



HM Treasury

Tailored Review: UK Debt Management Office



© Crown copyright 2018

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gov.uk.

Where we have identified any third-party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

ISBN 978-1-911375-XX-X PUXXXX

Background

Tailored Reviews

1.1 The aim of the Tailored Review programme is to provide a robust challenge of Arm's-Length Bodies (ALBs), to ensure that they are fit for purpose and offer value for taxpayer's money, by assessing the ongoing need for ALBs and scrutinising a number of key areas.

1.2 In line with Cabinet Office guidance,¹ Tailored Reviews aim to assess an organisation's:

- capacity for delivering more effectively and efficiently, including considering its form and function, identifying the potential for efficiency savings, and, where appropriate, its ability to contribute to economic growth.
- control and governance arrangements to ensure that the organisation and its sponsor department are complying with recognised principles of good corporate governance.
- relationships with its sponsoring department, customers, and other relevant organisations.

Overview of the UK Debt Management Office

1.3 The UK Debt Management Office (DMO) is an Executive Agency of HM Treasury responsible for financing the Government's cash requirements and for Exchequer cash management. This includes issuing sterling-denominated UK sovereign bonds (gilts) to raise finance for the Government and intervening on a daily basis in the money markets, in order to manage the Government's cash flows in a manner consistent with its objective to minimise, over the long term, the costs of meeting the Government's financing needs, whilst taking into account risk.²

1.4 The DMO was established on 1 April 1998, when responsibility for government wholesale sterling debt issuance was transferred to it from the Bank of England. Since its establishment, the DMO has successfully established itself as a key participant in the London financial markets, raising in excess of £2 trillion³ in total gilt issuance while annual cash management transaction volumes are in excess of £5 trillion.⁴ Since 2002, the DMO has also successfully taken responsibility for lending to local authorities through the Public Works Loan Board (PWLB) lending facility and for managing the investments of a number

¹ Cabinet Office, Tailored Reviews of Public Bodies: Guidance, May 2016:

<https://www.gov.uk/government/publications/tailored-reviews-of-public-bodies-guidance>.

² UK DMO, About the DMO, 2021: <https://www.dmo.gov.uk/about/who-we-are/>.

³ UK DMO, Gross and Net Issuance Data, 2021: <https://www.dmo.gov.uk/data/gilt-market/gross-and-net-issuance-data/>.

⁴ UK DMO, DMO and DMA Annual Report and Accounts 2019-20, July 2020:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/900547/DMO_DMA_Annual_Report_and_Accounts_2019-2020_print.pdf.

of major public funds, through its operation on behalf of the Commissioners for the Reduction of National Debt (CRND).

- 1.5 The DMO has successfully delivered all its annual debt and cash management remits, often in challenging circumstances, most notably during the Global Financial Crisis of 2008-09 and, more recently, following the outbreak of COVID-19. In the financial year 2020-21, the DMO's financing remit was increased, through a succession of revisions, from an initial £156.1 billion to a record £485.5 billion. Despite the significant increase in the volume of operations and constraints imposed by hybrid working arrangements, the DMO continued to successfully deliver its core objectives and remain operational on every UK business day.
- 1.6 The findings of this review have reinforced the ongoing need for a market facing entity with specialist expertise and concluded that the current Executive Agency status remains the most appropriate and effective model. The review concludes that the DMO is a highly successful organisation and makes a series of recommendations focused on enabling the DMO to continue to be successful in the coming years.

Summary of conclusions and recommendations

Conclusions

Functions

- The DMO is a highly successful organisation and, over the twenty-three years since its inception, it has maintained its track record of successfully delivering the financing and cash management remits set by HM Treasury Ministers, often in extremely difficult conditions. The functions of the DMO, as set out in the Framework Document⁵ and the Annual Report and Accounts, remain necessary and appropriate.
- The policy rationale for the establishment of a debt manager separate from the Bank of England in 1998, remains valid. Equally, the separation of retail from wholesale market activity, and sterling from foreign currency bond market activity, mean that the current divisions of operational responsibility between the DMO, NS&I and the Bank of England also remain appropriate.

