



HM Treasury

# Tailored Review National Savings and Investments

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January 2020



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# Executive Summary

National Savings and Investments (NS&I) is both a non-ministerial department and an Executive Agency of the Chancellor of the Exchequer. It is responsible for raising cost-effective financing for government by issuing and selling retail savings and investment products to the public.

This Review aimed to review NS&I'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

The Review was led by the Corporate Governance and Assurance team in HM Treasury who engaged with NS&I; its spending team and other key stakeholders.

## Functions

NS&I's core function is to deliver sustainable, cost-effective funding to government.

In the four years to 2017-18, NS&I delivered £51 billion of financing for government, saving £780 million compared with the cost of raising financing through gilts measured using the Value Indicator metric.

## Form

NS&I is an Executive Agency of the Chancellor of the Exchequer and a non-ministerial department. It would not be appropriate to bring the functions of NS&I into the core Treasury department. It is jointly classified as an Executive Agency of the Chancellor of the Exchequer and a non-ministerial department.

## Effectiveness

NS&I aims to deliver value to government compared with equivalent wholesale funding costs. This is calculated by the Value Indicator (VI) which gives an indication of savings as an average over NS&I's product portfolio (excluding policy products) and is sensitive to gilt rates - something which NS&I do not have control over.

## Outsourcing Contract

A new seven-year outsourcing contract with Atos began in 2014 and is forecast to save over £400 million on a like-for-like basis over the life of the contract. NS&I retains a core central function of operational assurance, finance, risk and compliance, marketing and corporate services staff. NS&I has a strong and mature relationship with Atos, with the relationship referred to as a 'partnership' throughout NS&I. NS&I considers the contract as delivering long term savings, with cost and the majority of operational risks transferred to Atos. In April 2019 this contract was extended for an additional three years to 2024.

## **Business-to-Business**

NS&I carry out Business-to-Business services (i) to fund its core retail savings business (ii) to reduce the costs of these services to government. However, it is important that Business-to-Business service activities do not become a distraction for NS&I from its core function of raising cost effective finance.

## **Digital**

For several years, NS&I has been pursuing a shift towards lower-cost digital channels. NS&I's focus in the current and coming years is to move more customers onto digital channels so that services are easier for customers to use and more streamlined for NS&I as a business.

## **Cyber security**

Cyber security is an issue which the senior management of NS&I recognises as its key risk, given the potential financial and reputational implications to HM Treasury/Government of a cyber incident at NS&I. It is vital that cyber security considerations are at the heart of NS&I's work to protect its customers' data and deposits and its brand/reputation. The organisation continues to carry out various tests to ensure that it is resilient in this area.

## **Efficiencies**

NS&I is funded through Delegated Expenditure Limits from Parliament and income it receives through providing Business-to-Business services. NS&I has made and continues to make efficiencies in its organisation to increase the value for money it delivers to the public sector.

## **Corporate Governance**

NS&I's framework document was last updated in 2009 and the Memorandum of Understanding (MoU) in 2016. It is recommended that these documents are updated.

In addition to existing non-executive board members, NS&I recognised that it needed a non-executive with IT expertise and recruited an individual with the relevant experience.

## **Communications strategy**

NS&I is required to clear its marketing and communications budget with the Cabinet Office. The dynamic nature of the financial services sector means more/less marketing activity may be needed during the year, typically at relatively short notice. The need to secure Cabinet Office approval for these changes introduces material risks and pressures for NS&I and threatens its ability to meet its core role of raising cost-effective Net Finance.

## **Networks**

The Head of the Civil Service has recommended that Chairs and Chief Executives of arm's-length bodies consider joining the Public Chairs' Forum (PCF) and Association of Chief Executives (ACE). NS&I's Chief Executive is an ACE member and its Chair is considering joining the PCF.

# Recommendations

**Recommendation 1:** NS&I and HM Treasury should be alive to the limitations of VI as a metric for measuring how cost-effective NS&I is in raising funding for the government, while recognising that cost effectiveness will always involve a comparison with gilt yields, which by their nature can be volatile.

**Recommendation 2:** HM Treasury should support NS&I's initiative to seek opportunities for NS&I market knowledge and expertise to be utilised to develop wider savings policy, while not distracting from NS&I's core remit of delivering cost effective financing.

**Recommendation 3:** NS&I and Atos should ensure that Business-to-Business service (B2B) customers have clarity with regards to the structure of the relationship between NS&I, Atos and the customer.

**Recommendation 4:** When considering new B2B projects, NS&I should assess its capacity to effectively manage their complexity, and that the governance arrangements are appropriate.

**Recommendation 5:** Subject to cost and funding considerations, NS&I should look at the products and services being offered by competitors and related services and assess if it has the capacity to deliver its own innovations in the sector.

**Recommendation 6:** NS&I needs to ensure it uses its financial settlement to obtain the appropriate IT infrastructure to remain within touching distance of digital first competitors with cutting edge authentication and customer service. This has been made even more pressing by the emergence of challenger banks, the rise of FinTech and the arrival of Open Banking.

**Recommendation 7:** NS&I needs to ensure that it maintains the resilience and integrity of its banking IT infrastructure to protect against cyber threats.

**Recommendation 8:** NS&I should continue to work closely with Atos on the actions necessary to increase the efficiency of the services provided.

**Recommendation 9:** NS&I and the Treasury spending team should work together to update their framework document and MoU.

**Recommendation 10:** In order to streamline the process for ministerial approval of interest rate changes, NS&I should work with its sponsor team to ensure that, wherever possible, forward planning takes place.

**Recommendation 11:** NS&I, HM Treasury and the Cabinet Office should work together to develop a sufficiently robust but pragmatic solution to the control of communications budgets to allow NS&I to deliver its core objective of raising cost effective financing

# 1) Background and Introduction

## Tailored Reviews

1.1 It is important for good government that public bodies be efficient, effective and accountable. As part of the Government's Public Bodies Transformation Programme the continuing need, efficiency and good governance of public bodies is assured and challenged through Tailored Reviews.

