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Financing

A.1 This annex sets out details of the Government's financing plans for 2013-14. Further details can be found in the *Debt and reserves management report 2013-14*, published on HM Treasury's website at www.hm-treasury.gov.uk.

Financing arithmetic

A.2 The Office for Budget Responsibility's (OBR) forecast for the central government net cash requirement (CGNCR) in 2013-14 is £113.9 billion. The relationship between public sector net borrowing (PSNB) and the CGNCR is set out in the OBR's March 2013 *Economic and fiscal outlook*.

A.3 The net financing requirement (NFR) comprises the CGNCR, plus any financing required for gilt redemptions, additional Official Reserves and other adjustments, less the net contribution to financing from National Savings and Investments (NS&I). The NFR for 2013-14 is projected to be £162.9 billion, reflecting:

- the forecast for the CGNCR of £113.9 billion. This includes the effect of cash which is expected to be transferred from the Asset Purchase Facility in 2013-14;
- a -£2.9 billion adjustment for Northern Rock (Asset Management) (NRAM) and Bradford & Bingley plc (B&B) in 2013-14. As set out at Autumn Statement 2012, NRAM and B&B have been reclassified as part of central government and so their activities influence the CGNCR. However, there are additional cash flows, mostly from the repayment of loans into the Exchequer, which reduce the Exchequer's need to raise cash;
- gross gilt redemptions of £51.5 billion;
- a planned short-term financing adjustment of -£5.6 billion resulting from unanticipated overfunding in 2012-13;
- £6.0 billion of financing for the Official Reserves;
- a zero net contribution to financing from NS&I.

A.4 As set out in Table A.1, the NFR for 2013-14 will be met by gilt sales of £151.0 billion and an increase in the Treasury bill stock of £11.9 billion relative to the level projected at end-March 2013 (£56.1 billion).

Gilt issuance methods

A.5 Auctions will remain the Government's primary method of gilt issuance. In addition, the Government has decided to continue the use of syndications and mini-tenders as supplementary methods of gilt issuance.

A.6 Decisions on the skew of issuance are set annually with reference to the Government's debt management objective, as set out in the *Debt and reserves management report 2013-14*.

A.7 It is anticipated that for 2013-14:

- £121.0 billion (80.1 per cent of total issuance) will be issued by auction;
- £20.0 billion (13.2 per cent of total issuance) will be issued by syndication; and
- £10.0 billion (6.6 per cent of total issuance) will be issued by mini-tender.

Gilt issuance by maturity and type

A.8 It is anticipated that issuance by auctions and syndications will be split by maturity and type as follows:

- £42.6 billion of short conventional gilts (28.2 per cent of total issuance);
- £30.0 billion of medium conventional gilts (19.9 per cent of total issuance);
- £32.6 billion of long conventional gilts (21.6 per cent of total issuance); and
- £35.8 billion of index-linked gilts (23.7 per cent of total issuance).

A.9 In addition, the Debt Management Office (DMO) plans to deliver sales via mini-tender of £10.0 billion (6.6 per cent of total issuance). The mini-tender programme will continue to be used to support the syndication programme by providing flexibility to accommodate any variations in proceeds from syndicated offerings. The DMO determines the maturities and types of gilts to be issued by mini-tender, in consultation with the market during the year.

A.10 As announced at Autumn Statement 2012, in 2013-14 the DMO will look to launch new issuance in the 50 to 60 year area, subject to demand and market conditions. Decisions on specific maturities for issuance during the year will be taken by the DMO after consultation with the market through the normal channels.

National Savings and Investments

A.11 NS&I is expected to make a zero net contribution to financing in 2013-14, within a range of -£2 billion to +£2 billion. NS&I's projected net contribution in 2012-13 is -£750 million, which is in line with its previous target range of -£3 billion to +£1 billion, set at Autumn Statement 2012.

Table A.1: Financing arithmetic for 2012–13 and 2013–14

£ billion	2012-13	2013-14
Central government net cash requirement	105.1	113.9
Adjustment for Northern Rock Asset Management (NRAM) and Bradford & Bingley plc (B&B) ¹	-2.7	-2.9
Gilt redemptions	52.9	51.5
Financing for the Official Reserves	6.0	6.0
Buy-backs ²	0.0	0.0
Planned short-term financing adjustment ³	-17.2	-5.6
Gross financing requirement	144.1	162.9
less		
National Savings and Investments	-0.8	0.0
Net financing requirement	144.9	162.9
Financed by:		
1. Debt issuance by the Debt Management Office (DMO)		
a) Treasury bills⁴	-14.4	11.9
b) Gilts	164.8	151.0
of which		
Conventional:		
Short	50.8	42.6
Medium	34.7	30.0
Long	37.5	32.6
Index-linked	35.9	35.8
Mini-tenders	6.0	10.0
2. Other planned changes in net short-term debt⁵		
Change in the Ways and Means Advance	0.0	0.0
3. Changes in net short-term cash position⁶	5.6	0.0
Total financing	150.5	162.9
Short-term debt levels at end of financial year		
Treasury bill stock ⁷	56.1	68.0
Ways and Means Advance	0.4	0.4
DMO net cash position	6.1	0.5

Figures may not sum due to rounding.

¹ See explanation in paragraph A.3

² Purchases of 'rump' gilts, with a small nominal outstanding, in which Gilt-edged Market Makers (GEMMs) are not required to make two-way markets. The Government will not sell further amounts of such gilts to the market but the DMO is prepared, when asked by a GEMM, to make a price to purchase such gilts.

³ To accommodate changes to the stated year's financing requirement resulting from: (i) publication of the previous year's CGNCR outturn; (ii) an increase in the DMO's cash position; and/or (iii) carryover of unanticipated changes to the cash position from the previous year.

⁴ The stock change shown for 2012-13 is a planning assumption and measures the change in the level of the Treasury bill stock in issue between end-March 2012 and that currently forecast for end-March 2013. The stock of bills for this purpose comprises both those issued at weekly tenders and those issued separately to individual cash management counterparties. The stock change shown for 2013-14 is that currently required to take the stock of Treasury bills to £68.0 billion by end-March 2014.

⁵ Total planned changes to short-term debt are the sum of: (i) the planned short-term financing adjustment; (ii) net Treasury bill sales; and (iii) changes to the level of the Ways and Means Advance.

⁶ The change in the short-term cash position for 2012-13 (and the level of the net short term cash position at the end of the financial year) reflects changes to the public finance forecasts, any changes to financing from NS&I and Treasury bills (including those sold directly to counterparties separately from weekly tenders). It will also reflect any differences between the gilt sales outturn and plans. In addition, the change will include any impact on financing arising from other activities carried out within government (e.g. issuance of tax instruments, transfers between central government and other sectors, and foreign exchange transactions). The zero change for the short-term cash position in 2013-14 assumes that the DMO's planning assumption for the end-year Treasury bill stock is met. A negative (positive) number here indicates an increase in (reduction in) the financing requirement for the following financial year.

⁷ The DMO has operational flexibility to vary the end-financial year stock subject to its operational requirements.