



Establishing a Debt “Office”

Some general principles; with
illustrations from the UK

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Developing a Debt Office

- Objectives
- European perspective
- Identifying the policy framework
- Setting the governance structure
- Building the Office
 - Business planning
 - Capacity and resources

Why create an Office?

- Clarity and transparency
 - Internally, with focus on the debt management task
 - Externally, in the perception of the markets in relation to objectives and intent
 - Linked with accountability and governance
- Improving capacity, efficiency and effectiveness
 - Getting decisions right
 - Emphasis on portfolio risk management
 - Expertise, professionalism

Inside or Outside the Ministry of Finance

- Inside
 - Puts less strain on governance framework; and reduces principal-agent risks
 - Proximity to budget and planning functions
 - Easier for MOF to monitor performance; and DMO to feed its expertise into MOF
 - Establishing the office is more straightforward
- Outside
 - Establishes separate status; signals break with the past
 - Establishes credibility with market
 - Encourages more commercial management approach
 - Easier to recruit and retain skilled staff

Range of European Institutional Arrangements

- Operational independence from MinFin & Central Bank
- Responsibilities often include cash management, also asset management and contingent liabilities
- Spectrum of institutional arrangements
 - Part of Treasury / MinFin (Italy, Greece) or another ministry (Spain)
 - Independent agency within Treasury or MinFin (Netherlands, UK, Belgium, France)
 - Agency within central bank (Denmark)
 - Autonomous agency within government (Sweden, Austria, Portugal)
 - Agency or company outside government, although reporting to it (Ireland, Germany). Irish Agency manages structural investment funds
- Some use Central Bank as agent; all use Bank for some services

UK DMO: Headlines

- Established in April 1998 - an Agency of HM Treasury
- Corollary of interest rate setting responsibilities for the Bank of England announced in May 1997
- Legally part of HM Treasury
 - some operational and managerial independence
 - but a strong governance framework
- With the aim
 - “...to minimise the Government’s debt financing costs over the long term, taking account of risk, and manage the aggregate cash needs of the Exchequer in the most cost-effective way, while being consistent with monetary policy objectives.”

The DMO's Functions

- The Government's debt manager
 - issuing gilts (and Treasury Bills), managing the gilts market
- The Government's cash manager
 - balancing daily the net cash flow into/from Government
 - issuing Treasury bills; borrowing and lending in the money markets
- The Government's (short term) asset manager
 - managing of cash surpluses (inc from 3G licences)
- DMO also manages Government lending to local authorities and investments of certain public sector funds.

Autonomous Offices: Objectives

Kalderon & Blommerstein, OECD 2002

- Motives for Separate office
 - Autonomy from political sphere
 - Emphasises separation between debt management & monetary policy
 - Greater transparency between government functions
 - Ability to concentrate expertise
 - Staff recruitment and retention (pay flexibility)
- Linked with improved transparent and accountable framework
 - Accountability must be supported by governance framework
 - Needs high level political support for transparency and accountability
- But: major administrative task – beware of diversion of effort

Identifying the Policy Framework: Interaction with Monetary Policy

- Separation of debt management from monetary policy crucial in Eurozone
 - independence of ECB from national governments
- Important in UK
 - avoids given Bank a conflict of interest – or a market perception of conflict – reducing market uncertainty
 - only a weak link between financing policies and monetary conditions; and monetary supply growth & inflation
- In emerging / transition countries also take into account public policy dimension
 - development of domestic debt market, co-ordination with fiscal and monetary policy
 - transparency of policies and responsibilities still important

Identifying the Policy Framework: Co-ordination with Central Bank

- Central Bank's potential input to policy
 - Drawing on market knowledge
 - Wider market development influencing, and influenced by, debt and cash management policies
- Identifying services required
 - Fiscal agent for auctions etc
 - Registration services
 - Cash account manager (banking services)
 - Investment manager – investing structural and longer-term surpluses
- Agree service levels
 - Backed-up with MOUs or service level agreements