1.2 Tailored Reviews aim to review the organisations':

- 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

1.3 This Review was led by the Corporate Governance and Assurance team in HM Treasury who engaged with NS&I; its spending team and other key stakeholders.

## Overview of National Savings and Investments

1.4 National Savings and Investments (NS&I) is both a non-ministerial department and an Executive Agency of the Chancellor of the Exchequer. It is responsible for raising cost-effective financing for government by issuing and selling retail savings and investment products to the public.

1.5 NS&I has its origins in the Post Office Savings Bank which was set up in 1861 by the Palmerston government. The aim of the Bank was to provide a simple savings scheme to encourage ordinary wage earners to be able to provide for themselves during adversity and ill health. The deposits provided a fund from which William Gladstone, then Chancellor of the Exchequer, could borrow for public spending.

1.6 Significant expansion over the next century saw the introduction of savings certificates during the First World War to help finance the war effort. Premium Bonds were officially launched in 1956 by Harold Macmillan, then Chancellor of the Exchequer.

1.7 In 1969 the Post Office Savings Bank became a separate government department accountable to Treasury ministers and was renamed National Savings.

1.8 On 1 July 1996 National Savings became an executive agency of the Chancellor of the Exchequer. In 2002, the organisation became known as National Savings and Investments, later becoming shortened to NS&I.

1.9 The National Debt Act 1972 and National Savings Bank Act 1971 detail the existence of NS&I. NS&I's products are issued by HM Treasury through the functions conferred on the Director of Savings under section 12 of the National Loans Act 1968. 'NS&I' and 'National Savings and Investments' are trading names, the legal personalities are 'the National Savings Bank' and 'the director of Savings'.

1.10 NS&I outsourced its entire customer facing and back office operations in 1999, first to Siemens and subsequently to Atos. The outsourcing is seen to derive long term savings, with cost and the majority of operational risks transferred to the provider.

1.11 The first outsourcing contract, across its lifetime (1999-2014), delivered real cash operational savings of £530 million to the taxpayer and was at the heart of NS&I's transformation to a digital first business. The current outsourcing contract is expected to deliver a further saving of around £400 million.

1.12 Atos employ circa 1,600 staff in major operational centres in Blackpool, Durham, Glasgow and Preston and circa 350 people in Chennai, India. NS&I employ circa 200 staff directly, predominantly in its London head office.

1.13 Since 2010, NS&I has provided payment processing services to other government bodies, under its Business-to-Business operation.

1.14 NS&I's purpose is:

'We want to inspire a stronger savings culture. We believe everyone should have the opportunity to save confidently.'

Its mission is:

- providing cost-effective financing for government and the public good
  - offering trusted savings and investments propositions
  - delivering valued services for government
  - supporting a fair and competitive market
- and balancing the interests of our savers, taxpayers and the market

1.15 This review examined the form and functions of NS&I; how effective and efficient it is in delivering these functions and the corporate governance of the organisation.



## 2) Functions and Form

### Background

2.1 NS&I's strategic aims from April 2018 onwards are set out in Table 2.A below. These were agreed as part of its new strategy, Inspire & Invest, alongside updating its purpose and mission.

**Table 2.A: NS&I's new strategy: Inspire & Invest**

Objectives of NS&I's new strategy: Inspire & Invest
Delivering for government
Delivering digital first products and services for our customers
Using our insight and policy expertise to meet our customers' needs
Delivering efficiently
Doing the right thing
Being inspired and empowered

Source: NS&I website

2.2 These are less specific than NS&I's previous seven objectives in its 2014-15 to 2017-18 strategy. The organisation has committed to ensuring it delivers on these objectives through specific 'service delivery measures' and tracking progress via its balanced scorecard and annual corporate plan as outlined in Chapter 3 (Table 3A).

### Functions

2.3 NS&I's core function is to deliver sustainable, cost-effective funding to government. It does so by selling savings products to customers across the UK. In recent years, NS&I has also delivered retail 'policy products' for HM Treasury, such as 65+ Guaranteed Growth Bonds (65+ Bonds) in 2015. NS&I also utilises its payment processing systems to provide payment processing to other areas of government. Its partners currently include HMRC, the Ministry of Justice and formerly the Home Office (until 2018-19).

### **Reduce the cost to the tax payer of government borrowing through retail selling of bonds and savings products**

2.4 The government has an ongoing need to raise debt financing and does this through the wholesale market via the UK Debt Management Office (DMO) and the retail market via NS&I.

**2.5** NS&I is a key part of the government's debt financing strategy. It provides important diversity in funding options alongside debt financing through the sale of gilts in the wholesale market. The National Audit Office (NAO), in November 2017, commented: "NS&I gives the government flexibility, by providing an alternative source of cost-effective borrowing to gilts. NS&I continues to meet its remit while keeping running costs low".

**2.6** The NAO also noted that NS&I's implied interest rate – across all of its products – in 2016-17 was just over 1.5% against 3% for gilts. NS&I's net operating costs in 2017-18 were £121 million, meaning it costs just 8 pence for every £100 it raises for government; four years ago this figure was 14p, a reduction of over 40% - while the total customer deposits increased by around 50% from £106 billion to £157 billion.

**2.7** In recent years, despite gilt yields being at historic lows, it has still been more cost-effective to raise funding through NS&I than to do so through gilts when assessed with the VI measure. For example, over the last four years, NS&I has delivered £51 billion of financing for government, saving £780 million compared with the cost of raising financing through gilts, as measured by VI.

**2.8** NS&I raised £9.8 billion in Net Financing for the Government in 2017-18, against a target of £8 billion, in a range of £5 billion to £11 billion. This was raised cost-effectively, returning a positive value of £229 million (against a target range of delivering £250 million of value indicator, with a lower limit of -£100 million)<sup>1</sup>.

