Annual Report and Accounts 2008–09

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National Savings and Investments (NS&I)
Annual Report and Accounts 2008–09

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Resource Accounts and Departmental Report presented to the House of Lords by Command of Her Majesty

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Who we are

With more than £97 billion invested, NS&I is one of the largest savings organisations in the UK.

Established in 1861, we operated as the Post Office Savings Bank for over a century. In 1969 we formally separated from the Post Office® and became a government department known as National Savings. In 1996 we became an Executive Agency of the Chancellor of the Exchequer and in 2002 we re-branded as National Savings and Investments, reflecting our wider product portfolio and the changing markets in which we operate.

Our vision

Securing a better financial future for our customers by providing the most valued and trusted savings experience.

Our mission

Our overall aim is to help reduce the cost to the taxpayer of government borrowing now and in the future. With this in mind, our single, long-term strategic objective is to provide the Government with cost-effective retail finance compared with raising funds on the wholesale market.

Our values

When people think of NS&I, we want them to associate us with:
Security: we offer 100% security, backed by HM Treasury
Integrity: we are honest and responsible in everything that we do and say
Straightforwardness: we always use clear, everyday language that is easy to understand
Delivered with a human touch, pace and confidence: we treat our customers as individuals, recognise their needs and act on their behalf decisively and professionally.

Our strategy

Our five-year strategy, **NS&I adding value**, aims to deliver sustainable long-term value to stakeholders and customers by simplifying, modernising and diversifying the business.

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Our Chairman's statement

This is my last report as Chairman of NS&I, and I believe I'm leaving an organisation well placed for the future. This has been an exceptional year, in the truest sense of the word. We've seen events in the financial landscape leading to exceptional levels of business – as our customers looked for a safe home for their money.

Open for business

Our systems and processes have been tested to the full and, as the rest of this report will show, they and our people have risen to the challenges and met all the increased demands. Drawing on our experience from the first 'flight to safety' in autumn 2007, we were able to ensure that service quality was not compromised through the surge in sales which followed the 'flight to safety' post-September 2008 and we were able to remain 'open for business' throughout.

That fact alone deserves acknowledgement, and it's a real testament to both our staff and to the team at Siemens, our delivery partner. The commitment and co-operation of all those involved is immense: 10 years in, our relationship with Siemens is now stronger than ever and we work in partnership to meet customer needs. The results speak for themselves.

A platform for progress

The success of this Public Private Partnership is undoubtedly one of the defining memories I will take with me of my time here. Not only is it a success in business terms – helping NS&I become the efficient, streamlined organisation it is today – but it is also a critical enabler of our strategy.

Based on a dependable customer service operation, proven even under the extreme circumstances we have faced this year, we can be confident in continuing to develop the sales channels available to our customers, build our online presence and develop our range of products: all part of **NS&I adding value**, our five-year strategy. This report shows how much we have achieved in each of these areas during the last year, as well as highlighting some key goals for 2009–10.

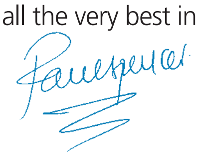
Responding to the challenges

But as the report also explains, the story of this year (and of our business more widely) is more than delivery to our customers. The simple truth is that, like every other financial services business, we are operating in a very different financial landscape from before. As a direct result, we have reviewed with the Government their funding requirement and temporarily suspended our Value Add target (a measure of our cost-effectiveness in raising funds for the Government) to reflect the unprecedented low levels of interest rates and particular factors affecting the gilt market.

While one of our financial targets has changed, however, the underlying business strategy has not. We remain committed to our five-year strategy, to long-term, sustainable Value Add and to measuring our performance in terms of both customer satisfaction and the efficiency of our operations. The last year has shown that NS&I today is an organisation that excels in customer service and cost control and has the foundations and capability to deliver much more.

A personal thank you

I am delighted to pass on the baton of Chairman to Martin Gray with the organisation in such good shape. Martin has been a Non-executive Director at NS&I for the last four years and so knows the business very well. On a personal level, I would like to thank all the Directors, staff and partners whose support and friendship have made my time here so enjoyable. It is their commitment and hard work that have played a major part in NS&I's impressive progress. I wish you all the very best in the future.



Paul Spencer
Chairman
NS&I

Our Chief Executive's review

I'm sure I won't be the only Chief Executive who sees 2008–09 as a year of two halves. Like many others, our year started in relative stability. Even allowing for the backdrop of an emerging downturn, the first few months saw us on track towards all our key targets. Then in September the world changed.

A new economic environment

With the financial crisis, the global economic climate was transformed and, overnight, demand for our products increased dramatically. As the full implications of what had happened became clear, demand rose still higher.