Identifying the Policy Framework: Co-ordination with Fiscal Policy

- High level portfolio objectives linked to macro-economic strategy
 - Integrate in Debt Management Committee
 - Strategy approved by Ministers
- Budget planning drives financing requirement
 - Budget execution function in MOF provides direct link and information flow
 - Will wither as expenditure planning becomes more sophisticated

UK DMO's Relationship with Ministry of Finance (HM Treasury)

Key Principles

- Ministers set objectives and targets
 - set annual strategy objectives (“remit”)
 - approve Business Plan and targets
- Chief Executive responsible for operational decisions within parameters of remit
 - Reports direct to Parliament on expenditure and accounts
- DMO advises on its remit and portfolio objectives; but HM Treasury integrates with wider economic advice (on fiscal and balance sheet policies)

Establishing the “External” Governance Framework

- Identify legal constraints
- Establishing the high-level decision making framework and structure of delegations
 - Debt Management Committee
 - Respective roles of ministers and officials
- Audit arrangements
- Reporting within Ministry of Finance
- External reporting
 - Parliament or Congress
 - Public

Building the Office

- Building a professional and committed team
- Developing debt management strategy
- Procuring systems and establishing business processes
- Controlling operational risk
- Managing stakeholder relationships
 - Employees
 - Central Bank, regulators,
 - Market makers, investors, exchanges
 - Others in Ministry of Finance and government
- Reform must be “seamless” to market

Some Tools

- Manage as a project
 - Appoint project manager, working directly to Head of Debt Office
 - Prepare a Business Plan (update annually)
- Establish internal management structures
 - Horizontal decision-making
 - Internal communication
 - Operational risk management
- Change programme for staff – team building, communication, etc