**2.9** Given NS&I has consistently met its primary objective, raising cost effective financing for government, HM Treasury believes that this function should continue.

### **'Policy Products'**

**2.10** In 2015 and 2017, NS&I delivered retail 'policy products' for HM Treasury. These were to support the Government's policy aim of providing support to taxpayers who had seen returns on their savings fall due to low interest rates since the financial crisis of 2007-08. The products were 65+ Bonds and Investment Guaranteed Growth Bonds (IGGB).

**2.11** 65+ Bonds were fixed-rate savings bonds launched in January 2015 to help people aged 65 and over. Savers could invest £500-£10,000 per person. The bonds offered rates of 2.8% for a one-year and 4% for a three-year bond. They could be purchased by post, phone or online.

**2.12** Three-year IGGB, for customers 16 and over, were launched in April 2017 paying a rate of 2.2% on investments between £100 and £3,000.

**2.13** The cost of the products was met by HM Treasury and the costs were not included in NS&I's Value Indicator targets or reports. The popularity of the 65+ Bonds led to some operational problems when they were first launched. Lessons learned were applied to the launch of IGGB. As well as meeting the policy objectives, NS&I believe that these products have helped to increase brand awareness of the organisation.

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<sup>1</sup> Costs associated with policy products are not included in the VI calculations that compare the cost of raising finance through NS&I products with the cost of raising finance through gilts

2.14 NS&I's new Inspire & Invest strategy formalises its role in using its savings expertise to support the delivery of the Government's broader savings policy.

### **Business-to-Business services**

2.15 In 2010, NS&I developed a new strategic goal "to harness the benefits of its capabilities, infrastructure and processes to create savings for other government bodies, for NS&I and ultimately for the taxpayer"<sup>2</sup> by providing Business-to-Business services to other parts of government.

2.16 The payment processing services provided by NS&I to other parts of government help to fund NS&I's retail operations and reduce the overall cost of government by providing cost effective services. NS&I can provide these services more quickly and cost effectively than other potential providers and can be more cost effective than internally provided solutions. For example, using NS&I services since 2011 has saved the Court Funds Office £14.9 million (a 40% reduction on the previous cost of an internal service) and delivered a better quality service. Over the four years to 2017-18, overall Business-to-Business activity generated £20 million income for NS&I to help fund its core retail savings business.

2.17 NS&I had significant reductions in its Departmental Expenditure Limits at Spending Review 2015 on the basis that it would generate revenue from Business-to-Business service activity. An objective in its previous strategy was to move progressively towards a self-funding model. NS&I's new strategy focuses on ensuring Business-to-Business activity delivers an annual financial contribution, agreed as part of the Spending Review.

2.18 As with NS&I's support of the Government's savings policy, whilst HM Treasury believes NS&I should continue to deliver some Business-to-Business services, it is important that NS&I does not allow this secondary function to distract from its primary goal of raising cost effective finance for government.

### **Form**

2.19 NS&I is an Executive Agency of the Chancellor of the Exchequer and a non-ministerial department.

2.20 The government has 'three tests' to assess whether the functions of an organisation should continue to be delivered as a non-departmental public body (NDPB), non-ministerial department (NMD) or Executive Agency. Bodies should pass at least one of the tests if they are to continue to be delivered by a NDPB, NMD, or Executive Agency<sup>3</sup>.

2.21 NS&I passes the first test of "Is it a technical function, which needs external expertise to deliver?". NS&I is a financial services business and its operation requires expertise in the provision and delivery of retail savings products to a multi-million customer base across the UK. This spans customer service, shadow Financial

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<sup>2</sup> <http://www.nsandi-gps.com/about-us/our-story/>

<sup>3</sup> For more information about the 'Three Tests' please see [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/633573/Tailored\\_Review\\_Guidance\\_on\\_public\\_bodies\\_May\\_2019.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/633573/Tailored_Review_Guidance_on_public_bodies_May_2019.pdf)

Conduct Authority compliance<sup>4</sup>, fraud and risk management, and operational assurance.

**2.22** NS&I is run on a commercial basis in the sense that it is a financial services business which delivers services and retail savings products to a large customer base across the UK. It is partially self-funding as it operates a commercial model for its payment processing services under its Business-to-Business services. This provides a financial contribution to NS&I's annual funding requirement, which ensures that NS&I has sufficient funding to deliver on its core remit - raising debt financing for government. Between 2014 and 2018 Business-to-Business services revenue has contributed £20 million to NS&I's running costs.

**2.23** It is appropriate that NS&I is an arm's-length body of the Treasury. Raising debt funding is a key central government activity and key to HM Treasury's role as the UK's finance and economics ministry.

**2.24** It would not be appropriate to bring the functions of NS&I into the core Treasury department. NS&I's arm's-length status has enabled it to provide the specialist expertise and manage the systems and infrastructure required to carry out the functions. The skills and capabilities to do this are not present within HM Treasury or other departments.

**2.25** It would be inappropriate for the functions of NS&I to be delivered by local government or the voluntary sector. They do not have the infrastructure, skills or expertise to deliver the function of the complexity and scale required. For example, NS&I is a financial services business and its operation requires a formal structure to deliver the provision and servicing of retail products to a large customer base across the UK. This includes large scale customer service provision; shadow Financial Conduct Authority compliance; fraud and risk management and operational assurance.

**2.26** A social enterprise would not be an appropriate delivery model given the strategic nature of NS&I's debt financing role and the complexity of running a large scale financial services business, with £157 billion in stock and 25 million customers.

**2.27** The private sector offers retail savings products and offers payment processing services similar to that offered by NS&I to other government partners.

**2.28** There are other public bodies in the financial services sector, such as the Money and Pensions Service, but no other bodies offer retail cash savings products to the public. The UK Debt Management Office mainly issues gilts to the wholesale market.