Our experience dealing with the events of the previous year, and the contingency plans put in place as a result of them, proved vital. We were able not only to cope with the surge in demand but also to maintain our high levels of customer service, whether dealing with new investors or helping allay the many and varied concerns of our existing customers.

Power of partnership

That we were able to do this is an enormous credit to our partner – Siemens – whose flexibility and dedication meant not only that our call centres dealt with the call volumes but also that the full range of customer service processing was managed with pace and accuracy. Our main distributor, the Post Office®, also had to cope with increased volumes on our behalf and did so very well. (Pages 19 to 21 cover their roles in more detail.)

But it's also an enormous credit to our own staff, particularly those involved in managing the Siemens relationship. The fact that our partnership score is now at its highest level ever demonstrates just how well the two teams communicated and supported each other during this testing time.

Striking a balance

It was clear even at this stage that several of our business targets for the year were no longer relevant. Inflows in the third quarter alone were sufficient to ensure we would exceed our original Net Financing target for the whole year and we raised our target from £4 billion to £11 billion with a margin of £2 billion either side. The final Net Financing figure, of £12.5 billion, is within this range. While we wanted to remain a safe option for customers, we were also acutely aware of the need to maintain an appropriate competitive position which did not take advantage of our ability to guarantee 100% security in an uncertain environment.

We worked with HM Treasury to establish a balanced way forward for NS&I, and agreed that in the interests of financial stability we would stay open to new customers and not take any products off sale. But we would adopt – as best we could – a low profile by stopping all discretionary marketing during the autumn and winter.

For the remainder of the year, our decision-making was driven by a need to maintain a balance between:

- the interests of our customers
- delivering on our core remit of raising cost-effective finance for Government, and
- the need to support financial stability by maintaining an appropriate competitive position

As the base rate fell to unprecedented lows, that balance became all the harder to achieve – and all the more important.

Focusing on our customers

For our customers, the key issue was ensuring that our products continued to meet their needs. Traditionally, the interest rates on most of our variable rate products have been below, or close to, the Bank of England base rate. When that rate fell to 0.5%, reducing our rates below it for every variable rate product we offer would have been unfair to customers.

We have balanced the need not to distort the competitive position with maintaining a savings offer that still delivers a reasonable return.

A good example is the change we have made to Premium Bonds from April 2009. We introduced a new £25 prize category and removed one of the two monthly £1 million jackpot prizes; both measures will help us to maintain the frequency of prizes, something our customers have told us is particularly important to them. We also worked to minimise the frequency of changes to the prize fund rate, helping to maintain a degree of stability for Premium Bond holders.

This essentially reflects what we have always sought to do throughout our 148-year history: provide a stable, dependable corner of the savings market where customers can invest without any worries. But within that scope, we have continued to make progress on our five-year strategy to simplify and modernise our infrastructure and product range. One change in the last year was the announcement to close our Cash ISA to new customers, removing any confusion or crossover with our more popular Direct ISA. (This is covered in more depth in 'Our products' on pages 16 and 17.)

Premium Bonds: the ERNIE and Colossus connection

Premium Bonds of course retain a special affection among the UK public and the unveiling of ERNIE 1 in a permanent exhibition at the Science Museum in June 2008 really underlined that for me. The exhibition also features a range of memorabilia, including valentine cards and poems sent to 'him' in years gone by. I was delighted to have the opportunity to meet one of the original engineering team, Jack Armitage, who built the first ERNIE all those years ago at Dollis Hill, London. He joined a team, many of whom had worked at Bletchley Park in the Second World War on Colossus, the code-breaking machine and the world's first electronic computer.

Retuning our strategy

Product evolution is a key part of our **NS&I adding value** strategy, alongside the increased promotion of direct channels and other steps to further our efficiency. I'm delighted to be able to report that even under the pressure of the demand we faced, we were still able to complete a number of strategic initiatives in the back office which contribute to these goals. These are discussed in more detail in the next section, 'Our strategy'.

While we continued to make sound progress against our strategic programmes, one aspect of the strategy has had to be substantially revised: the measure of Value Add. As many readers of this report will know, NS&I has been measured for some time on how cost-effective we are at raising finance for the Government, compared to the alternative methods of raising finance primarily through gilts. The changing economic landscape throughout the year has meant this measure is, temporarily, not an accurate or meaningful comparison.