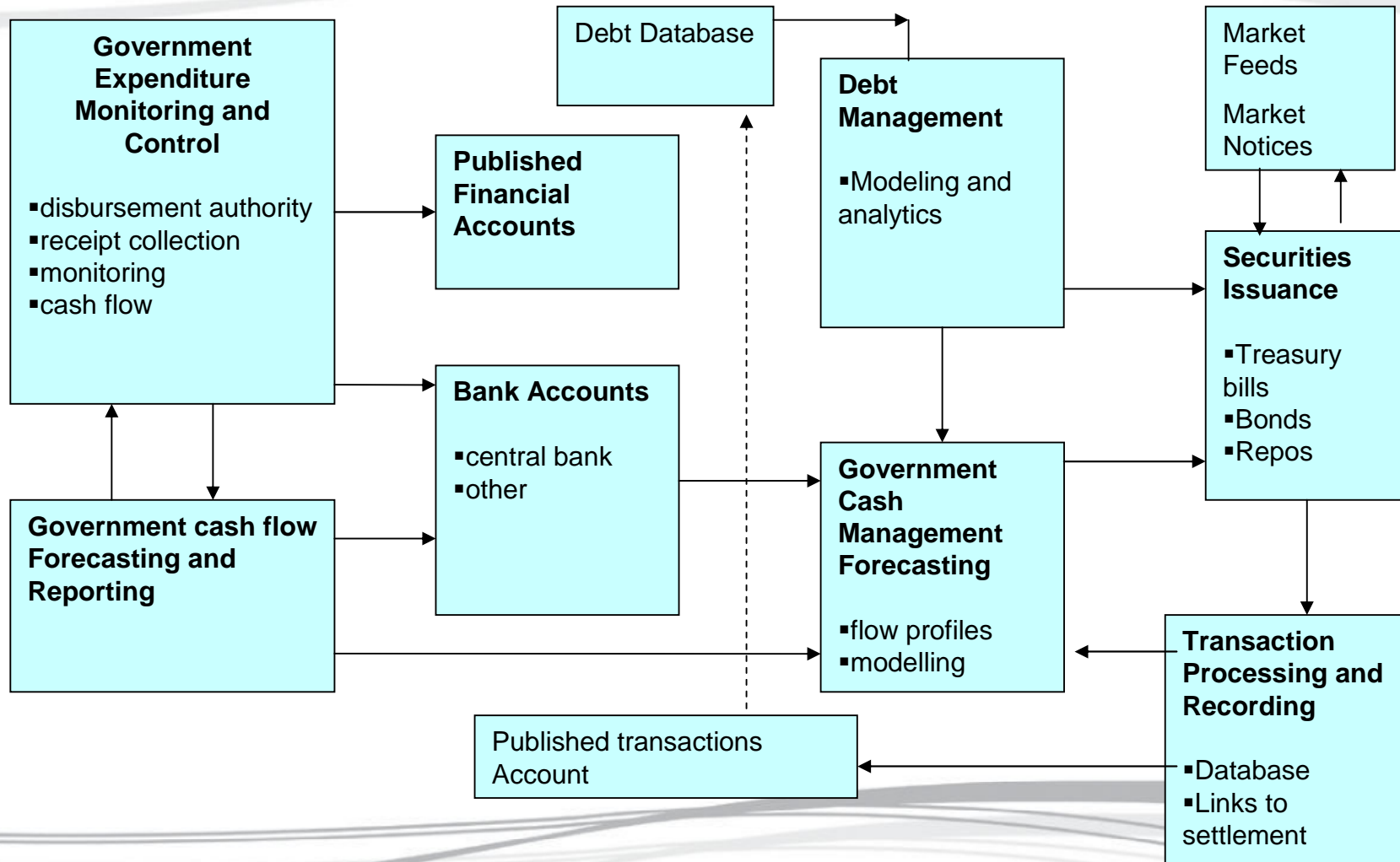
Business Planning - 1

- Identify Debt Office's high level aim or mission statement
 - Distinguish between Ministry's and Treasury's objectives
 - E.g. "develop and deliver the government's debt and cash management objectives, with high regard to risk, efficiency and cost effectiveness"
- Elaborate into strategic objectives – and what needs to be achieved under each heading over, say, 3 years. Examples:
 - Consistently meeting debt strategy objectives
 - Advising on portfolio – developing portfolio risk management framework and analytical capability
 - Developing debt market
 - Integrating and developing cash management function
- Identify more specific outputs or targets, including projects, to meet these objectives over the year ahead

Business Planning – 2

- Identify business activities; explore the organisational implications, including for operational risk management
 - Integrating cash management
 - Developing specialisms – front, middle, back office
 - Operational control framework
- Address the process of internal change needed to achieve the business objectives – the “change” programme
- Develop Debt Office's budget
 - Proposals for capacity building (inc additional resources)
 - Policies and programmes for systems and HR

Debt (& Cash) Office: Systems



Capacity and Resources - 1

- Staff recruitment and retention
 - Limited pay flexibility: **but**
 - Combination of greater authority and accountability can improve job satisfaction.
 - Delegation allows greater flexibility to respond to changes in the economic environment - improving the office's sense of purpose.
 - Greater visibility as a centre of excellence, with the support of Ministers, helps improve the status of staff
 - Larger office opens up promotion opportunities

Capacity and Resources – 2

- Identify and close key gaps
 - Role of secondments
- Importance of Training
 - Develop training plan linked to business objectives
 - May be only route to closing gaps
 - Means to professionalism
 - Enhance individuals' commitment
 - [along with golden handcuffs]
- Make skills available to others in Government

Some Lessons from the UK

- Establish respective roles and responsibilities (in relation to rest of MOF, Central Bank etc) and publish them
 - agree the internal rules with Ministry of Finance, inc the scope for managerial freedom, via delegations
- Manage stakeholders (Ministers, market, Central Bank, Parliament)
- Involve staff
 - Horizontal decision-making structures
 - Communication, including through change and integration processes
 - “Rewarding” professionalism
- Signal what matters
 - Delivery
 - Professionalism
 - Risk management, inc operational risk
 - Effective internal “project management”