### **Public body classification**

**2.29** NS&I is jointly classified as an Executive Agency of the Chancellor of the Exchequer and a non-ministerial department. Whilst there are other dual classified bodies in government, for example the Government Legal Department, we recognise that this is not the standard form for public bodies.

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<sup>4</sup> NS&I is not regulated by the Financial Conduct Authority (FCA) but is expected by HM Treasury to comply fully with FCA requirements, where applicable and appropriate, on a voluntary basis.

**2.30** Cabinet Office guidance highlights that for a variety of historic reasons a number of bodies have been dual classified as Executive Agencies and non-ministerial departments. The guidance goes on to say that this has resulted in a lack of consistency between Executive Agencies and Non-ministerial departments (NMD). While in practice there is a dominant choice of governance structure, on paper there may be conflict between the two categories. Accordingly, such dual status is to be avoided, and no future NMD should be given dual NMD and Executive Agency status.

**2.31** The dual classification enables NS&I to have the characteristics of both an Executive Agency and an NMD. As part of the development of its Inspire & Invest strategy, NS&I reviewed various structural options – dual status, sole Executive Agency, sole NMD and other legal structures – to assess which offered the best means to realise the aims of the Inspire & Invest strategy. The structures were assessed against a number of themes (including, *Net Financing & Pricing, Business-to-Business, Delivering policy objectives*, etc.) with each theme given specific ‘success criteria’ identified by NS&I and HM Treasury.

**2.32** NS&I concluded that retaining dual status was the most effective means of achieving the Inspire & Invest strategy. HM Treasury agree with this assessment on the basis that the balance of control of dual classification for policy and strategic decisions enables NS&I to deliver its functions well on behalf of HM Treasury. In September 2017, the then Economic Secretary to the Treasury approved Inspire & Invest, which HM Treasury expect to be delivered by NS&I in its current form. NS&I revisited this analysis in May 2019 and ratified the 2017 decision to retain dual status.

### **Devolution**

**2.33** Central government financing and the delivery of this policy is not devolved.

**2.34** The delivery of payment processing is carried out centrally and by devolved and local governments. NS&I see some scope in potentially partnering with these authorities in the future as part of its Business-to-Business services work.

### **The UK leaving the EU**

**2.35** NS&I assessed the key areas of potential impact on its services. These impacts were analysed and, where appropriate, mitigating action is being taken including appropriate engagement with HM Treasury.

## 3) Effectiveness

3.1 Until April 2018, NS&I's mission was "to help reduce the cost to the taxpayer of government borrowing now and in the future". Whilst this remains the core purpose, as part of its new strategy this has been refreshed to "we want to inspire a stronger savings culture. We believe everyone should have the opportunity to save confidently". Working within its operating framework to deliver on this, NS&I has six objectives. To measure NS&I's performance against these objectives and as part of its reporting process, NS&I tracks its progress against 'Service Delivery Measures' (SDMs) which are agreed by NS&I and HM Treasury annually. Table 3.A below outlines these SDMs.

**Table 3.A: Service Delivery Measures**

Service Delivery Measure	Goals and Objectives	Measure
Net Financing	To raise an amount of Net Financing within an agreed range.	Absolute amount of net financing from NS&I products.
Value Indicator	To deliver value to government when compared with equivalent wholesale funding costs.	Absolute amount of value from NS&I products as calculated by the Value Indicator.
Customer satisfaction	To exceed a threshold of satisfaction with customer service and overall experience received from NS&I.	Overall satisfaction with NS&I's service - as measured through 'EvaluAgent'
Customer service- operational delivery	To exceed the threshold level of both timeliness and accuracy.	Average performance against contractual key performance indicators (KPIs).
Customer service- online availability	To exceed the threshold level of online availability.	Percentage of time, excluding planned downtime, that customer-facing marketing and transactional websites are available.
Efficient administration of funds	To improve the efficiency of administering total funds.	Ratio of total NS&I administrative costs that are funded by Resource DEL to average funds invested by customers.

Customer Contact Association (CCA) Global Standard© Version 6 accreditation	To maintain our current Customer Contact Association (CCA) Global Standard© Version 6 accreditation following the annual external assessment.	A respected independent customer service standard, widely used by other organisations with a contact centre operation.
Financial Ombudsman Service (FOS)	To minimise the incidence where FOS intervention is justified.	The ratio of the number of complaints upheld by the FOS in favour of the complainant to the total number of complaints closed by NS&I.
Fraud	To minimise the cost of fraud.	The cost of fraud as a percentage of total average stock.
SDM: Employee engagement (new from 2017-18)	To fulfil our Inspire & Invest aim of being 'Inspiring and Empowering'	Level of employee engagement in the anonymous Civil Service employee survey, independently run and validated by the Cabinet Office
SDM: Diversity index (new for 2017-18)	To embed diversity and inclusion at the heart of our business	50 per cent Women in Finance - gender diversity of Executive Committee and Bands 2 and 3. 50% improvement in ethnic diversity at bands 4 and above - via employee survey data.

Source: NS&I Annual Report and Accounts 2017-18

## Net financing and Value Indicator

**3.2** Providing cost effective financing for government is the primary function of NS&I. How effectively this is delivered is measured against some of the SDMs outlined above. HM Treasury sets NS&I's annual financing target, Net Financing, which is raised within NS&I's operating framework of balancing the interests of taxpayers, savers and the wider financial sector.

**3.3** In 2017-18, NS&I's Net Financing target was £8 billion (+/- £3 billion) and during that financial year it raised £9.8 billion in Net Financing. NS&I has a long history of delivering on its Net Financing target.

**3.4** NS&I's second SDM is to deliver value to government when compared with equivalent wholesale funding costs. This is calculated by the Value Indicator (VI). In 2017-18, NS&I's target was to deliver £250m of value, by the VI measure, for the taxpayer with a lower limit of -£100 million. It delivered a positive VI of £229 million.