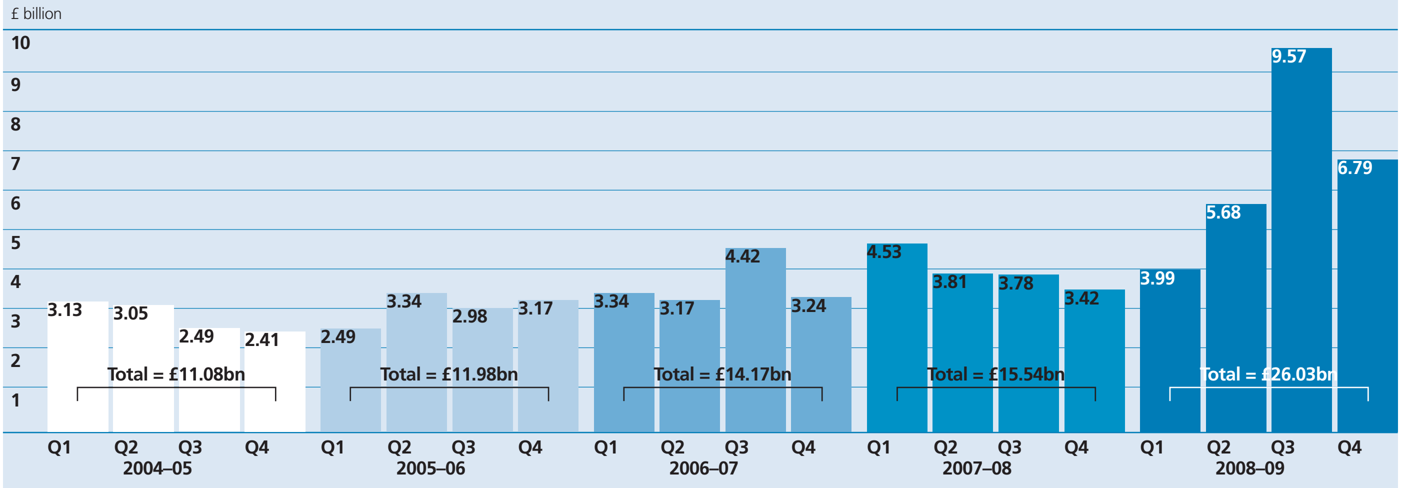
Nor do the comparators used to calculate Value Add (base rate for variable rate products and comparable gilt yields for fixed rate products) enable us to provide fair rates to customers in this period of exceptionally low interest rates. The low base rate has led many of our competitors to price their savings products off LIBOR or their loan books, while financial markets have been unusually volatile. There is also now an increased differential between LIBOR and the Bank of England base rate, whereas previously the two had tracked each other closely. The result is that both are currently no longer reliable comparators to measure our cost-effectiveness or to set price levels.

As a result, we agreed with the HM Treasury to formally suspend the Value Add target for 2008–09 and set no Value Add target for 2009–10. While we remain committed to the concept over the longer term, in the short term there are alternative ways of assessing our effectiveness – for example the well-established measure of comparing our administrative costs to the average funds invested by customers.

We also worked with HM Treasury to agree a revised Net Financing target for the coming year. Given the exceptional levels of Net Financing we have delivered over the last two years when we have delivered more Net Financing than we had planned to contribute over the five-year strategic period, the target for NS&I in 2009–10 will be to maintain broadly the existing level of stock. This means we can focus on the core elements of our modernisation programme, while preserving our long-term ability to raise Net Financing for Government, and aiding wider financial stability by maintaining an appropriate competitive position after the exceptional events of last year. Looking longer term, we are re-planning our financial strategy to accommodate the changed economic environment.

Essentially, our challenge for 2009–10 is to make sure we continue to deliver sustainable cost-effective Net Financing while keeping administrative costs low – no mean feat given the volume of inward and outward transactions we anticipate. We will still need to deliver gross inflows of some £14 billion in 2009–10 to maintain a broad Net Financing balance. The **NS&I adding value** strategy is vital to achieving those efficiencies through modernising the infrastructure of the business over the next few years to the benefit of customers and the taxpayer. So even though the financial metrics have changed, the underlying strategic goals remain the same.

Gross inflows into NS&I (including reinvestments)



Looking forward

As I said at the outset, this really has been a year of two halves. But even as the markets and economic landscape have shifted, one thing has – I believe – remained constant: the dedication of our people and partners to providing customers with the service they deserve. That for me is the biggest achievement of the year. It's also one I feel we are well equipped to repeat in 2009–10, as we face up to the challenge of operating in a very difficult savings landscape.

Finally, I would like to extend my personal thanks to Paul Spencer who is stepping down as NS&I's Chairman. Paul has contributed an enormous amount to NS&I over his six years on our board, first as a Non-executive Director and latterly as Chairman. I look forward to building on these achievements with his successor Martin Gray.

Jane Platt

Jane Platt
Chief Executive
NS&I

Our strategy

2008–09 was the second year of NS&I adding value, our five-year strategy which aims to deliver sustainable, long-term value to customers and taxpayers alike. Chief Executive Jane Platt, Finance and Risk Director Mike Chilton, and Change and Strategy Director Julian Hynd, reflect on progress during the year.

