gilt, and details of planned average auction sizes.

The full funding rule

- 2.13 An overarching requirement of debt management policy is that the government fully finances its projected financing requirement each year through the sale of debt. This is known as the 'full funding rule'.⁵ The government therefore issues sufficient wholesale and retail debt instruments, through gilts, Treasury bills (for debt financing purposes) and NS&I products, to enable it to meet its projected financing requirement in full.
- 2.14 The rationale for the full funding rule is:
- that the government believes that the principles of transparency and predictability are best met by the full funding of its financing requirement
 - to avoid the perception that financial transactions of the public sector could affect monetary conditions, consistent with the institutional separation between monetary policy and debt management policy
- 2.15 The total amount of financing raised in a financial year will in practice differ marginally from the projected financing requirement. This divergence normally occurs towards the end of the financial year and can be explained by a number of different factors. These include:
- the difference between the projected central government net cash requirement and its outturn

⁴ 'Executive Agency Framework Document', United Kingdom Debt Management Office, April 2005. Available at www.dmo.gov.uk/media/14536/fwork040405.pdf

⁵ The funding rule (to fund fully the public sector borrowing requirement, maturing debt and any foreign currency reserves) was originally set out in 'Report of the Debt Management Review', HM Treasury and the Bank of England, July 1995. Available at: www.dmo.gov.uk/media/2083/report95.pdf

- the difference between the projected net contribution to financing by NS&I and its outturn
 - auction proceeds in the period following the Budget that are different from those required to meet relevant financing targets
 - the implementation of the syndication programme at year-end
- 2.16 Given the unprecedented size of the financing requirement in 2020-21, and the higher than usual levels of uncertainty around this, it is likely that this divergence will be larger than in previous years.
- 2.17 The difference will be reflected in a change in the DMO's cash balance at the end of the financial year. To meet the full funding rule, the government adjusts the projected net financing requirement in the following financial year to offset any difference; however, this does not affect the DMO's cash management operations, which are intended to smooth the government's cash flows across the financial year (see Annex D). The DMO's flexibility to vary the stock of Treasury bills for cash management purposes is implemented with full adherence to the full funding rule.

Debt management considerations

- 2.18 Decisions on debt management policy are taken in advance to achieve the debt management objective. Each year, the government assesses the costs and risks associated with different possible patterns of debt issuance, taking into account the most up-to-date information on market conditions and demand for debt instruments.
- 2.19 At present, annual debt management decisions are also made in the context of an elevated level of debt relative to gross domestic product. Consistent with the long-term focus of the debt management objective, the government takes decisions annually that enhance fiscal resilience by:
- mitigating refinancing risk, that is, the need to roll over high levels of debt continuously and to avoid concentrating redemptions in particular years, by taking decisions which spread gilt issuance along the maturity spectrum
 - encouraging the liquidity and efficiency of the gilt market
 - maintaining a diversity of exposure, both real and nominal, across the maturity spectrum, reflecting its preference for a balanced portfolio
- 2.20 As a result, subject to cost-effective financing, the government will:
- maintain a relatively long average maturity debt portfolio to limit exposure to refinancing risk
 - issue an appropriate balance of conventional and index-linked gilts over a range of maturities, taking account of structural demand, the diversity of the investor base and the government's preferences for inflation exposure
 - maintain the Treasury bill stock at a level that will support market liquidity and the cash management objective

Index-linked gilts

- 2.21 The UK's stock of index-linked debt stood at around £448 billion at the end of 2020, making up 24% of the government's debt portfolio (Chart A.10).⁶
- 2.22 Issuing index-linked gilts has historically brought cost advantages for the government due to strong investor demand, and has built the UK's financial resilience by supporting both the UK's long average debt maturity and diversifying the investor base. Tying debt interest payments to inflation also underscored the government's commitment to price stability in the period prior to central bank independence.
- 2.23 At Budget 2018 – and as part of the government's responsible approach to fiscal risk management – the government announced that it would look to reduce the proportion of index-linked gilt issuance in a measured fashion as a means of reducing its inflation exposure in the debt portfolio.
- 2.24 In the five years prior to 2018-19, index-linked gilts accounted for around 25% of the government's annual debt issuance, for which both the principal and coupon payments are linked to the Retail Prices Index (RPI). Since then, the government has made progress towards reducing inflation exposure in relative terms. In 2018-19 and 2019-20, index-linked gilt issuance as a proportion of total annual debt issuance reduced gradually (see Chart A.11). In 2020-21, this figure has been reduced further, given the unprecedented size of the financing requirement (where there has been a greater weighting towards conventional gilts) and against the backdrop of the consultation on the timing of RPI reform (see below). For the 2021-22 financing remit, index-linked gilts are planned to account for 11.1% of the government's annual debt issuance.
- 2.25 On 17 January 2019, the House of Lords Economic Affairs Committee published a report on 'Measuring Inflation' at the conclusion of its inquiry into the use of RPI.⁷ In response to this, the government and the UK Statistics Authority (UKSA) announced a consultation on the timing of RPI reform. Specifically, UKSA proposed addressing the shortcomings of the measure by bringing the methods and data sources of the Consumer Price Index including owner occupiers' housing costs (CPIH) into RPI. The consultation launched at Budget 2020 and closed for responses on 21 August.
- 2.26 On 25 November 2020, the government and UKSA published the response to the consultation, alongside the Spending Review. The Chancellor announced that, while he sees the statistical arguments of UKSA's intended approach to reform, in order to minimise the impact of reform on the holders of index-linked gilts, he will be unable to offer his consent to the implementation of such a proposal before the maturity of the final index-linked gilt to be specifically affected, which will occur in 2030.
- 2.27 Decisions on index-linked and conventional gilt issuance will continue to be taken annually through the financing remit, taking into account the

⁶ In nominal uplifted terms. It does not include gilts held by the Bank of England's Asset Purchase Facility.

⁷ 'Measuring Inflation', House of Lords Economic Affairs Committee, HL Paper 246, January 2019.

appropriate balance between the level of structural demand, the diversity of the investor base, and the government's desired inflation exposure.

Sovereign Sukuk

- 2.28 In June 2019 the government announced its intention to issue new UK sovereign Sukuk (financial certificates, similar to bonds, but which comply with the principles of Islamic finance). The government subsequently announced that the new Sukuk will take an al-ljara structure and be denominated in pounds sterling. Issuance was planned in 2020; however, owing to adverse market conditions related to the impact of the COVID-19 pandemic, issuance was deferred and is now planned for the first half of 2021.
- 2.29 As with the first-issue in 2014, new sovereign Sukuk will not be part of the government's normal debt management policy, but are instead intended to deliver wider benefits, including reinforcing London's status as the leading centre for Islamic finance outside the Islamic world, supporting greater financial inclusion in the UK and promoting greater trade and investment into the UK.

Green gilts and retail savings product

- 2.30 In November 2020, the Chancellor announced the government's intention to issue its inaugural green gilt in 2021. At Budget 2021, the government also announced plans to issue the UK's second green gilt later in 2021, as the UK looks to build out a green yield curve. In addition, it was announced that the total green gilt issuance for 2021-22 will be of a minimum size of £15 billion.
- 2.31 The green gilts will follow a 'use of proceeds' structure and the proceeds from the gilt will be ear-marked for eligible green expenditures outlined in the framework document that will be published in June 2021.
- 2.32 The first issuance is scheduled for summer 2021, with a second issuance to follow later in the year. These will be the first in a series of planned issues as the UK looks to build out a 'green curve' over time, both in order to meet investor demand and to contribute to meeting the government's debt financing requirement. As such, green gilt issuance will be part of the government's normal debt management policy.
- 2.33 The Chancellor also announced at Budget 2021 plans for a green retail savings product to be offered by NS&I later in 2021. This product will be linked to the UK's sovereign green bond framework and will give all UK savers the opportunity to take part in the collective effort to tackle climate change. More detail on this product will follow in due course. The product will not contribute towards NS&I's financing remit (which is set out in Annex C).

Borrowing by devolved administrations

- 2.34 The Scottish and Welsh governments and the Northern Ireland Executive have the power to borrow for capital investment, as set out in the Scotland Act 1998, Wales Act 2006, and Northern Ireland (Loans) Act 1975,

respectively. The Scottish and Welsh governments' capital borrowing powers were updated in the ensuing Scotland Act 2016 and Wales Act 2017, with further detail set out in their respective fiscal frameworks. The Northern Ireland Executive's borrowing powers were updated in the Northern Ireland (Miscellaneous Provisions) Act 2006.

- 2.35 Both the Scottish and Welsh governments also have the power to issue bonds to finance capital investment. The Scottish and Welsh governments will be solely responsible for meeting their liabilities and the UK government will provide no guarantee on any bonds issued by the Scottish and Welsh governments. If there is an increase in the Scottish or Welsh government's borrowing limits, the UK government will also review devolved administrations' powers to issue bonds. In addition, the Scottish and Welsh governments would need further approval from HM Treasury to issue in any currency other than sterling.
- 2.36 The Scottish and Welsh governments also have resource borrowing powers to manage their budgets, as set out in the Acts above. Further detail on the Scottish and Welsh governments' resource borrowing powers are included in their respective fiscal frameworks. The Northern Ireland Executive has short-term resource borrowing powers to assist cashflow management in the Northern Ireland Consolidated Fund.