**3.5** The Value Indicator is a measuring tool – it gives an indication of savings, not a 'balance sheet' figure. It is an average over NS&I's product portfolio (excluding policy products) and is sensitive to gilt rates - something which NS&I do not have

control over. However, it is recognised that gilt yields will always be part of the calculation given the need to compare NS&I financing with gilt financing.

**3.6** Gilt rates have fluctuated over recent years and, as VI is affected by gilt yields, the VI can move outside of NS&I's control.

**Recommendation 1:** NS&I and HM Treasury should be alive to the limitations of VI as a metric for measuring how cost effective NS&I is in raising funding for government, while recognising that cost effectiveness will always involve a comparison with gilt yields, which by their nature can be volatile.

### Customer satisfaction and customer service

**3.7** Customer satisfaction and customer service are at the centre of five of the eleven SDMs. The SDMs 'Customer Service- operational delivery'; 'Customer service-online availability'; 'Customer Contact Accreditation (CCA) Global Standard® V6 accreditation'; 'Financial Ombudsman Service (FOS)' were all met or exceeded in 2016-17 and in 2017-18.

**3.8** However, the target for 'Customer Satisfaction' in 2016-17 was missed. NS&I believe some of this was due to 'snagging' and changes to the interface in its new online systems. It has since made changes from this insight, including allowing customers to reset their passwords online. In 2017-18, NS&I exceeded the metric, achieving a customer satisfaction score of 83.5%.

### Competition and Open banking

**3.9** NS&I's operating framework requires it to balance the needs of the taxpayer, savers and competitors when setting the interest rates on its products. The interest rates on NS&I products are generally in the middle of the market when it comes to rates on products. Whilst better rates are available, customers also value the 100% guarantee of savings provided by HM Treasury. However, with 'challenger-banks' and other providers entering the market, competition for savers' funds is increasing.

**3.10** As with other savings products providers, Open Banking may produce an additional challenge to NS&I's ability to raise cost effective finance. It may reduce NS&I's ability to attract customers through a direct relationship with them and lead to greater fluidity of savings. However, NS&I also view Open Banking as an opportunity to interact with a new and wider range of customers in an environment where its trusted brand becomes an even stronger asset.

### Partnership with Atos

**3.11** NS&I has a strong and mature relationship with Atos, its outsourcing partner, with the relationship referred to as a 'partnership' throughout NS&I. The contract derives long term savings, with cost and the majority of operational risks transferred to Atos. NS&I recognise its dependence on Atos and the company's need to make efficiencies over the term of the contract in order for it to be profitable, so the two organisations work in a mutually supportive manner.

**3.12** NS&I believe that the contract works well and that Atos provides a high level of customer service, as demonstrated by NS&I's performance against its service delivery measures for customer satisfaction and customer complaints.

**3.13** The governance and reporting arrangements on the contract are mature. Both parties operate in an open way, attending each other's executive team meetings and NS&I having contractual access to Atos' management accounts.



3.14 However, there have been issues with the delivery of change and transformation, where projects across functions have been subject to delays. This has been identified by NS&I's Executive Committee and work is underway with Atos to improve the change delivery process.

### 'Policy Products'

3.15 NS&I has delivered 65+ Bonds and Investment Guaranteed Growth Bonds (IGGB) on behalf of the government.

3.16 65+ Bonds and IGGB both had the policy aim of providing support to savers. When the IGGB<sup>1</sup> bonds were launched, a number of competitors had increased their rates and then offered bonds at similar interest rates, but with higher investment limits, which was a positive development for savers across the market, fulfilling Government's aspiration to support savers and encourage choice. IGGB remained on sale for a full year and attracted over 178,000 customers.

3.17 Over 1 million customers benefitted from the 65+ Bonds, which launched in 2015 as part of the Government's plan to support savers at all stages of their lives.

3.18 These products have helped to raise brand awareness of NS&I and bring in new customers. They also allowed the Government to use existing infrastructure to deliver its policy, reducing its costs.

3.19 However, there is a risk that these products could divert NS&I's attention from its core function. In addition, if these products are not delivered satisfactorily, there is a reputational risk to the organisation. Both HM Treasury and NS&I need to ensure that, as was the case with previous products, there is a strong policy reason for any new policy products and their delivery through NS&I.

### Policy development

3.20 NS&I holds a range of expertise in financial services and has a good understanding of the retail financial savings market. It has delivered policy products for government and – since the launch of its Inspire & Invest strategy in April 2019 – has established the Retail Customer Financial Services Forum. The Forum brings together Arm's Length Bodies and departments involved in delivery and development of financial services policy to share expertise, knowledge and promote opportunities to work collaboratively.

**Recommendation 2:** HM Treasury should support NS&I's initiative to seek opportunities for NS&I market knowledge and expertise to be utilised to develop wider savings policy, while not distracting from NS&I's core remit of delivering cost effective financing.

### Business-to-Business

3.21 NS&I carry out Business-to-Business services (i) to fund its core retail savings business (ii) to reduce the costs of these services to government.

3.22 Over a number of years, NS&I has successfully provided operational payment processing services to government partners such as The Courts Funds Office, the Home Office payment processing (until 2018-19) and the delivery of the Equitable

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<sup>1</sup> From NS&I's 2017-18 Annual Report and Accounts

Life Payments Scheme (until its closure in 2016-17). Recently, NS&I has been involved in the delivery of two large initiatives: Tax Free Childcare and Help to Save.

**3.23** Generally, NS&I's government customers have made savings and have appreciated the greater flexibility provided by NS&I. They have appreciated NS&I coming forward with proposals for changes or solutions to issues.