First, what did you set out to achieve in year two of the strategy?

Julian
We divided the five-year strategy into three phases – optimise and build, improve and leverage, and then growth. Last year was the second part of the optimise and build phase, which was focused on analysing customer requirements, modernising our product range and building the capabilities required to increase channel diversification.

Mike
Alongside that, we also set ourselves some specific goals in terms of reducing our long-term operational costs and increasing our voluntary compliance with Financial Services Authority (FSA) regulation, as part of enhancing our overall risk management framework.

Jane
There was also an important people element, which was to increase our skills and capability so that we can move even faster, which is so important in today's volatile markets.

And how much of that has been completed?

Julian
A significant amount – and more importantly, all of the highest priority tasks we had planned for this year. We have begun a major refresh of our IT infrastructure, from desktops to our data centres, updating systems to give us the platform we want for the next phase of the strategy. On top of that, we've done some important work standardising a lot of processes, updating the way we manage some of our older products in particular.

Mike
We've also continued to invest in our risk and compliance frameworks in line with FSA guidelines. This includes enhancements in areas such as anti-money laundering, Treating Customers Fairly, information security and our overall governance processes.

Jane
None of those workstreams sounds particularly glamorous, but they are very important and the reality is that we are putting in the foundations needed to start making significant operational cost reductions, to strengthen our direct channels and to improve the way we support and communicate with our customers. It is a five-year strategy, and in many ways (though not all) we're where we want to be after two years.

The previous pages have mentioned that the measure of Value Add has had to be suspended this year. Wasn't that the key to the whole strategy?

Jane
That's part of what I meant by saying we're not quite where we expected to be at this point. The temporary suspension of Value Add has come about because of factors beyond NS&I's control which mean that it is no longer a reliable measure of the value we contribute. But the **NS&I adding value** strategy is all about the five-year modernisation, simplification and diversification of the business, and that remains absolutely valid and substantially on track. We have lost surprisingly little momentum given the unexpected volumes that we've had to process. Value Add is just one of the ways of gauging the success of the strategy and I hope that we will be able to re-introduce it as soon as possible. Certainly we'll discuss this with HM Treasury as part of target setting for 2009–10.

Mike
Value Add is a relative measure. It looks at how efficient we are at raising money for the Government compared to its other sources of financing, such as gilts. This year, due to a whole range of factors, that relative measure actually wouldn't give an accurate picture of our efficiency. First, base rates have fallen to unprecedented levels. Second, financial markets have been unusually volatile.

Jane
I think the key point for us was that – as agreed with HM Treasury – we needed to stay open for business during the 'flight to safety' and maintain our high levels of customer service.

So, without Value Add, how do you plan to measure progress against the strategy going forward?

Mike
There are other performance indicators, from organisation-wide measures like Net Financing, customer satisfaction, compliance and fraud levels to programme-specific measures. But to provide the measure of efficiency, we can look at our administrative ratio: comparing our total administrative costs to the average funds invested by customers. We measure it in basis points and have done for a number of years, so it offers a comparable way of showing our efficiency given the higher levels of funds we're dealing with and anticipated higher volumes of transactions. Currently, it stands at 20 basis points.

Jane
I'd also underline the fact that we're not saying Value Add is an invalid measure; we're still committed to it in the longer term. For next year, however, we have no target against it.

Were there any other changes to the strategy during the year?

Julian
One change is that we had initially planned to launch our new banking system by the end of the year. This has been moved into 2009–10. The reason is, quite simply, we won't go live unless we're 100% satisfied that there will be no disruption to the business. With the exceptional, unsolicited volumes we experienced this year, it was harder to prove this to our satisfaction than would normally be the case.

Finally, what are the key plans for next year? And what are the challenges?

Julian
Obviously the new banking system is a key step for us. It's the end of the optimise and build phase, and will really drive us forward into phase two where we will start to reap the benefits of this new infrastructure in terms of efficiency and customer service. At the same time as the launch of our new banking system we will deploy a new internet platform which will be a major milestone that is tangible for customers. The benefits of all the work we've done in the back office will become much clearer then, when customers are able to transact more easily online.

Mike
In terms of challenges, one of the big issues we face is around financing our strategic initiatives. We're a bigger business overall, and therefore need to service a larger customer base and increased transaction volumes. At the same time, we are upgrading our infrastructure in line with our strategy and we need to continue to offer great service to our customers.

Jane
If anything, that underlines the need to focus on our strategy, continuing to grow our direct channels alongside the Post Office®, building on our excellent partnership with Siemens so that we are able to bring costs down. It's going to be hugely challenging, but the foundations we have put in place already give us every reason to be confident.