Borrowing by local authorities

- 2.37 Under the prudential code, each local authority is responsible for meeting its own liabilities, including those taken on through extending guarantees. The UK government provides no guarantee on local authority borrowing.
- 2.38 Local authority capital financing decisions are subject to prudential guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Ministry of Housing, Communities & Local Government (MHCLG), the Scottish Government, and the Welsh Government. Taken together, these documents form the prudential framework. Following consultation in 2017, MHCLG and CIPFA have updated their respective elements of the framework.⁸ Local authorities are required by statute to have regard to this guidance. These changes, which came into force in April 2018:
- extended the requirement to consider security, liquidity and yield in that order of importance to all investments, not just financial investments
 - enhanced transparency requirements
 - required authorities to demonstrate how they have ensured that those signing off commercial decisions understand the risks and opportunities
 - made it clear that borrowing more than or in advance of need solely to generate a profit is not prudential

⁸ 'Consultation on the proposed changes to the prudential framework of capital finance: Summary of consultation responses and Government response', Ministry of Housing, Communities & Local Government, February 2018; and 'Consultation on Proposed Changes to the Prudential Code', The Chartered Institute of Public Finance and Accountancy, August 2017.

- required local authorities to demonstrate that the level of debt taken on and aggregate risk from investments is proportionate to the size of the authority
 - updated the guidance on calculating minimum revenue provision to make it clear that local authorities should not make imprudent assumptions to minimise their debt servicing costs
- 2.39 Local authorities undertake the bulk of their borrowing via the Public Works Loan Board (PWLB). On 24 February 2020 a governance change was implemented by Statutory Instrument whereby the relevant borrowing powers vested in the former PWLB Commissioners were transferred to HM Treasury.
- 2.40 At Budget 2020, the government launched a consultation on a proposal to focus PWLB loans on service delivery, housing, and regeneration, and ensure that this money is not diverted into financial investments that serve no direct policy purpose. The government introduced new lending terms to this effect in November 2020, alongside the Spending Review.
- 2.41 From summer 2021, local authorities will also be able to borrow from the UK Infrastructure Bank for strategic infrastructure projects.

Chapter 3

The Debt Management Office's financing remit for 2021-22

Introduction

- 3.1 The financing arithmetic sets out the components of the government's Net Financing Requirement (NFR) and the contributions from various sources of financing. The Debt Management Office's (DMO) financing remit sets out how the DMO, acting as the government's agent, will fund the projected NFR.
- 3.2 The financing requirement in 2020-21 was of an unprecedented size, and grew at an uncertain pace, reflecting COVID-19 developments. Against this background, the DMO's financing remit in 2020-21 was delivered via a series of partial in-year extensions. The structure of the financing remit in 2021-22, as published at Budget 2021, has reverted to a full year plan, similar to that delivered prior to 2020-21.

Financing arithmetic

- 3.3 The Office for Budget Responsibility's (OBR) forecast for the central government net cash requirement (excluding NRAM Ltd, Bradford & Bingley and Network Rail) (CGNCR (ex NRAM, B&B and NR)) in 2021-22 is £240.4 billion. This is the fiscal aggregate that determines gross debt sales and is derived from public sector net borrowing (PSNB). The relationship between PSNB and CGNCR (ex NRAM, B&B and NR) is set out in the OBR's March 2021 'Economic and fiscal outlook'.
- 3.4 The forecast NFR in 2021-22 of £297.7 billion also reflects: projected gilt redemptions of £79.3 billion; and a planned short-term financing adjustment of -£16.0 billion resulting from unanticipated over funding in 2020-21.
- 3.5 Proceeds from NS&I are expected to make a £6 billion net contribution to financing in 2021-22, following a forecast net contribution of £20.0 billion in 2020-21. The projection for 2021-22 assumes gross inflows of £43.6 billion. Details of NS&I's Net Financing Target are set out in Annex C.
- 3.6 Gilt issuance is the government's primary means by which it meets the NFR. Treasury bill issuance (for debt financing purposes) may also make a net contribution to meeting the NFR.
- 3.7 In 2021-22, the NFR will be met by gross gilt issuance of £295.9 billion. Net issuance of Treasury bills for debt financing purposes will be £1.8 billion (i.e.

it is planned that the stock of Treasury bills in issue for debt financing purposes at end-March 2022 will increase to £61.8 billion).

3.8 Table 3.A sets out details of the financing arithmetic for 2020-21 and 2021-22.

Table 3.A: Financing arithmetic in 2020-21 and 2021-22 (£ billion)¹

	2020-21	2021-22
CGNCR (ex NRAM, B&B and NR)²	369.7	240.4
Gilt redemptions	97.6	79.3
Financing adjustment carried forward from previous financial years ³	18.4	-16.0
Gross financing requirement	485.7	303.7
<i>less:</i>		
NS&I net financing	20.0	6.0
Other financing ⁴	0.0	0.0
Net financing requirement (NFR) for the Debt Management Office (DMO)	465.7	297.7
DMO's NFR will be financed through:		
Gilt sales, through sales of:		
Short conventional gilts	167.9	87.0
Medium conventional gilts	149.6	65.4
Long conventional gilts	134.9	82.8
Index-linked gilts	33.2	32.7
Initially unallocated amount of gilts (including future green gilt sales) ⁵	0.0	28.0
Total gilt sales for debt financing	485.5	295.9
Total net contribution of Treasury bills for debt financing	-2.0	1.8
Total financing	483.5	297.7
DMO net cash position	18.3	2.3

¹ Figures may not sum due to rounding.

² Central government net cash requirement (excluding NRAM Ltd, Bradford & Bingley and Network Rail).

³ The £18.4 billion financing adjustment in 2020-21 carried forward from previous years reflects the 2019-20 outturn for CGNCR (ex NRAM, B&B and NR), as first published on 23 April 2020. The -£16.0 billion financing adjustment in 2021-22 also reflects an increase of £1.8 billion in the planned DMO end-financial year net cash position to £2.3 billion. The increase is to be financed by the £1.8 billion net contribution by Treasury bills to debt financing in 2021-22.

⁴ Prior to the publication of the end-year outturn in April each year, this financing item will mainly comprise estimated revenue from coinage.

⁵ In 2021-22 the unallocated portion will be used additionally to account for the issuance of green gilts. Once an initial green gilt offering has been executed, the proceeds from that transaction (and any future transactions) will be reported separately in the financing arithmetic table for 2021-22.

Source: DMO, HM Treasury, NS&I and OBR.

Other short-term debt

- 3.9 The Ways and Means facility functions as the government's overdraft account with the Bank of England.¹ Ordinarily, a standing negative balance of around £0.4 billion is maintained at all times to support Exchequer cash management. That has been the case throughout 2020-21 (a period during which the Ways and Means facility has not been drawn on) and is planned to remain the case in 2021-22.
- 3.10 The projected level of the DMO's net cash balance at 31 March 2021 is £18.3 billion, £17.8 billion above the level projected at Budget 2020. The level will be reduced to £2.3 billion during 2021-22, as shown by the planned short-term financing adjustment, and this will in turn reduce the NFR in 2021-22. The -£16.0 billion financing adjustment in 2021-22 also reflects an increase of £1.8 billion in the planned DMO end-financial year net cash position to £2.3 billion (from £0.5 billion), to provide the DMO with additional day-to-day liquidity.

Gilt issuance by method, type and maturity

- 3.11 Auctions will remain the government's primary method of gilt issuance. In addition, the government will continue issuance via syndications and gilt tenders. Any type and maturity of gilts can be issued via syndication or gilt tender. Further details are set out in the DMO's 2021-22 financing remit announcement.
- 3.12 The government plans gilt sales via auction of £237.9 billion (or 80.4% of total issuance) which is currently planned to be split by maturity² and type as follows:
- £87.0 billion of short conventional gilts (29.4% of total issuance)
 - £65.4 billion of medium conventional gilts (22.1% of total issuance)
 - £66.3 billion of long conventional gilts (22.4% of total issuance)
 - £19.2 billion of index-linked gilts (6.5% of total issuance)
- 3.13 The government is also currently planning to sell approximately £30.0 billion of gilts (10.1% of total issuance) via syndication. The DMO's remit announcement sets out further detail about the planned syndication programme.
- 3.14 In addition, the DMO's financing remit includes an initially unallocated portion of £28.0 billion (9.5% of total issuance), through which gilts of any type or maturity may be sold, via any issuance method. In 2021-22 the unallocated portion will be used additionally to account for the issuance of green gilts. Once an initial green gilt offering has been executed, the proceeds from that transaction (and any future transactions) will be reported separately in the financing arithmetic table for 2021-22.
- 3.15 The deployment of the unallocated amount of gilt sales is designed to facilitate the effective delivery of the gilt financing programme while

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

² Maturities are defined as follows: short (1-7 years), medium (7-15 years), and long (over 15 years).

remaining consistent with the debt management principles of openness, predictability and transparency.

- 3.16 To maintain the operational viability of syndicated offerings at the end of each financial year, the overall size of the syndication programmes (conventional and/or index-linked) may be increased by up to 10% at the time of the final syndicated offering of each type.
- 3.17 Gilt sales from either the syndication or auction programmes at any maturity sector may vary from a broadly even-flow delivery during the financial year. Proceeds raised following the final transaction of each syndication programme may also vary from the planned total for each programme. Any variations of this nature may lead to a minor adjustment to the type and maturity of gilts sold via any issuance method towards the end of the financial year.
- 3.18 Through its gilt issuance programme, the government aims at regular issuance across the maturity spectrum throughout the financial year and at building up benchmarks at key maturities in both conventional and index-linked gilts.
- 3.19 The current planning assumption for gilt issuance in 2021-22 by type, maturity and issuance method is shown in Table 3.B.