**3.24** However, during the rollout of Tax Free Childcare in summer 2017, there were widely reported operational issues due to the complexity of the system. (NS&I was only responsible for some of the system and was not responsible for the overall design.) While the vast majority of parents were able to apply successfully for Tax-Free Childcare and 30 hours free childcare, some customers experienced problems using the service. NS&I worked closely with HMRC to identify the cause of these problems and, by working collaboratively, a series of incremental improvements were made. NS&I continues to work with HMRC to further improve the service and make it as straightforward as possible for parents.<sup>2</sup>

**3.25** Government partners also sometimes feel that there could be more clarity in the distinction between NS&I and Atos. Government customers have contracts with NS&I and feel that, whilst they will be interacting with Atos, their key points of contact should be through NS&I as this is when the relationships can be most effective.

**3.26** When working with Business-to-Business partners, both NS&I and Atos need to be cognizant that its government partners are in a relationship with NS&I, not Atos. Whilst it is necessary and understandable that partners will be interacting with Atos, it is important that all parties understand that the primary relationship in these projects is between NS&I and its government partner.

**3.27** It is important that, like Policy Products, Business-to-Business service activities do not become a distraction for NS&I from its core function of raising cost effective finance. NS&I can avoid this by ensuring that it focuses on Business-to-Business service opportunities that do not require complex systems to implement the processes.

**Recommendation 3:** NS&I and Atos should ensure that Business-to-Business (B2B) service customers have clarity with regards to the structure of the relationship between NS&I, Atos and the customer.

**Recommendation 4:** When considering new B2B projects, NS&I should assess its capacity to effectively manage their complexity, and that the governance arrangements are appropriate.

## Digital

**3.28** In line with its competitors, NS&I has been pursuing a shift towards lower-cost digital channels for several years. In total, in 2017-18, 95% of incoming customer communications were through digital channels (phone and online) and more than 1.8 million Premium Bonds customers were registered to receive their prizes electronically. Some 3.6 million customers have registered for NS&I's online services and 1.5 million customers have chosen to go paperless.

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<sup>2</sup> Taken from Chief Executive's Overview, NS&I Annual Report and Accounts 2017-18

**3.29** NS&I's focus in the current and coming years is to move more customers onto digital channels so that services are easier for customers to use and more streamlined for NS&I as a business.

**3.30** NS&I's long-term strategy is to become a direct, digital (phone/online) first business reflecting the Government's long-term ambition for the provision of public services online.

**3.31** This strategy is also reflective of changing consumer preferences in the banking and finance sector. Previously, the Post Office was NS&I's distribution partner - it now has its own range of savings products. In 2006, half of NS&I's sales came through the Post Office - today NS&I is 100% direct (phone, post, online and electronic payments). NS&I withdrew its final product (Premium Bonds) from the Post Office in 2015.

**3.32** Usage of mobile banking apps has increased over the last few years and in 2016-17, NS&I introduced a Premium Bonds prize checker mobile app. 348,000 customers have downloaded the app. However, many of its competitors have mobile apps with much wider functionality. In the 2018 Budget, it was announced that NS&I would launch a new savings app.

**Recommendation 5:** Subject to cost and funding considerations, NS&I should look at the products and services being offered by competitors and related services and assess if it has the capacity to deliver its own innovations in the sector.

**Recommendation 6:** NS&I needs to ensure it uses its financial settlement to obtain the appropriate IT infrastructure to remain within touching distance of digital first competitors with cutting edge authentication and customer service. This has been made even more pressing by the emergence of challenger banks, the rise of FinTech and the arrival of Open Banking.

**3.33** Nevertheless, NS&I should also remain mindful of the risk of digital exclusion for those customers who choose not to bank online and ensure that they can continue to deliver for these customers.

### Cyber security

**3.34** Cyber security is a critical aspect of customers maintaining trust in the organisations through which they save. It is also an issue which the senior management of NS&I recognises as its key risk. It is vital that cyber security considerations are at the heart of NS&I's work to protect its customers' data and deposits and its brand/reputation. The organisation continues to carry out various tests to ensure that it is resilient in this area.

**Recommendation 7:** NS&I needs to ensure that it maintains the resilience and integrity of its banking IT infrastructure to protect against cyber threats.

### Skills and Diversity

**3.35** NS&I competes with the financial services sector for specialist skills. The ease of recruiting varies according to sector labour markets. NS&I currently faces challenges in recruiting risk/compliance specialists from the banking sector.

**3.36** NS&I developed additional service delivery measures in 2017-18 focussing on diversity and inclusion, which it aimed to put at the heart of the organisation. NS&I's new diversity index service delivery measure – to retain gender balance at

senior management and to improve ethnic diversity in its management and leadership – was met in 2018-19 and has been strengthened to look for year-on-year improvement in ethnic diversity in 2019-20. NS&I continues to be a signatory of the Treasury’s Women in Finance Charter.

### **Corporate Social Responsibility**

NS&I has a Corporate Social Responsibility (CSR) Policy which has been in place since 2009 – it was updated in 2016. Its CSR policy is built on the following principles:

- NS&I aims to act in a way that is socially and environmentally responsible in all its activities
- it will continue to comply with all relevant legislative and regulatory requirements around CSR, as well as codes of practice
- it will support the Government’s environmental strategy known as Greening Government
- it will continue to be transparent, straightforward and fair in all its dealings with its customers
- everyone at NS&I has a role to play in ensuring they meet these goals

## 4) Efficiencies

4.1 NS&I is funded through Delegated Expenditure Limits from Parliament and income it receives through providing Business-to-Business services. NS&I has made and continues to make efficiencies in its organisation to increase the value for money it delivers to the public sector.

### Outsourcing Contract

4.2 In 1999, NS&I outsourced its entire business process operations. The original contract ran from 1999 to 2014 and, on a like-for-like basis, removing the impact of growth and inflation, was estimated to have reduced NS&I's core operating costs by 55% equating to some £530 million.

4.3 A new seven-year outsourcing contract with Atos began in 2014 and is forecast to save over £400 million on a like-for-like basis over the life of the contract. NS&I retain a core central function of operational assurance, finance, risk and compliance, marketing and corporate services staff. In April 2019, this contract was extended for an additional three years to 2024.