Our performance in 2008–09

The table below shows our performance against our service delivery measures (SDMs). These were agreed by NS&I and HM Treasury as part of our reporting process and measure our performance in relation to our overall objectives. Specific targets are agreed each year with the Economic Secretary to the Treasury (EST).

Goals and objectives	Measure	Performance 2007–08	Target 2008–09	Performance 2008–09	Target 2009–10
1. Value Add To create at least an agreed amount of Value Add	Absolute amount of (lagged) Value Add from NS&I products	£375 million – exceeded target	Target of at least £275 million	**Target suspended** HM Treasury and NS&I agreed to suspend the target for 2008–09 at the end of Q3 2008–09 as a result of exceptional market conditions	Target suspended
2. Net Finance To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from all NS&I products	£5.9 billion – exceeded target (hence target not met)	Target revised to £11 billion (+/- £2 billion) in Pre-Budget Report in November 2008	**Met** £12.5 billion	£0 billion (+/- £2 billion)
3. Customer satisfaction To exceed a threshold of customer satisfaction with NS&I	Average level of satisfaction against question, 'Taking everything into account, how would you rate NS&I's customer service?'	93% – met target	At least 87.0%	**Met** 92.2%	At least 87.0%
4. Customer service – timeliness To meet a consistently high timeliness target	Average performance against timeliness key performance indicator (KPI) targets	99.4% – met target	At least 97.0%	**Met** 98.3%	At least 97.0%
5. Customer service – accuracy To meet a consistently high accuracy target	Average performance against accuracy KPI targets	99.4% – met target	At least 98.5%	**Met** 99.2%	At least 98.5%
6. Ratio of total NS&I administrative costs to average funds invested by customers To invest in capability and continue to improve the efficiency of administering total funds	Ratio of total NS&I administrative costs to average funds invested by customers	18 basis points – met target	Less than 23 basis points	**Met** 20 basis points	20 basis points or less
7. Banking Code To ensure compliance with the Banking Code	Self-assessment of compliance checked by Banking Code Standards Board	Compliance achieved	Compliance with Banking Code	**Maintained** NS&I has maintained green status with the Banking Code	Compliance with Banking Code
8. Financial Ombudsman Service (FOS)* To ensure compliance with the FOS	Percentage of complaints escalated to FOS adjudicated in our favour	98.8% of escalated complaints adjudicated in our favour	At least 98.0%	**Met** 100%	At least 98.0%
9. Fraud** To improve the effectiveness of fraud management	Ratio of net fraud losses to total customer repayments	10%	Less than £35 per £1 million repayments	**Met** £27 per £1 million repayments	Less than £35 per £1 million repayments

Our SDMs were established at the end of the 2004 Spending Review (SR2004). Because our core business goals have stayed the same, our SDM goals have likewise remained the same. However, two of the metrics have been revised as detailed above.

* This metric was introduced during 2007–08. For 2009–10, it will continue to exclude fraud cases that will become eligible for FOS referral during the year, since we are unable to reasonably estimate the direct impact on this metric. We plan to include these cases from 2010–11 onwards.

** This metric was revised for 2008–09 and was previously (including the 2007–08 figure shown above) expressed as percentage of total fraud detected resulting in actual loss. Therefore, the 2007–08 figure is not comparable with the 2008–09 figure.

Project cost as a percentage of NS&I's total spend			
	Total spend £ million	Project spend £ million	Percentage
2008–09	184	21	11.2
2007–08	154	9	5.6
2006–07	168	15	8.7
2005–06	175	13	7.7
2004–05	166	14	8.5

NS&I adding value – progress at a glance

Last year's Annual Report identified some key workstreams we would be taking forward in 2008–09. In addition to the achievements discussed, the following list highlights some key strategic activities from the year.

We said we would sharpen our customer focus and build our knowledge of our customers.
We have validated our customer segmentation to confirm it remains an effective way to group customers who have similar attitudes or behaviours through further customer research. We have also been able to use the data to refine our understanding of our customers.

We said we would improve our product mix and start the migration of products on to a new banking system.
We have followed the introduction of Guaranteed Growth Bonds and Guaranteed Income Bonds at the end of last year with the decision to close our Cash ISA to new sales. We already offer a very similar product, Direct ISA, which is more popular with customers, so we've adapted that to make it more accessible. We are in the final stages of testing our new banking system before we begin migration in the new financial year.

We said we would increase channel optimisation and encourage customers to purchase directly from us, while continuing to offer the choice of access through the Post Office® and WHSmith.
We have continued to develop a more interactive internet platform for launch in the coming year. When we resumed discretionary marketing, in late March 2009, we focused on directing people to our website, **www.nsandi.com**. The Post Office® and WHSmith both remain valued partners and key distribution channels. £9.28 billion was sold through our principal direct channels in 2008–09.