Table 3.B: Breakdown of currently planned gilt issuance in 2021-22 by type, maturity and issuance method (£ billion and % of total)¹

	Auction	Syndication	Gilt tender	Unallocated	Total
Short	87.0	-	-	-	87.0 (29.4%)
Medium	65.4	-	-	-	65.4 (22.1%)
Long	66.3	16.5	-	-	82.8 (28.0%)
Index-linked	19.2	13.5	-	-	32.7 (11.1%)
Unallocated ²	-	-	-	28.0	28.0 (9.5%)
Total	237.9 (80.4%)	30.0 (10.1%)	-	28.0 (9.5%)	295.9

¹ Figures may not sum due to rounding.

² In 2021-22 the unallocated portion will be used additionally to account for the issuance of green gilts. Once an initial green gilt offering has been executed, the proceeds from that transaction (and any future transactions) will be reported separately in the financing arithmetic table for 2021-22.

Source: DMO.

Gilt auction calendar

- 3.20 On the same day as the publication of the 'Debt management report', the DMO will publish a planning assumption for the gilt auction calendar consistent with the remit. The planned auction calendar may be adjusted during the year. The DMO will explain the parameters for this alongside the publication of the auction calendar.

Post-Auction Option Facility

- 3.21 In 2021-22, the DMO will continue to offer successful bidders at auction (both primary dealers and investors) the option to purchase additional stock. The details of how this facility works are set out in the DMO's gilt market Operational Notice.³

The Standing Repo Facility

- 3.22 For the purposes of market management, the DMO may create and repo out gilts in accordance with the provisions of its Standing Repo Facility launched on 1 June 2000 and most recently revised on 19 March 2020.⁴ Any such gilts created will not be sold outright to the market and will be cancelled on return.

Other operations

- 3.23 The DMO has no current plans for a programme of reverse or switch auctions or conversion offers in 2021-22.

Coupons

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

Purchases of short maturity debt

- 3.25 The DMO may buy in gilts close to their final maturity date to help manage Exchequer cash flows.

Treasury bill issuance

- 3.26 It is currently planned that Treasury bill issuance for debt financing purposes will make a £1.8 billion net contribution to debt financing in 2021-22. The amount that Treasury bills have contributed to debt financing up to, and including, 2020-21 will be reported by the DMO shortly after the end of 2020-21.

New gilt instruments

- 3.27 Aside from the launch of green gilts, there are no current plans to introduce other new types of gilt instruments in 2021-22.

³ 'Official Operations in the Gilt Market: An Operational Notice', DMO, August 2019.

⁴ <https://www.dmo.gov.uk/media/15597/repotc020818.pdf>

Revisions to the remit

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

- the government's forecast for the NFR
- the level and/or shape of the gilt yield curves
- market expectations of future interest and inflation rates
- market volatility

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

Medium-term projections for annual financing requirements

3.30 The government has published projections for financing requirements in the fiscal forecast period. The financing requirements include the forecast path for CGNCR (ex NRAM, B&B and NR) and the gilt redemption profile. Table 3.C sets out the financing requirement projections from 2020-21 to 2025-26.

Table 3.C: Financing requirement projections, 2020-21 to 2025-26 (£ billion)¹

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
CGNCR (ex NRAM, B&B and NR) ²	369.7	240.4	127.9	109.7	99.7	88.1
Redemptions	97.6	79.3	107.1	104.5	104.4	126.2
Financing adjustment carried forward from previous years	18.4	-16.0	0.0	0.0	0.0	0.0
Illustrative gross financing requirement	485.7	303.7	235.0	214.1	204.1	214.3

¹ Figures may not sum due to rounding.

² Central government net cash requirement (excluding NRAM Ltd, Bradford & Bingley and Network Rail).

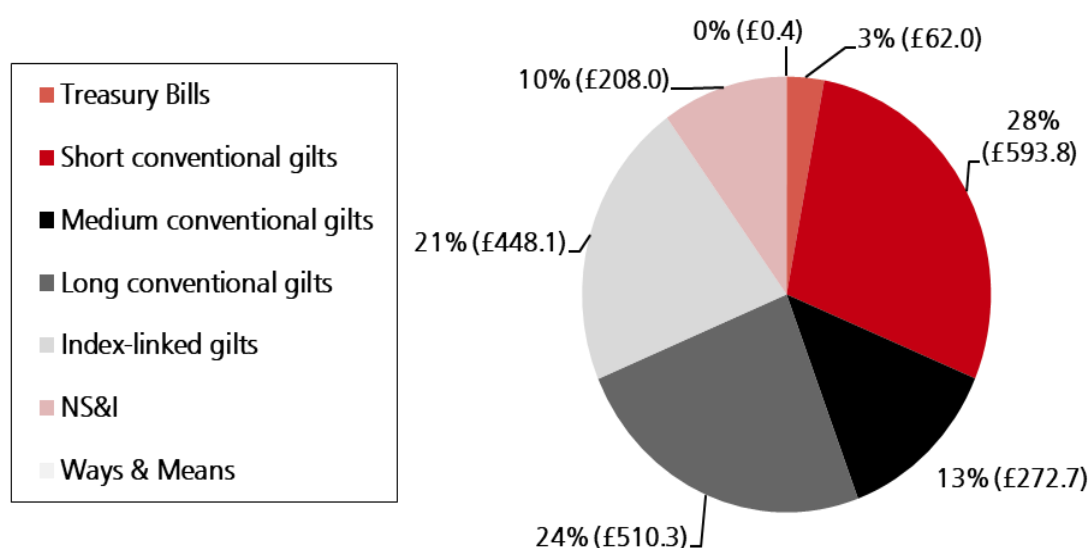
Source: DMO, HM Treasury and OBR.

Annex A

Debt portfolio

- A.1 The total nominal outstanding stock of central government sterling wholesale debt excluding official holdings was £1,886.9 billion at end-December 2020.¹ The components of this stock are set out in Table A.1.
- A.2 Chart A.1 shows the composition of the government’s debt portfolio at end-December 2020.² Conventional and index-linked gilts made up the largest proportion of government debt (totalling 87%).

Chart A.1 Composition of central government sterling debt in % and £ billion (end-December 2020)¹



¹Figures may not sum due to rounding. Nominal uplifted values.
Source: DMO and NS&I

¹ Official holdings of gilts comprise holdings by the Debt Management Office (DMO) of gilts created for use as collateral in the conduct of its Exchequer cash management operations (such gilts are not available for outright sale to the market). This also includes any DMO purchases of near-maturity gilts. It does not include gilts held by the Bank of England’s Asset Purchase Facility.

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

Table A.1: Composition of central government wholesale and retail debt

£ billion nominal value	End-December 2019	End-December 2020
Wholesale		
Conventional gilts	1,164.8	1,483.7
Less government holdings	104.2	106.9
	1,060.6	1,376.8
Index-linked gilts	333.3	345.2
less government holdings	3.7	3.0
plus accrued inflation uplift	113.1	105.9
	442.7	448.1
Treasury bills for debt management	57.5	62.0
Total wholesale debt	1,560.8	1,886.9
Retail		
NS&I	175.7	208.0
Other		
Balance on Ways and Means Advance	0.4	0.4
Sovereign Sukuk	-	-
Total central government sterling debt	1,736.9	2,095.3
Other government debt less liquid assets	69.1	36.3
Public sector net debt	1,806.0	2,131.6
Public sector net debt to GDP (%)²	83.9%	99.2%
Statistics: Wholesale debt		
Wholesale debt to GDP (%) ²	71.6%	87.6%
Average time to maturity (years) ³	15.3 years	14.8 years
Debt maturing in one year (%)	10.3%	7.3%

¹ Figures may not sum due to rounding.

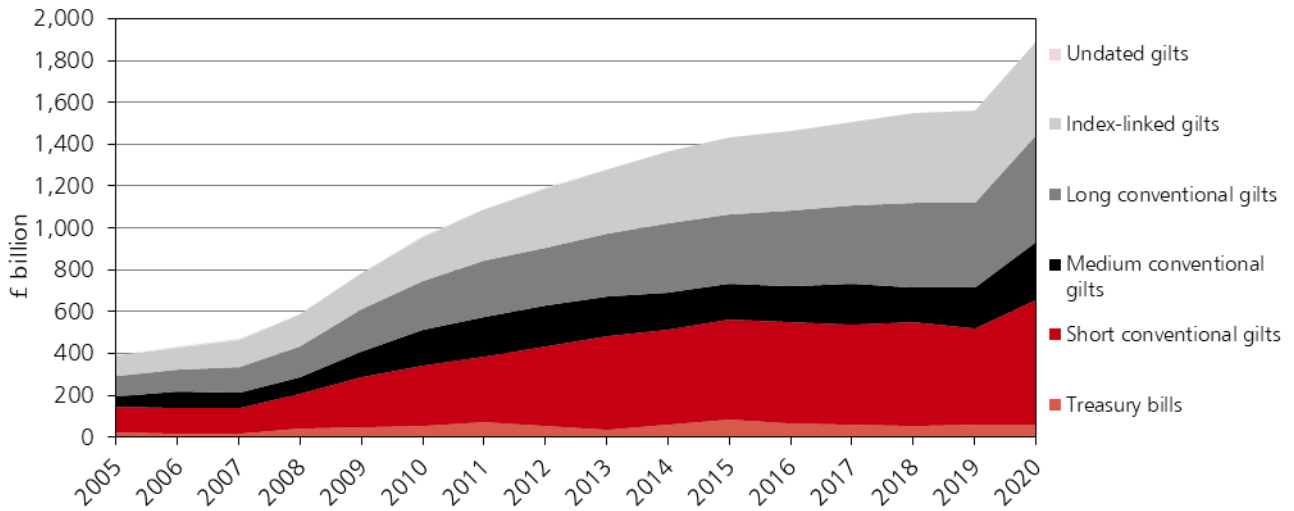
² GDP centered on end-December.