**Recommendation 8:** NS&I should continue to work closely with Atos on the actions necessary to increase the efficiency of the services provided.

### Workforce

4.4 Following the beginning of the first outsourcing contract in 1999, NS&I underwent a major headcount reduction programme. Prior to outsourcing, in 1999 NS&I employed circa 4,200 staff. Today Atos employs circa 1,600 people on NS&I/B2B activity across its UK sites and circa 350 people at its two sites in Chennai, India; with only circa 200 staff remaining as NS&I employees. A small number of new IT roles related to B2B services are located in Atos' IT "centres of excellence" in Poland. Expert IT project resources in these locations are also used to supplement projects supporting NS&I's core retail operations based on skill and schedule requirements.

4.5 NS&I employees are civil servants and the pay remit is agreed annually in line with the annual HM Treasury pay guidance.

4.6 NS&I utilises shared services to deliver internal audit and legal advice. IT services are delivered via NS&I's outsourcing partnership with Atos.

### Property and estate management

4.7 Working with the Government Property Agency, in 2018 NS&I secured a five-year lease extension for its London headquarters. This offers value compared to relocating. The organisation will continue to work with Government Property Agency on future property requirements.

4.8 Five years ago, NS&I owned four UK sites: London (head office) plus operational sites in Blackpool, Durham and Glasgow. The operational sites were old, large and not appropriate for NS&I's digital business - NS&I sold off the Glasgow and Durham sites and a substantial portion of the Blackpool site. By 2019-20, this will return £13 million to the public purse. NS&I staff now occupy a smaller building on the Blackpool site, along with Atos colleagues; in Glasgow NS&I staff are now based in an Atos building in the city centre; and in Durham NS&I staff share a leased building with Atos staff.

### Fraud and Error

4.9 Under NS&I's current outsourcing contract, which began on 1 April 2014, Atos, NS&I's operational services provider, is liable for any fraud losses that are incurred.

4.10 The fraud losses borne by Atos in the financial year 2017-18 were £236,595. Compared on a like-for-like basis against 2016-17, net fraud losses in 2017-18 were 12% lower. In addition, the controls in place have resulted in attempted fraud with a total value of £11,200,000 being prevented, up by £4,500,000 from prevented losses in 2016-17.

4.11 The contractual arrangements with Atos have no impact on how customers are reimbursed in the event of fraud. While recoveries may follow, the customer is not disadvantaged. NS&I has a fraud Service Delivery Measure, which is to minimise the cost of fraud, measured as a percentage of total average stock. In 2016-17 the target was to be below 0.001% and the actual was 0.00019%.

4.12 A fraud risk assessment is completed every six months and reviewed by NS&I senior management. Monthly, a report detailing total actual and prevented losses, loss recoveries and value at risk is produced and circulated. This report also contains actual losses by fraud category, and a working group meets monthly to review all aspects of fraud risk management, including the root cause on identified fraud cases.

4.13 The prevention and detection measures are subject to regular review. Although Atos bears the financial risk, NS&I still remains closely involved in how the fraud control framework is reviewed and refined. Under the current contract, Atos is required to align its financial crime risk tolerance with NS&I, and the NS&I financial crime team is responsible for ensuring this position is maintained.

# 5) Corporate Governance

5.1 Corporate governance is the way in which organisations are directed, controlled and led. It defines relationships and the distributions of rights and responsibilities among those who work with and in the organisation, determines the rules and procedures through which the organisation's objectives are set and provides the means of attaining those objectives and monitoring performance. Importantly, it defines where accountability lies throughout the organisation<sup>1</sup>.

5.2 Good corporate governance is fundamental to the effective operation of all public bodies. As part of all tailored reviews, the governance arrangements of the public body under review are examined.

5.3 The standard approach to corporate governance in the UK is 'comply or explain'. In keeping with this approach, NS&I completed a questionnaire asking whether they comply or explain with aspects of the Corporate Governance Code, which confirmed it complied with the majority of issues outlined, with 'explain' applying in the other instances.

5.4 NS&I supports the government's transparency agenda through the publication online of expenditure: it publishes a list of all items of expenditure over £25,000 and Government Procurement Card (GPC) transactions over £500. In addition, NS&I acts transparently towards other banks and building societies by publishing its Net Financing target annually and issuing quarterly financial results showing progress against this target.

5.5 Framework documents setting out the terms of the relationship between departments and their ALBs should be updated regularly to ensure that they remain fit for purpose. NS&I's framework document has not been updated since 2009 and the Memorandum of Understanding (MoU) was last updated in 2016.

**Recommendation 9:** NS&I and the Treasury spending team should work together to update their framework document and MoU.

5.6 NS&I's Board consists of four independent non-executive Members (including a non-executive Chair), eight executive directors (including the Chief Executive), and up to two representatives from HM Treasury, including at least one from the Debt Reserves Management Team. Recognising the need for a non-executive with IT expertise, NS&I has appointed a fifth non-executive director with relevant experience.

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<sup>1</sup> <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>

5.7 NS&I's executive committee (ExCo) meets at least once a month on average. The executive committee delegates authority to a number of governance committees.

5.8 However, in 2018-19 there was an instance of NS&I unintentionally not following Managing Public Money (MPM) principles and an instance of unintentionally not following government-wide recruitment guidelines. Appropriate steps are now in place to ensure these do not recur in the future and the relevant controls are operating in NS&I.

### Rate changes on products

5.9 NS&I and HM Treasury's Memorandum of Understanding states: "Specific interest rates and prizes on NS&I products are set by HMT typically following a recommendation from NS&I. The Chancellor may delegate authority to make NS&I pricing decisions to the minister responsible for NS&I who in turn may delegate routine decisions to Treasury officials. NS&I will endeavour to provide DRM [Debt and Reserve's Management, NS&I's spending team at HM Treasury] at least 3 days' notice before sending a pricing submission. DRM will endeavour to review and respond to routine pricing submissions within two working days. This may take longer for non-routine submissions, given the likely involvement of ministers. In these cases DRM will aim to provide a response within 10 working days, bearing in mind the need for swift decisions to support NS&I in meeting their SDMs [Service Delivery Measures]." This process can be lengthy and challenging for NS&I given it operates in a fast-moving commercial environment.