We said we would enhance our skills and capability enabling us to become even more delivery focused and faster moving.
We have launched a learning and development programme focusing on pace and confidence which has yielded results in terms of speed and delivery – for instance, successfully delivering more projects.

We said we would reduce our long-term operational costs to ensure we have an affordable and sustainable business model.
We have invested in our infrastructure and our property using the funds we had put by in previous years for this very reason, both of which will reduce running costs in the future. We have maintained our efficiency ratio at 20 basis points or below, despite the additional costs of both the 'flight to safety' and these infrastructure upgrades.

We said we would embed compliance in everything we do.
We have enhanced our internal assurance processes and our processes for the development and approval of marketing and communications material. We have also reviewed core processes around risk management and fraud detection to confirm they remain compliant and effective.

NS&I saw online sales of over £3 billion in 2008–09

Our customers

The story of our year, from the customer perspective, has been that we have been open for business at all times. We provided a dependable home for our customers' money while maintaining our high-quality service with clearly explained products to help people make the right choice.

As our vision says: NS&I aims to secure 'a better financial future for our customers by providing the most valued and trusted savings experience'. At the end of 2008–09 we now have more savers' money invested with us – the total amount of investments we now hold (our stock) has risen from over £84 billion at the start of the year to over £97 billion. Although this translates into a small percentage change in terms of our total share of stock of the UK deposit-based savings market (up to around 8%, from around 7% in 2007, according to the Office for National Statistics), the impact on our business has been considerable, particularly in the customer-facing parts such as our Contact Centres. So we are delighted to record that, despite these pressures, customer service standards – including our service delivery measures of timeliness, accuracy and customer satisfaction – have continued to meet the high levels we have targeted over the last few years.

We're also proud that in November 2008 we retained the Charter Mark – a public sector award which recognises our commitment to providing outstanding customer service. Our Contact Centres have also been successfully re-accredited by the Customer Contact Association; a prestigious accreditation that maintains their position as leading UK Contact Centres and ones that remain fully compliant with Sir David Varney's report to the Chancellor in 2006. At the Customer Contact Association (CCA) Convention the team received an award for utilising its CCA Certification.

As detailed in the 'Our partners' section (see pages 19 to 21), we are deeply grateful to the staff of Siemens and the Post Office® for helping us to achieve these service levels, which we maintained across all channels. For example, our website received record volumes of visits and transactions, and managed to remain in service at all times – an indication of the robustness of the technology, which we plan to build on this year as we increase the functionality and interactivity of the site.

Our customers continue to grow more confident in interacting with us electronically. We have seen online sales of over £3 billion and an increase in email traffic without a decline in service levels. This provides an excellent foundation on which to build as we diversify the number of ways in which our customers can deal with us.

Delivering fair rates

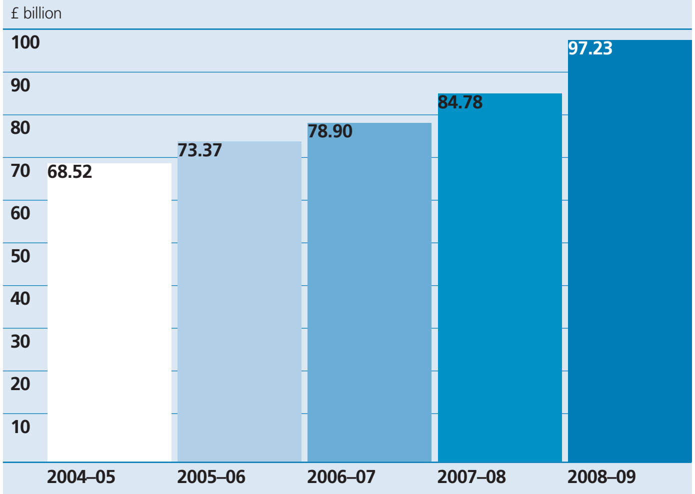
From the customer perspective, the challenge was not simply in maintaining service levels but also in delivering fair rates. Traditionally, the Bank of England base rate is a key factor we consider in pricing our variable rate products. As the base rate fell, we took action so that our customers would continue to receive an interest rate that – while reflecting overall market conditions – was fair to them.

Understanding and responding to customer needs

One of the key aspects of the **NS&I adding value** strategy during the last year was to improve our understanding of our customers. We already conduct a number of different surveys to assess satisfaction with services and to examine consumer saving habits at a national level. We also wanted to build our understanding particularly of how customers choose to invest with us – something that not only will enable us to improve our service, but also focus our investment on the channels that our customers most value.