³ Calculated on a nominal weighted basis, excluding government holdings, including accrued inflation uplift and Treasury bills.

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

A.3 Chart A.2 shows the evolution of the gilt stock over time. Conventional gilts continue to make up the largest share of the gilt stock. The proportionate breakdown of the issuance of the different types of debt instrument in a given year has been relatively stable in recent years, though the proportion of index-linked gilts has fallen over 2020.

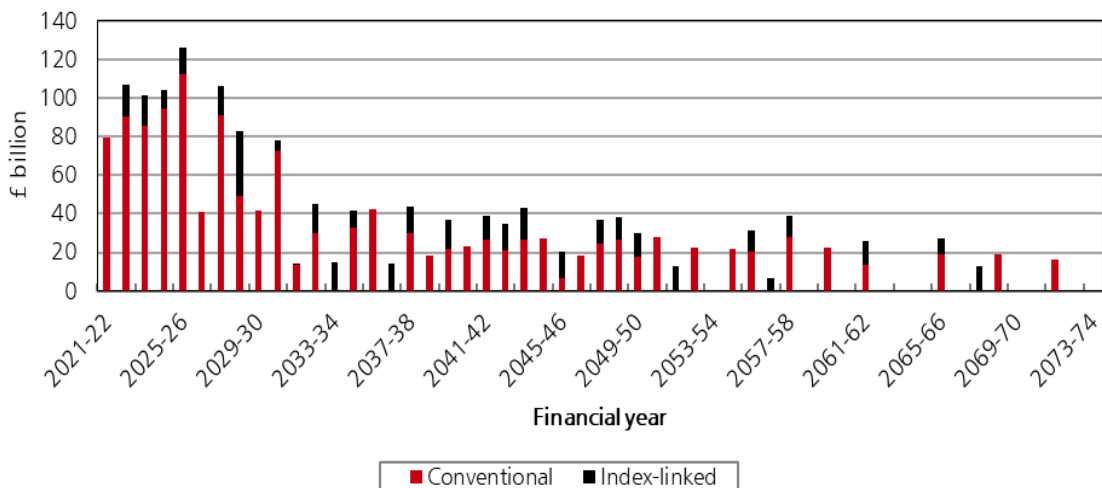
Chart A.2 Composition of central government wholesale debt stock (end-December 2020 values)



Source: DMO.

A.4 Chart A.3 shows the government’s gilt redemption profile as of 4 February 2021. Following the extension of the maturity of the conventional gilt curve from 2068 to 2071, the longest maturity gilt in issue is due to redeem in the 2071-72 fiscal year.³ While the majority of gilts in issue are conventional, particularly at shorter maturities, the split between conventional and index-linked gilts becomes more balanced at longer maturities.

Chart A.3 Gilt redemption profile (February 2021)



Source: DMO.

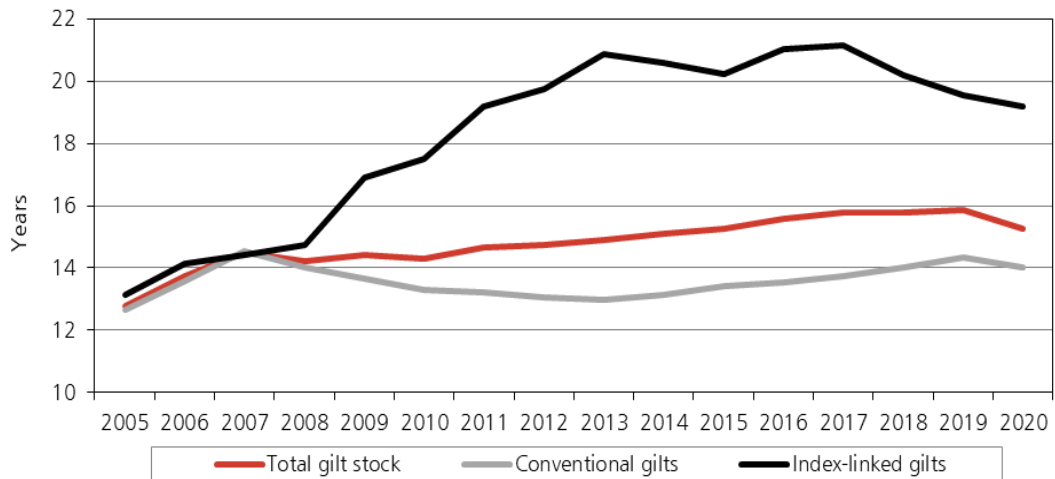
Maturity and duration of the debt stock

A.5 By end-December 2020, the average maturity of the total stock of gilts was 15.3 years, as shown in Chart A.4. The average maturity of the stock of conventional gilts had dropped from 14.3 years at end-2019 to 14.0 years at

³ ‘Press Notice: Syndicated launch of £6.0 billion nominal of 1.5% Treasury Gilt 2071: Result’, Debt Management Office, May 2018.

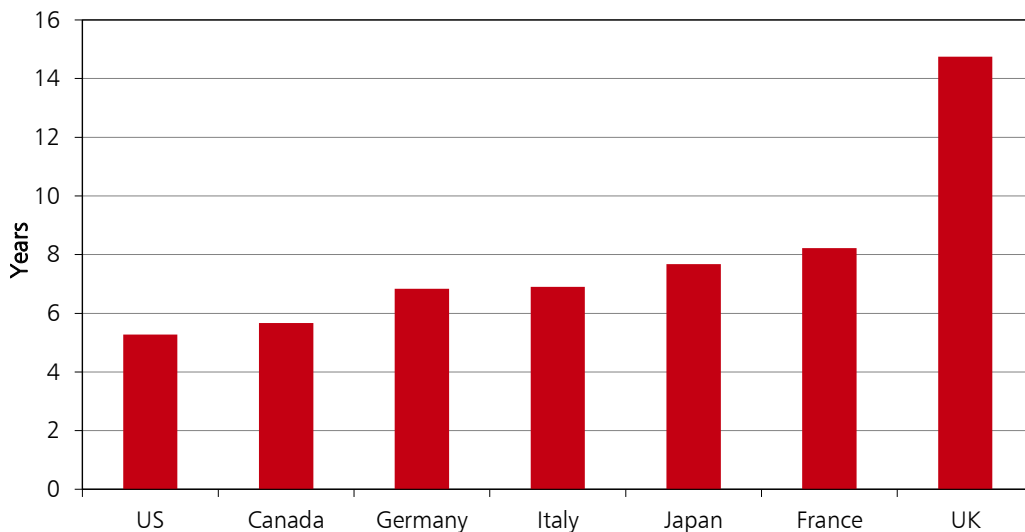
end-2020, with the average maturity of index-linked gilts falling from 19.6 to 19.2 years. The average maturity of the government's wholesale debt remains consistently longer than the average across the G7 group of advanced economies, as shown in Chart A.5.

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



¹Calculated on a nominal weighted basis, excluding official holdings, including accrued inflation uplifts.
Source: DMO.

Chart A.5 Average maturity of the debt stock by country (end-December 2020)¹

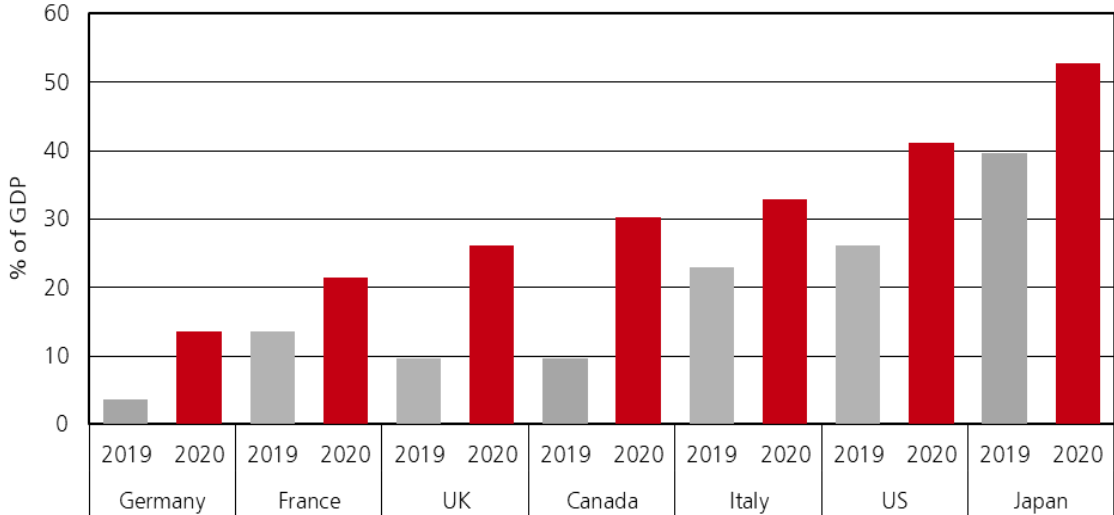


¹Calculated on a nominal weighted basis, excluding inflation uplift, including Treasury bills.
Source: Bloomberg L.P.

A.6 A long average maturity of debt significantly reduces the UK government's exposure to refinancing risks, by enabling gilt issuance to be spread along the maturity spectrum and avoiding a large concentration of redemptions in a particular year. Chart A.6 shows the expected gross financing requirement as a share of GDP for all G7 countries in 2019 and 2020. This illustrates the supportive impact that the long average maturity of the UK's debt stock has on the UK's annual gross financing requirement, which thereby lowers refinancing risk. Nonetheless, even within a long average maturity, it is possible to have a relative concentration of redemptions in certain years.