Form

- The review endorses the institutional structure of the DMO as an Executive Agency at arm's length from central government. Executive Agency status continues to give the DMO operational independence to undertake its core role, while ensuring an appropriate degree of integration within the broader Treasury Group and also giving it the flexibility to undertake additional functions should that be required. The organisation's current status appears to be in accordance with international best practice; indeed, in many respects, it has served as a model for it. The arm's-length relationship from HM Treasury also allows the DMO to develop its own culture and expertise, which is essential for the Agency to maintain credibility within the wholesale financial markets in which it operates.

⁵ UK DMO, Executive Agency Framework Document, April 2005:
<https://www.dmo.gov.uk/media/8092/fwork040405.pdf>.

- The review supports and endorses the DMO’s vision statement and objectives, as set out in its 2020-21 Annual Report and Accounts⁶ 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 review concluded that the DMO’s relationship with HM Treasury remains very strong, but a review of the most effective ways of working should be undertaken to ensure the expertise of both organisations can be optimised in a mutually beneficial partnership.

Governance

- The Chief Executive and Accounting Officer is currently supported by a Managing Board, made up of an Executive sub-committee of the Managing Board and three Non-Executive Directors (including a representative from HM Treasury). The DMO Managing Board is highly experienced, providing appropriate challenge and support to the Chief Executive in the effective delivery of the DMO’s core objectives. The Chief Executive is also supported by an Audit Committee (with a separate non-executive Chair) and has a robust risk management and control framework in place.
- Guidance covering Executive Agency governance has changed since the last strategic review of the DMO was completed: *Managing Public Money*⁷ replaced the former Government Accounting in 2007 and has been updated periodically since then, and the Cabinet Office *Executive Agencies: A guide for departments*⁸ was updated in 2018. Part 3 of the latter now sets out two potential models for the governance structure of an Executive Agency. It is for the individual sponsor department to determine the appropriate model. Where an Executive Agency requires a greater level of independence from its home department, in order to carry out its functions effectively, or is considered by its home department to be of sufficient size and importance to require independent assurance, the agency should fall under ‘Model 2’, with additional assurance provided by Non-Executive Board members and led by a Non-Executive Chair (NEC). Given the importance of the DMO as an organisation, and its need to maintain a high degree of independence and autonomy, the review recommends that, in terms of its status, the DMO should be regarded as a ‘Model 2’ Executive Agency, as defined in the new guidance, and that its governance arrangements should be amended accordingly.

Relationship with the department

- The DMO continues to have a strong and constructive relationship with HM Treasury. The review has made some recommendations that could clarify and strengthen this relationship further, including updating the DMO Framework Document and

⁶ UK DMO, Annual Report and Accounts 2019-20, July 2020:
<https://www.dmo.gov.uk/media/16758/dmodmarep2020.pdf>.

⁷ HM Treasury, *Managing Public Money*, October 2019:
<https://www.gov.uk/government/publications/managing-public-money>

⁸ Cabinet Office, *Executive Agencies: A guide for departments*, 2018:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/690636/Executive_Agencies_Guidance.PDF

reviewing ways of working to ensure the expertise of both organisations can be optimised in a mutually beneficial partnership.

Effectiveness

- The DMO has continued to perform strongly in carrying out its debt and cash management functions, with all related objectives achieved in 2019-20 and 2020-21, despite very challenging market conditions.
- Throughout the COVID-19 pandemic in particular, the DMO has continued to deliver its core objectives and remain operational on every UK business day, despite the significant increase in the volume of operations and challenges with regard to hybrid working. This is reflected in external commentary, stakeholder feedback, and staff survey results.