We have continued our support of the Royal Horticultural Society's Grow Your Own campaign and sponsorships of Classic FM, the Classical BRIT Awards, BBC Proms in the Park, and the Science Museum. All five relationships help support our brand values, raise the profile of our direct channels and provide an efficient way to meet and engage with our customers. The volume of media coverage about NS&I remains high, particularly around our Quarterly Savings Survey which tracks Britain's savings habits.

Total amount invested by customers at the end of the year



Treating customers fairly

NS&I has always been committed to treating our customers fairly. So during 2008–09, we have continued our work to ensure we are closely aligned with the FSA's principles of Treating Customers Fairly. In addition to improvements to our internal assurance processes, we have made further changes to our marketing and communications material so that our messages are straightforward and easy to understand.

We continue to listen to our customers to help improve our products and levels of service, seeking feedback on how well information is explained. While overall levels of understanding are high, we continue to develop brochures, leaflets and other sources of customer information – such as call centre scripts – in line with feedback we receive.

Customer satisfaction

92% of customers who transacted with NS&I in 2008–09 gave us a seven out of 10 or better rating for customer service (with 10 representing excellent service); this maintained the high scores recorded in the last two years.

Customers who scored us seven out of 10 or better this year cited the following key reasons for their choice: no problems, 35%; efficient staff and quick resolution of issues, 29%; knowledgeable and helpful staff, 15%. 24% of those who rated us below seven said they had not had many dealings with NS&I.

83% of respondents who had a 'main other financial provider' (other than NS&I) gave that other provider a seven out of 10 or better rating for customer service, which compares favourably to our 92%.

Customer feedback influences every aspect of our business – helping us make decisions about the kind of service that we offer, so that it not only meets but exceeds our customers' expectations. We invest a lot of time in understanding both who our customers are and what they want from us. Based on this, our aim is that NS&I:

- **is easy to do business with:**
  we are easy to contact and offer customers choice and flexibility in how they do business with us
- **makes it personal:**
  we interact directly with our customers and actively seek their feedback
- **always delivers on our promises:**
  we provide our customers with clear, realistic and accurate information on which they can make decisions and we deliver on commitments made to them

You and your money

Last year saw the full launch of You and your money, our website dedicated to increasing financial capability – which the FSA defines as 'being able to manage money; keeping track of your finances; planning ahead; choosing financial products; and staying informed about financial matters'.* The site provides a range of practical, impartial financial information based around particular life events – from children and money to preparing for retirement – helping consumers understand their options and then identify what might be best for them.

Importantly, we not only concentrate on financial issues concerning major life events, but also on the challenge of dealing with complete changes in circumstances. In this context, we recently also added a section on dealing with bereavement. This was created in response to the high level of contact we receive from customers who have recently suffered a bereavement and are struggling to deal with different aspects of it – from financial issues to practical or emotional ones. The content draws on specialist advice from the likes of bereavement counsellors and lawyers, content from other specialists as well as our own insights based on the experiences and concerns of our own customers.

youandyourmoney.info

* Source: www.fsa.gov.uk/financial_capability

My Lost Account

One of the most popular and satisfying achievements of the year was our successful response to an increase in requests from **www.mylostaccount.org.uk**. The website, launched in January 2008, is a joint initiative between NS&I, the British Bankers' Association (BBA) and the Building Societies Association (BSA) and aims to help customers track down accounts and savings they have lost touch with. It brings together the three existing schemes from NS&I, the BBA and BSA into a one-stop-shop interface where information only needs to be entered once.

The award-winning initiative has now seen over a quarter of a million trace requests and reunited customers with millions of pounds of savings. In the financial year 2008–09 alone, NS&I helped reconnect customers to more than £100 million – a massive increase compared to the previous six years where NS&I's Tracing Service had found some £55 million since 2001.

As well as accessing the service online, customers can write to NS&I or contact us by phone to request a tracing form.

Our products

Simplification and modernisation of our product range is a vital part of our five-year strategy. This year, we continued to make progress to update the range and ensure customers understand the changes we've made.

Products to meet customer needs

Our product range is designed to offer a range of options to meet customers' different savings needs. This has proved particularly valuable this year, when customer needs have changed frequently.

Changing our range

This year we announced our intention to close our Cash ISA to new customers from April 2009 and to withdraw the facility for existing customers to deposit into their Cash ISA at Post Office® branches or by Bank Giro credit. Existing account holders can continue to save with their account and can manage it by dealing directly with NS&I – by phone, post, through electronic transfer or by standing order.

This change was made as part of our process to simplify our product range. We already offer a similar product, Direct ISA, which customers manage online or by phone. Since its launch in 2006, this has seen substantial growth in demand and now has some 400,000 customers – far more than the Cash ISA. Therefore we decided to focus on the Direct product, and have adapted it so it is more accessible to consumers. For example, we have reduced the minimum deposit and transaction amounts.