More specifically, Chart A.3 shows that from 2031-32 onwards, redemptions do not exceed £45 billion in any given year, whereas in the short-term, there are five years in which the redemption totals exceed the £100 billion mark.

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

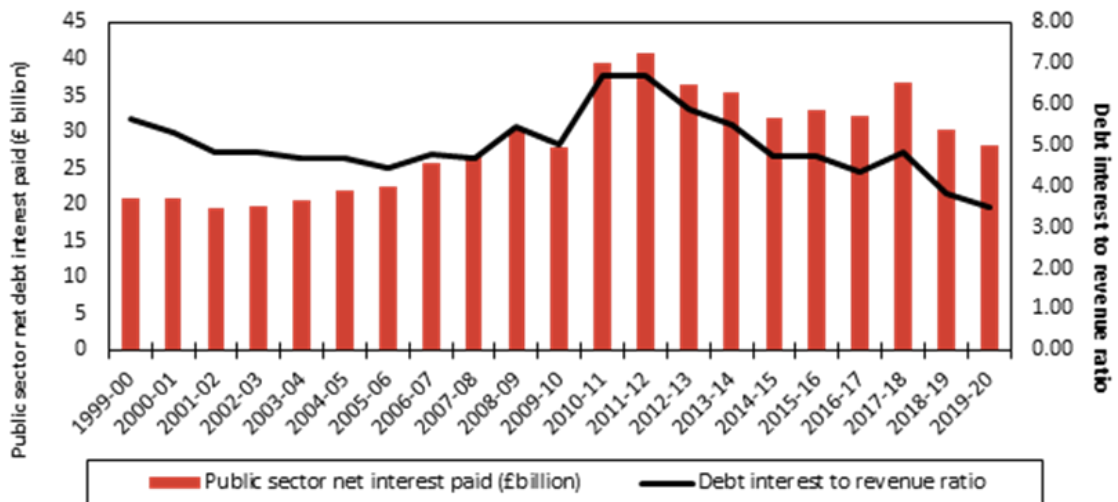


Source: IMF Fiscal Monitor October 2019/2020

Debt Interest

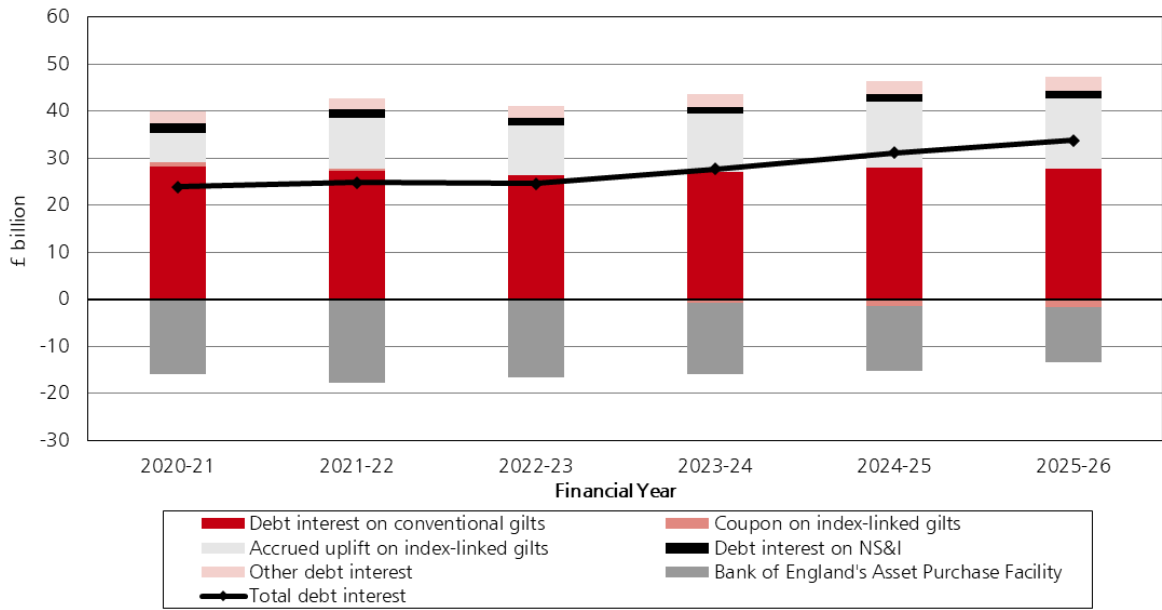
A.7 Debt interest spending has continued to fall in 2019-20, as shown in Chart A.7. This is due to declining interest rates for new issuance and relatively low RPI inflation (affecting the accrued interest due on index-linked gilts). Moving forwards, while debt interest on conventional gilts is forecast to remain broadly flat in nominal terms over the 5-year period, this will be counterbalanced by an increase in forecast inflation, contributing to an increase in total debt interest over the period (Chart A.8).

Chart A.7 Debt interest in £ billion and as % of public sector receipts



Source: ONS.

Chart A.8 Breakdown of debt interest forecast

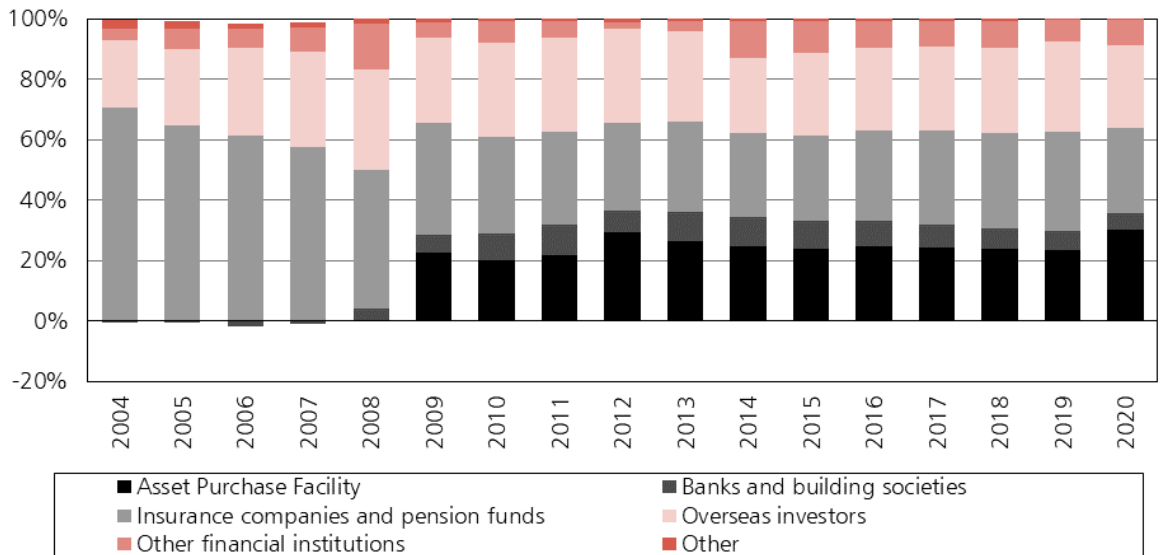


Source: OBR.

Gilt holdings by sector

A.8 At end-September 2020, the 3 largest investor groups of gilt holdings continued to be Bank of England's Asset Purchase Facility (30.5%), insurance companies and pension funds (28.4%), and overseas investors (27.0%), as shown in Chart A.9.

Chart A.9 Gilt holdings by sector (% total market value gilt holdings)¹



¹All end-December, except 2020 for which data is only available until end-September. The Bank of England's holdings of gilts not related to the Asset Purchase Facility are included in the 'Banks and building societies' category.

Source: ONS and Bank of England.

A.9 The introduction of quantitative easing through the Bank of England's Asset Purchase Facility has caused the largest change to gilt holdings by sector over time, as shown in Chart A.9. Since its introduction in 2009, the value of

holdings in the Asset Purchase Facility has increased; as of end-September 2020 it stood at £742 billion. Domestic insurance companies and pension funds have frequently been the largest holders of gilts in aggregate, though the share of gilts held by overseas investors has increased over time to comprise a similar share of the investor base.

Gilt issuance

A.10 The central government net cash requirement (excluding NRAM Ltd, Bradford & Bingley and Network Rail) (CGNCR (ex NRAM, B&B and NR)), gilt redemptions, and the volume of gilt sales for each financial year since 2008-09 are shown in Table A.2.

Table A.2: Central government net cash requirement, redemptions and gilt sales (£ billion)

	CGNCR (ex NRAM, B&B and NR) ¹	Redemptions	Gross gilt sales ²
2008-09	162.4	18.3	146.5
2009-10	198.8	16.6	227.6
2010-11	139.6	38.6	166.4
2011-12	126.5	49.0	179.4
2012-13	98.6	52.9	165.1
2013-14	79.3	51.5	153.4
2014-15	92.3	64.5	126.4
2015-16	78.5	70.2	127.7
2016-17	71.1	69.9	147.6
2017-18	40.7	79.5	115.5
2018-19	36.9	66.7	98.6
2019-20	55.8	99.1 ⁴	137.9
2020-21 ³	369.7	97.6	485.5
2021-22 ³	240.4	79.3	295.9

¹ Central government net cash requirement (excluding NRAM, Bradford and Bingley and Network Rail).

² Figures are in cash terms.

³ Budget 2021 projections.

⁴ Includes £0.2 billion for the redemption of the 2014 sovereign Sukuk in 2019-20.