**Recommendation 10:** In order to streamline the process for ministerial approval of interest rate changes, NS&I should work with its sponsor team to ensure that, wherever possible, forward planning takes place.

### Communications strategy

5.10 NS&I is required to clear its marketing and communications budget with the Cabinet Office. The dynamic nature of the financial services sector means more/less marketing activity may be needed during the year, typically at relatively short notice. The need to secure Cabinet Office approval for these changes introduces material risks and pressures for NS&I and threatens its ability to meet its core role of raising cost-effective Net Finance.

**Recommendation 11:** NS&I, HM Treasury and the Cabinet Office should work together to develop a sufficiently robust but pragmatic solution to the control of communications budgets to allow NS&I to deliver its core objective of raising cost effective financing.

### Networks

5.11 The Head of the Civil Service has recommended that Chairs and Chief Executives of arm's-length bodies consider joining the Public Chairs' Forum (PCF) and Association of Chief Executives (ACE). ACE is for Chief Executives of all departmental ALBs, and PCF is for Chairs of public bodies. NS&I's Chief Executive is an ACE member and its Chair is considering joining the PCF.



# Annex A

## Commercial Relationships and Procurement

**A.1** In 2017-18 NS&I spent a total of £157.1 million on goods, works and services (this figure excludes income, non-cash costs and pay costs but does include costs related to third party recruitment agencies). 89.8% of this spend is on NS&I's main Business Process Outsourcing agreement with Atos IT Services UK Ltd.

**A.2** NS&I's gross expenditure for 2017-18 was £177m (including non-cash costs and staff costs).

**A.3** Apart from property lease costs, over half of the non-Atos spend is channelled via Crown Commercial Service (CCS) contracts and framework agreements.

**A.4** NS&I consistently uses CCS frameworks where applicable and has developed a good relationship with the CCS.

**A.5** NS&I now has quarterly meetings with CCS to plan forthcoming procurement projects and to benefit from the category management expertise within CCS. NS&I's procurement team also participates in the quarterly procurement forum for Executive Agencies and Non-Departmental Public Bodies. This helps to identify cross-government procurement priorities.

**A.6** The table below breaks down the 2017-18 procurement expenditure:

### 2017/18 procurement expenditure

Type	Expenditure
Business Processes Outsourcing Services Agreement	£141.1 million
Property Lease costs	£2.6 million
Other Third Party Expenditure	£13.4 million
TOTAL	£157.1 million

**A.7** Of the £13.4 million that was spent on Third Parties in 2017-18, £7.2 million (53.7%) was spent with CCS suppliers and £6.2 million (46.3%) was spent with non-CCS suppliers. The main reasons behind the non-CCS expenditure are that:

There was £2.4 million of expenditure with other government agencies or non-departmental public bodies for services that NS&I may only procure from those bodies (the CCS does not manage this). This includes £1.7 million paid to the Government Internal Audit Agency, £107,000 to the Government Legal Service and £80,400 to the Financial Ombudsman Service.

On some occasions, CCS did not have a framework available that met NS&I's needs.

On other occasions where a CCS framework did exist, it required a capacity and volume that NS&I, as a relatively small government buyer, cannot meet (e.g., the previous Capita framework for Learning and Development).

**A.8** As part of NS&I's induction programme, all new staff are given instruction on procurement and contracting requirements within central government. Further guidance is provided on the NS&I intranet and this is fully compliant with central government procurement practice, the Public Contract Regulations 2015 and associated EU Directives. Hard and soft copies are provided on request and all documentation is reviewed annually. Staff are only provided with access to the procurement system once they have completed their induction and training and all breaches are reported to NS&I's Executive Committee on a monthly basis via the corporate scorecard. The procurement guidance for staff was updated in June 2018 to reflect current best practice.

**A.9** The BPO Services Agreement means that the vast majority of NS&I's core business is delivered via a Public-Private partnership agreement. This was procured in full compliance with EU Procurement law and central government policy requirements. The contract commenced on 1 April 2014 and will run for an initial period of seven years, extendable to up to three years to 2024.

**A.10** Procurement staff are CIPS qualified and experienced in public sector procurement. All projects with an aggregate value in excess of £10,000 are subject to competitive tender. All projects with an aggregate value in excess of £118,000 are subject to a procurement advertised in the Official Journal of the European Union (OJEU).

### Commercial Relationships

**A.11** The table below outlines the contracts that NS&I holds with a value of over £5 million, as at November 2018.

#### Commercial relationships

Contract (supplier)	Total Value	Per Annum	Commencement	Expiry
BPO Services Agreement (Atos)	£660 million	£141 million (2017-18 actual)	20 May 2013	31 March 2021
Main lease agreement for London head office, 1 Drummond Gate (James Andrew Intl. T/A Tyrolease)	£7.7 million	£1.92 million	1 January 2018	31 December 2022
Marketing communication and channel strategy planning (Starcom)	£5 million	£1 million	31 June 2018	30 June 2019 with potential 4-year extension

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Media buying (Manning Gottlieb OMD)	£16 million	£4 million	1 October 2018	22 May 2022
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**A.12** NS&I's contract with Atos was due to expire in March 2021 with an option to extend this for a maximum of a further three years. In April 2019, this contract was extended for an additional three years until March 2024.

**A.13** As noted in the table above, the contract for media buying, which is worth up to £4 million per year, has recently been re-let, with Manning Gottlieb OMD replacing the previous supplier, Carat T/A Dentsu Aegis. This procurement was undertaken via CCS.

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