Efficiency

- The DMO is financed through an allocation of HM Treasury's net funding approved by Parliament. The DMO's net operating cost was approximately £18.8 million in 2019-20, the main components of which were administration costs, including staff costs, banking and settlement costs, IT infrastructure and accommodation.⁹
- When considering the DMO's budget, HM Treasury should continue to recognise and support the DMO's critical role in carrying out debt and cash management for the UK Government, and ensure the DMO can continue to recruit, retain and motivate the cadre of staff required.

Recommendations

Governance

1. The review recommends that, in terms of its status, the DMO should be regarded as a 'Model 2' Executive Agency, as defined in the Cabinet Office Executive Agencies guidance, and that its governance arrangements should be amended accordingly. This includes the creation of an Advisory Board to replace its current Managing Board and, as a consequence of this, to amend the structure of the Board to introduce a Non-Executive Chair (NEC). The composition of the Board should continue to reflect an appropriate balance of skills, experience, and independent knowledge. A senior HM Treasury representative, nominated by HM Treasury (typically the Director, Fiscal), should also continue to serve on the DMO Board.
2. The NEC should be appointed by HM Treasury according to current guidance for public appointments and should, in turn, take the lead on Non-Executive appointments. The Chair and other Non-Executive appointments should be fixed-term appointments, with limited possibility for extension, as set out in the guidance, to continue to ensure that there is a regular influx of fresh thinking and up-to-date expertise.
3. The primary focus of the NEC will be to provide constructive, independent challenge, and effective and appropriate support to the Board in delivering its key responsibilities.

⁹ UK DMO, Annual Report and Accounts 19-20, July 2020:
<https://www.dmo.gov.uk/media/16758/dmodmarep2020.pdf>.

4. The Chief Executive and Accounting Officer's responsibilities should remain unchanged and the NEC's responsibilities should not conflict with these. The NEC will not have a decision-making role with regards to the policy and operations of the DMO. The Chief Executive should also report to and retain a direct relationship with the HM Treasury Permanent Secretary in their capacity as Accounting Officer.
5. In order to build on the current established framework, a HM Treasury Non-Executive Board member or independent Audit and Risk Committee member should attend the DMO Audit Committee as an observer. Consideration should also be given to establishing more regular dialogue between the Chair of the DMO Audit Committee and their counterpart on the HM Treasury Audit and Risk Committee.

In addition, the following actions should be considered:

- Given its specialist role, the DMO should retain its own independent internal audit function, although it may wish to avail itself of the provision of audit services from the Government Internal Audit Agency (GIAA), where appropriate, and periodically test the market for the provision of this service.
- The DMO should consider whether there are any aspects of the Financial Conduct Authority's Senior Managers and Certification Regime that it may be appropriate to apply, in addition to its existing corporate governance and risk management arrangements.
- The DMO and HM Treasury should jointly explore whether there are modifications to the recruitment framework and remuneration package that can be made to help address strategic risks to the DMO around recruitment and retention.

Relationship with the department

6. The DMO's relationship with HM Treasury remains very strong, but a review of the most effective ways of working should be undertaken to ensure the expertise of both organisations can be optimised in a mutually beneficial partnership.
7. The DMO Framework Document should be updated, including to reflect any changes arising as a result of this review. This document should be reviewed and revised periodically, as necessary.
8. Other documents relating to key aspects of the DMO's relationship with HM Treasury, such as Memoranda of Understanding (MOU) and other agreements, should also be reviewed and revised periodically, as necessary.
9. The Debt and Reserves Management (DRM) team in HM Treasury should continue to remain the primary sponsor team and point of contact for the DMO. However, the latter's programme of contacts should be extended to encompass a more structured series of interactions with a broader range of Treasury teams who could benefit from the DMO's expertise.
10. Consideration should be given to the merits of exchanges of staff between HM Treasury and the DMO as well as other opportunities for both the DMO and HM Treasury to benefit mutually from one another's experience including two-way training and induction opportunities.