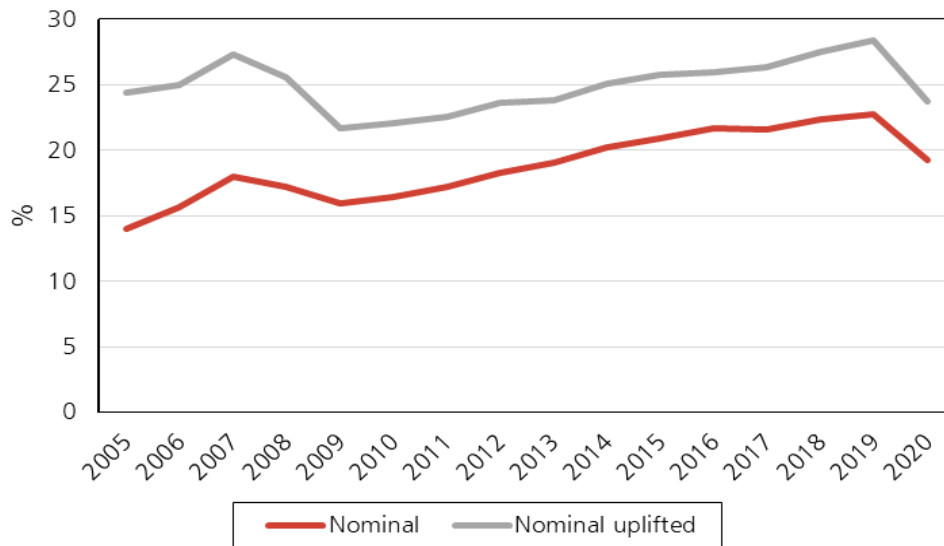
Source: DMO, HM Treasury, ONS and OBR.

Index-linked gilts

A.11 The stock of index-linked gilts has increased over time and stood at around £448 billion in nominal uplifted terms at the end of 2020. Index-linked gilts make up 24% of the government's debt portfolio in nominal uplifted terms (Chart A.10). The proportion of index-linked debt in the government's wholesale debt portfolio remains consistently higher than across the G7

group of advanced economies, and is around twice as large as the second highest G7 country.

Chart A.10 Index-linked proportion of the debt stock¹

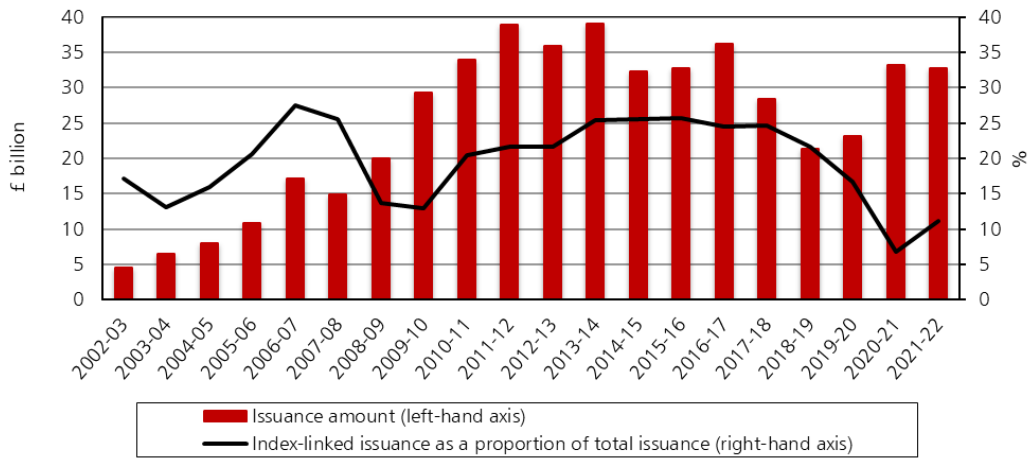


¹The term 'nominal value' refers to the nominal amount of gilts in issue; the term 'nominal uplifted' refers to the nominal amount in issue multiplied by the known inflation uplift on the gilts to date.

Source: DMO.

A.12 In the five years prior to 2018-19, around 25% of the government's annual debt issuance was through index-linked gilts (Chart A.11). As set out in Chapter 2, as part of the government's responsible approach to fiscal risk management, the government announced at Budget 2018 that it would look to reduce the proportion of index-linked gilt issuance in a measured fashion as a means of reducing its inflation exposure in the debt portfolio. Consistent with this, in 2018-19 and 2019-20, index-linked gilt issuance as a proportion of total annual debt issuance was reduced gradually. In 2020-21, this figure has been reduced further, given the unprecedented size of the financing requirement (where there has been a greater weighting towards conventional gilts) and against the backdrop of the government and UKSA's consultation on the timing of RPI reform.

Chart A.11 Annual index-linked gilt issuance¹



¹Data prior to 2020-21 are actual outturn data; for 2020-21 they are current estimated outturn. For 2021-22 (i) data are based on initial planned issuance, which is subject to change as the unallocated amount of gilts is distributed over the year, and (ii) no assumption is made about in-year transfers from the unallocated portion of issuance.

Source DMO.

Annex B

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

Introduction

- B.1 This annex provides the context for the government's decisions on gilt and Treasury bill issuance in 2021-22, setting out the qualitative and quantitative considerations that have influenced them.
- B.2 The government's decisions on the structure of the financing remit, which are taken annually, are made in accordance with the debt management objective, the debt management framework and wider policy considerations (see Chapter 2).
- B.3 In determining the overall structure of the financing remit, the government assesses the costs and risks of debt issuance by maturity and type of instrument. Decisions on the composition of debt issuance are also informed by an assessment of investor demand for debt instruments by maturity and type as reported by stakeholders, and as manifested in the shape of the nominal and real yield curves, as well as the government's appetite for risk.
- B.4 Alongside these considerations, the government takes into account the practical implications of issuance (for example, the scheduling of operations throughout the year).

Demand

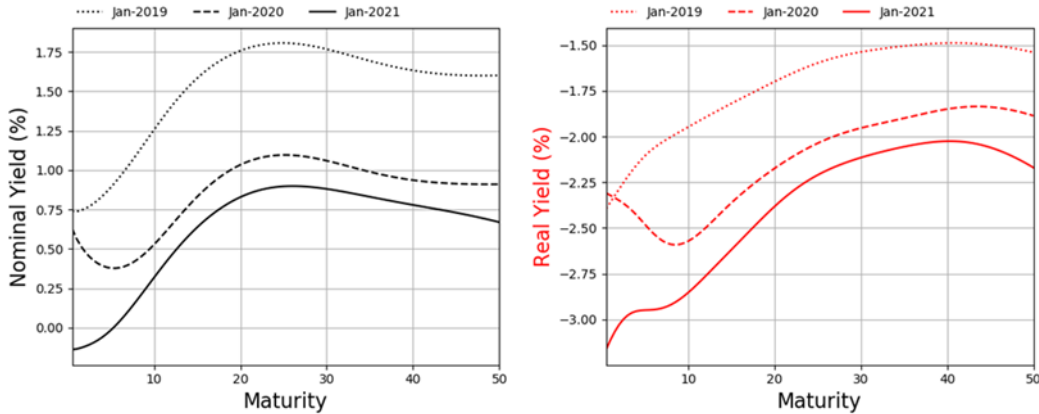
- B.5 Both Gilt-Edged Market Makers (GEMMs) and end-investors have reported ongoing demand for all instrument types. This includes demand for shorter-dated gilts, not least given the large size of redemptions in 2021-22; for medium gilts as a key liquidity point; and for duration in the form of long-dated conventional gilts (in particular, in the 15-25-year sector). There has also been positive feedback for the forthcoming green gilt issuance. Renewed demand has been expressed for index-linked gilts (ILGs), in particular, for longer-dated maturities following the conclusion of the government's and UKSA's consultation on the timing of RPI reform.

Cost

- B.6 This section evaluates the relative cost effectiveness of different types of gilt issuance. Chart B.1 displays the shapes of the nominal and real spot yield

curves as of end-January 2019, 2020 and 2021. Both nominal and real yield curves have shifted downward over the years.

Chart B.1 Nominal and real spot yield curves (as of end-January 2019, 2020 and 2021)

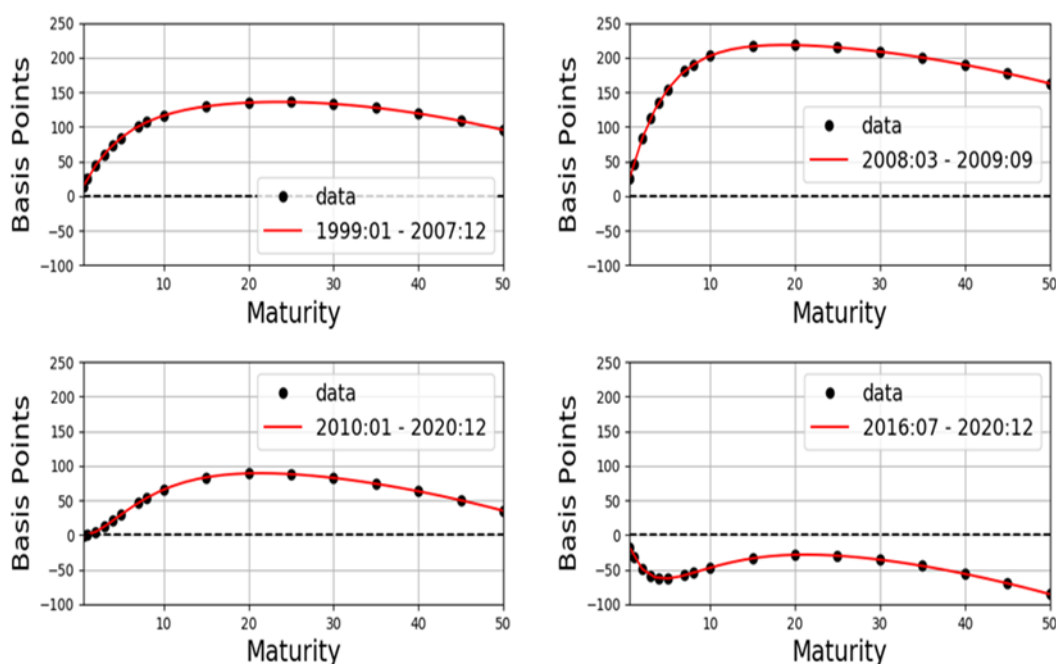


Source: DMO.

- B.7** Yields on long-term bonds can be decomposed into two components: a ‘risk neutral’ yield and a risk premium. The former corresponds to the average expected future short-term interest rates over the life of the bond. The latter is normally thought of as the additional return that risk-averse investors demand as compensation for the possibility of capital loss if a bond is sold before maturity and, in the case of conventional bonds, the risk of the bond value being eroded by inflation. The risk premium may also be determined by supply and demand imbalances for a specific instrument.¹ It is usually cost-effective for a government to issue at maturities where the risk premium demanded by investors is lowest relative to other maturities.
- B.8** Risk premia are typically maturity-specific and time-varying. Several factors contribute to the variation and trends in risk premia, among which are changes in investors’ risk preferences and expectations, and unanticipated macroeconomic shocks. Chart B.2 displays the term structure of risk premia, with each individual panel showing a selected time period. The top left panel is the period before the financial crisis when yields and risk premia were higher than today. Risk premia increased during the global financial crisis (top right panel). Since then there has been a steady decline and they are currently at historically low levels across all maturities (bottom right panel). This suggests that conventional gilts across the maturity spectrum are currently more cost-effective than has historically been the case.

¹ More generally, the risk premium can be decomposed into several components, including: (i) a premium which compensates investors for duration risk that increases for longer maturity investments; (ii) a credit and default risk premium; (iii) a liquidity discount or premium owing to the different levels of liquidity in some bonds or maturities, which enhances or restricts investors’ ability to hedge; and (iv) an inflation risk premium to compensate investors in nominal bonds for uncertainty owing to inflation.

Chart B.2 The term structure of risk premia in the UK conventional gilt market over selected sample periods²

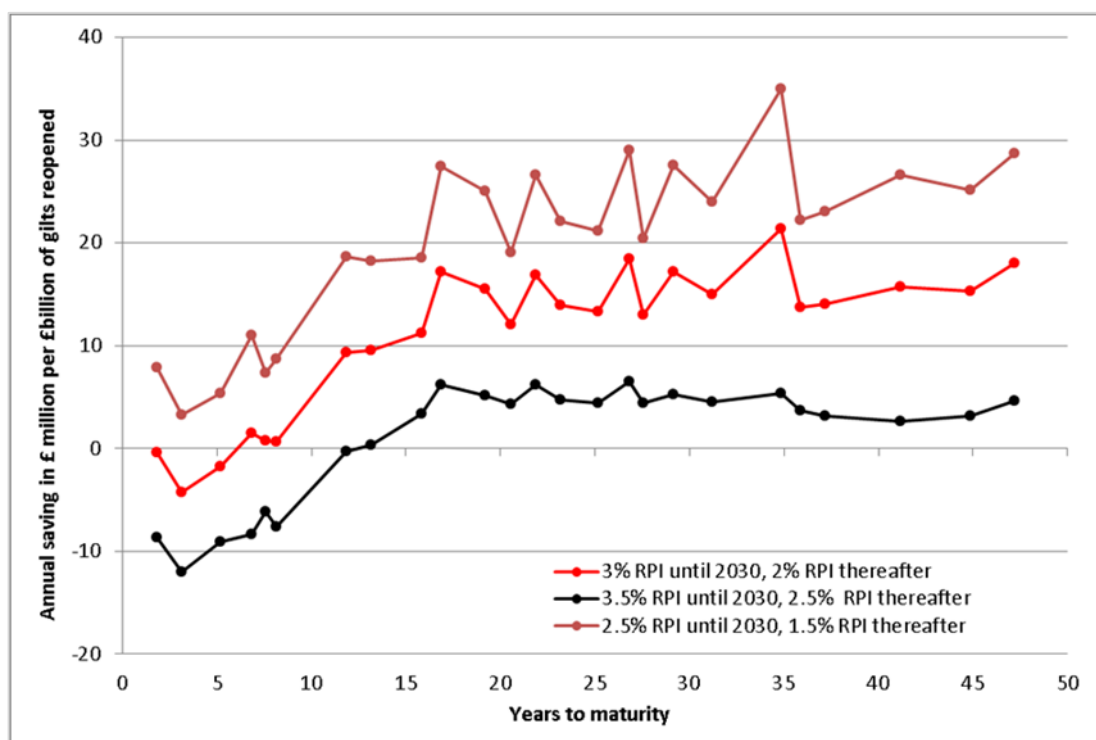


²Averages over selected time period of time-varying risk premia based on the AFNS model of Christensen, J. H., Diebold, F. X., & Rudebusch, G. D. (2011). *The affine arbitrage-free class of Nelson–Siegel term structure models*. *Journal of Econometrics*, 164(1), 4–20.

Source: DMO.

- B.9** The government undertakes an evaluation of the relative cost-effectiveness of ILGs, in addition to its analysis of conventional gilts. ILGs differ from conventional gilts as both the principal and coupon payments are linked to the value of RPI. One motivation for issuing ILGs is that investors are willing to pay a premium for the protection from inflation that these securities provide.
- B.10** The difference between the yield on a nominal and on an ILG of the same maturity is referred to as the breakeven inflation rate ('BEIR'). The BEIR can be seen as the rate of inflation at which investments in ILGs and conventional gilts would result in the same return. The BEIR can be decomposed into an expected inflation component and two additional factors: the additional premium investors are willing to pay for protection against inflation, and the discount they require for holding less liquid bonds. Consequently, one possible way to assess the cost-effectiveness of ILG issuance relative to conventional gilts is to compare actual inflation outcomes with market-implied BEIRs.
- B.11** This analysis is complicated by the planned reform to RPI which will take place in 2030 when the methods and data sources of CPIH will be brought into RPI. Chart B.3 illustrates potential savings from ILG issuance under different RPI inflation scenarios. It is expressed in £millions saved per £billion of each bond issued. At end-January 2021, it shows that, under the scenario which assumes that the future average RPI rate is 3% (equal to the long term RPI average) until 2030 and 2% thereafter, all ILGs over approximately seven years in maturity generate cost savings.

Chart B.3 The cost effectiveness of index-linked gilts under different RPI assumptions (end-January 2021)



Source: DMO.

Risk

- B.12** In the context of the long-term focus of the debt management objective, the other key determinant in the government’s decisions on debt issuance by maturity and type of instrument is its assessment of risk. In reaching a decision on the overall structure of the remit, the government considers the risks to which the Exchequer is exposed through its debt issuance decisions and assesses the relative importance of each risk in accordance with its risk appetite.
- B.13** The government places a high weight on minimising near-term exposure to refinancing risk. This exposure is managed partly by maintaining a sizeable proportion of long-dated debt in the portfolio, which reduces the need to refinance debt frequently. Relatedly, all else equal this also reduces our exposure to interest rate risk in the near term. The government places importance on avoiding, when practicable, large concentrations of redemptions in any one year. To achieve this, the government will issue debt across a range of maturities, smoothing the profile of gilt redemptions.
- B.14** The government is mindful of the long-term inflation exposure in the public finances and gives due consideration to ensuring inflation risk is prudently managed. The government will manage this exposure through its decisions on the appropriate balance between index-linked and conventional gilts in its debt issuance in the coming years.

- B.15 Prudent debt management is also served by promoting sustainable market access, which the remit is designed to support. The government places significant importance on encouraging the development of a deep, liquid and efficient gilt market and a diverse investor base in order to maintain continuous access to cost-effective financing in all market conditions.
- B.16 Promoting these features of the gilt market will also serve to minimise debt costs to the government over the long term because investors reward an issuer for providing a continuous and ready market and a globally recognised benchmark product.

Gilt distribution

- B.17 Auctions will remain the primary method of issuance in 2021-22.
- B.18 Any type and maturity of gilt can be sold through syndication and the DMO will announce on a quarterly basis its planned syndication programme.
- B.19 The government currently expects to hold six syndicated offerings in 2021-22, three each of long conventional and index-linked gilts.
- B.20 Gilt tenders may be used in 2021-22 to issue any type and maturity of gilt. Further details are set out in the DMO's 2021-22 financing remit announcement.
- B.21 The scheduling of gilt operations during the course of 2021-22 will as usual take into account the timing of gilt redemptions in the financial year.
- B.22 The government remains committed to the GEMM model to distribute gilts through auctions, syndications and gilt tenders and the government recognises that GEMMs play an important role in helping to facilitate liquidity in the secondary market.

Gilt issuance by maturity and type in 2021-22

- B.23 In determining the split of gilt issuance, the government has considered its analysis of the relative cost-effectiveness of the different gilt types and maturities, its risk preferences including for the portfolio as well as the issuance programme, and the market feedback it has received.
- B.24 Continuing demand for short conventional gilts is anticipated, in particular owing to redemption reinvestment flows, which has been balanced against managing the government's near-term exposure to refinancing risk.
- B.25 In deciding the proportion of medium conventional gilts to issue, the government recognises the important role that medium conventional gilts (particularly at the 10-year maturity) play in facilitating the hedging of a wide range of gilt market exposures through the futures market, which helps underpin liquidity in the sector.
- B.26 A materially higher proportion of short and medium conventional gilts was issued in 2020-21 than originally planned in order to help meet the exceptionally high financing requirement. Relative to the current plans for 2020-21, lower proportions of issuance in both short and medium conventional gilts are planned in 2021-22.

- B.27** Market feedback also suggests ongoing demand exists for long conventional gilts from domestic investors in particular. Additionally, in determining the amount of long-dated conventional gilts to issue, the government has taken into account the role of long conventional issuance in mitigating its near-term exposure to refinancing risk.
- B.28** Issuing index-linked gilts has historically brought cost advantages for the government due to strong demand, and has built the UK's financial resilience by supporting both the UK's long average debt maturity and diversifying the investor base. Tying debt interest payments to inflation has also underscored the government's commitment to price stability in the period prior to central bank independence; however, the UK's relatively large stock of index-linked debt also increases the sensitivity of the public finances to inflation shocks, as highlighted in the OBR's 2017 'Fiscal risks report'.
- B.29** At Budget 2018 – and as part of the government's responsible approach to fiscal risk management – the government announced that it would look to reduce the proportion of index-linked gilt issuance in a measured fashion over the medium term, which it has been doing since.
- B.30** Due to the exceptionally high financing requirement in 2020-21, and against the backdrop of the government's and UKSA's consultation on the timing of RPI reform, the proportion of index-linked issuance was significantly lower than in previous years, although in absolute terms, it will be around £10 billion higher than in 2019-20. Current plans assume a similar absolute supply of index-linked gilts in 2021-22.
- B.31** A larger proportion and significantly higher absolute amount of issuance will be initially unallocated in 2021-22 compared with plans announced at the March 2020 Budget. The existing purposes of the unallocated portion of issuance to give increased flexibility to the DMO to issue any type or maturity of gilt by any issuance method, while remaining consistent with the principles of openness, predictability and transparency will continue to apply. In 2021-22 the unallocated portion will be used additionally to account for the issuance of green gilts. Once an initial green gilt offering has been executed, the proceeds from that transaction (and any future transactions) will be reported separately in the financing arithmetic table for 2021-22, and deducted accordingly from the balance of the unallocated pot.

Treasury bill issuance in 2021-22

- B.32** Treasury bills are used for both debt and cash management purposes. With regard to the former, changes to the Treasury bill stock have historically offered an efficient way to accommodate in-year changes to the financing requirement.
- B.33** The government does not target a planned end-year Treasury bill stock. Information on the outstanding stock of Treasury bills will continue to be published monthly in arrears on the DMO's website.²

² www.dmo.gov.uk/data/treasury-bills

B.34 It is expected that net issuance of Treasury bills will make a small contribution to debt financing in 2021-22 of £1.8 billion.

Annex C

NS&I's financing remit for 2021-22

- C.1** This annex sets out information on the activities of NS&I in 2020-21 and 2021-22. NS&I is both a government department and an executive agency of the Chancellor of the Exchequer. Its activities are conducted in accordance with its remit, which is to provide cost-effective finance now and in the future for the government. It does this by raising deposits and investments from retail customers. This will remain the case in 2021-22.
- C.2** NS&I's contribution to financing is agreed with HM Treasury each year, and is based on the government's gross financing requirement, conditions in the retail financial services market and NS&I's ability to raise the funding without distorting the market.

Volume of financing in 2020-21

- C.3** NS&I's contribution to financing in 2020-21 is projected to be £20.0 billion with gross inflows (including reinvestments and gross accrued interest) of approximately £84.5 billion. This is against a 2020-21 target range of £30.0 billion to £40.0 billion, set in July 2020. Table C.1 shows changes in NS&I's product stock during 2020-21. With uncertainty and volatility in the savings market, NS&I has experienced both upside and downside pressures on Net Financing during 2020-21.

Table C.1: Changes in NS&I's product stock in 2020-21 (£ billion)

	2019/20	2020/21 ¹
Variable rate	136.4	165.2
Fixed rate	23.6	15.6
Index-linked	19.1	18.6
Total	179.2	199.4

¹ Projections.

Source: NS&I.

Volume of financing in 2021-22

- C.4** Gross inflows (including reinvestments and gross accrued interest) of NS&I's products are projected to be around £43.6 billion in 2021-2022. After allowing for expected maturities and withdrawals, NS&I will have a 2021-22 Net Financing target of £6 billion, within a range of £3 billion to £9 billion.

- C.5 Further details of NS&I's activities in 2020-21 and 2021-22 will be included in its 2020-21 Annual Report and Accounts, which is scheduled to be laid in Parliament in 2021 and will be published on www.nsandi.com.

Annex D

The Exchequer cash management remit for 2021-22

Exchequer cash management objective

- D.1 The government's cash management objective is to ensure that sufficient funds are always available to meet any net daily central government cash shortfall and, on any day when there is a net cash surplus, to ensure this is used to best advantage. Cash management operations are intended to work alongside debt management activities so that the government can always rely on sufficient funds being available to finance its activities. HM Treasury and the Debt Management Office (DMO) work together to ensure a suitable framework is in place to achieve this.
- D.2 HM Treasury's role is to make arrangements for a forecast of the daily net flows related to revenue and expenditure into or out of the central Exchequer funds (and its objective in so doing is to provide the DMO with timely and accurate forecasts of the expected net cash position over time).
- D.3 The DMO's role is to make arrangements for funding and for placing the net cash positions, primarily by carrying out market transactions in light of the forecast (and its objective in so doing is to minimise the costs of cash management while operating within the risk appetite approved by ministers).
- D.4 The government's preferences in relation to the different types of risk-taking inherent in cash management are defined by a set of explicit limits covering four types of risk which, taken together, represent the government's overall risk appetite.¹ The risk appetite defines objectively the bounds of appropriate government cash management in accordance with the government's policy for cash management as a cost minimising, rather than profit maximising, activity and one that plays no role in the determination of interest rates. The DMO may not exceed this boundary, but, within it, the DMO will have discretion to take the actions it judges will best achieve the cost minimisation objective.

DMO's cash management objective

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

¹ The four types of risk for cash management are liquidity risk, interest rate risk, foreign exchange risk and credit risk. An explanation of these risks and the government's cash management operations more generally is set out in Chapter 5 of the 'DMO Annual Review 2004-05', which is available at: www.dmo.gov.uk/media/14483/gar0405.pdf

government's risk appetite. In so doing, where possible, the DMO will seek to avoid actions or arrangements that would:

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

Instruments and operations used Exchequer cash management

- D.6** The range of instruments and operations that the DMO may use for cash management purposes, including the arrangements for the issuance of Treasury bills, is set out in the DMO's Exchequer cash management Operational Notice.²
- D.7** Treasury bills may be used for both cash and debt management purposes. In relation to the latter, any positive or negative net contribution to the government's debt financing plans that is attributable to changes in the stock of Treasury bills is set out in the financing arithmetic table (Table 3.A).
- D.8** For cash management, the DMO uses Treasury bills to help manage fluctuations in the government's cash flow profile throughout the year and does so by varying the amount raised through Treasury bills, with reference to the forecast net cash position. In order to provide flexibility for the DMO to use Treasury bills across the financial year-end for cash management, no end-year target stock of Treasury bills is set. Information on the total stock of Treasury bills is published monthly on the DMO's website.³
- D.9** As a contingency measure, the DMO may issue Treasury bills to the market at the request of the Bank of England and, in agreement with HM Treasury, assist the Bank of England's operations in the sterling money market, for the purpose of implementing monetary policy while meeting the liquidity needs of the banking sector as a whole. In response to such a request, the DMO may add a specified amount to the size(s) of the next Treasury bill tender(s) and deposit the proceeds with the Bank of England, remunerated at the weighted average yield(s) of the respective tenders. The amount being offered to accommodate the Bank of England's request will be identified in the DMO's weekly Treasury bill tender announcement. Treasury bills may also be issued bilaterally to the Bank of England, to support intervention schemes. Treasury bill issues made at the request of the Bank of England will be identical in all respects to Treasury bills issued in the normal course of DMO business. The DMO may also raise funds to finance advances to the Bank of England and would, in conjunction with HM Treasury, determine the appropriate instruments through which to raise those funds.

DMO collateral pool

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

² The DMO's Exchequer cash management Operational Notice is available at: <https://www.dmo.gov.uk/media/15751/2018-cash-man-info-mem-final.pdf>

³ www.dmo.gov.uk/data/treasury-bills

the third Tuesday of April, July, October and January. Any such issues to the DMO will be used as collateral and will not be available for outright sale. The precise details of any such issues to the DMO will be announced at least two full working days in advance of the creation date. If no issue is planned to take place in a particular quarter, the DMO will announce that this is the case in advance.

- D.11 In the event that the DMO requires collateral to manage short-term requirements, the DMO may create additional gilt and Treasury bill collateral at other times. Any such issues to the DMO will only be used as collateral and will not be available for outright sale by the DMO.
- D.12 The DMO's collateral pool may also be used to support HM Treasury's agreement to provide gilt collateral for the purpose of the Bank of England's Discount Window Facility. The gilt collateral will be held by the DMO and lent to the Bank of England on an 'as needed' basis; gilts created for this purpose will not be sold or issued outright into the market.⁴

Active cash management

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

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

⁵ For the latest report, see Annex B of the 'DMO Annual Review 2019-20', Debt Management Office, October 2020. This is available at: <https://dmo.gov.uk/media/17019/gar1920.pdf>

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This document can be downloaded from www.gov.uk

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