Some two months before we introduced changes to our Cash ISA we had already contacted all the affected customers individually, informing them of what changes we planned and explaining their options.

As market conditions have changed significantly throughout the year, and the base rate has dropped, we have had to review our savings rates – particularly on variable rate savings – on a regular basis.

In the case of Premium Bonds, we have had to reduce the prize fund rate as the base rate has fallen. In order to maximise the frequency of prizes – something our customers told us was particularly important to them – we replaced one of the two monthly £1 million prizes with a wider mix of prizes and created a new £25 prize category.

In 2007–08 we repositioned Fixed Rate Savings Bonds as Guaranteed Income Bonds and Guaranteed Growth Bonds, and closed Capital Bonds and Pensioners' Guaranteed Income Bonds. One of the key aspects throughout this year has been supporting these customers as their savings matured.

Products at a glance
Children's Bonus Bonds Tax-free investment for your children's future
Direct ISA Tax-free savings by phone and online
Easy Access Savings Account Tiered interest rates, cash card and telephone service
Fixed Interest Savings Certificates Guaranteed returns, tax-free
Guaranteed Equity Bond Growth potential linked to the FTSE 100 Index, with no risk to your capital
Guaranteed Growth Bonds Fixed rate bonds with a choice of terms
Guaranteed Income Bonds Fixed rate bonds that give monthly income
Income Bonds Regular monthly income at variable rates
Inflation-beating Savings (Also known as Index-linked Savings Certificates) Returns guaranteed to beat inflation, as measured by the Retail Prices Index (RPI), when held for at least a year
Investment Account Passbook savings with easy access to your money
Premium Bonds Monthly prize draw with a £1 million jackpot
Cash ISA Closed to new customers from 6 April 2009

Funds invested by product type

	Invested at 31 March 2009 £ million	Invested at 31 March 2008 £ million
Premium Bonds	40,793	36,923
Fixed rate bonds	30,171	23,199
Variable rate products	23,372	20,193
Products no longer on sale	2,895	4,465
Total	**97,231**	**84,780**

Is this product right for you?

As part of our commitment to helping customers find the right product for their circumstances, we have completed the programme of updating all our product information to include a significant piece of guidance.

On the inside cover of all leaflets, we indicate exactly what savings needs the product might meet and what sort of saver might and might not want to consider it.

Written in the same straightforward language as the rest of our product information, this section is designed to help customers decide which NS&I product best meets their requirements.

Are Premium Bonds right for you?

They may be right if you:

- ✓ want the chance every month to win £1 million and other tax-free prizes
- ✓ want to make the most of tax-free investment opportunities
- ✓ have £100 or more to invest

They may not be right if you:

- ✗ want a regular income from your savings
- ✗ are looking for guaranteed returns
- ✗ are concerned about the effects of inflation on the value of your investment

NS&I's award-winning Contact Centres handled over 3.4 million customer calls and emails in 2008–09

Our partners

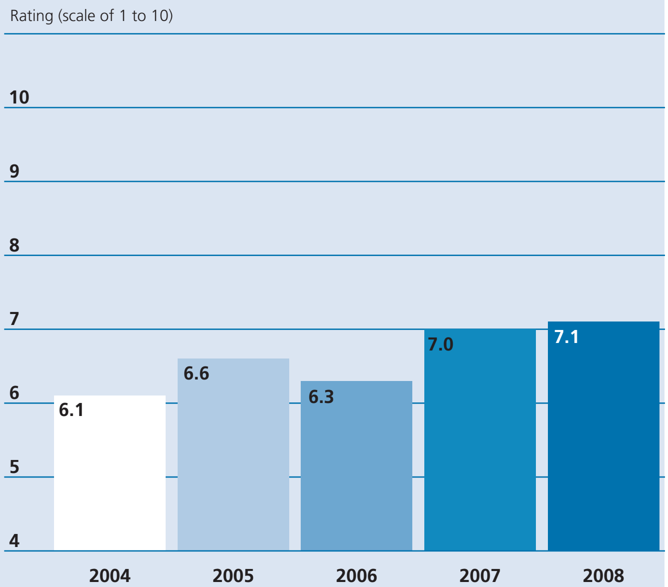
In the face of unprecedented demand during 2008–09, our ability to deliver the consistently high service levels we achieved was dependent on the work of our partners.

Stronger than ever

Our partnership with Siemens has now been operating for 10 years, and we are delighted to report that the partnership score is at its highest level ever.* This survey (below) also noted there is a 'closer working relationship between NS&I and Siemens than often would be seen in a single organisation'.

Partnership scores

This graph shows partner scores year on year. The partnership survey consists of the same 22 questions which have been asked each year to members of both organisations.



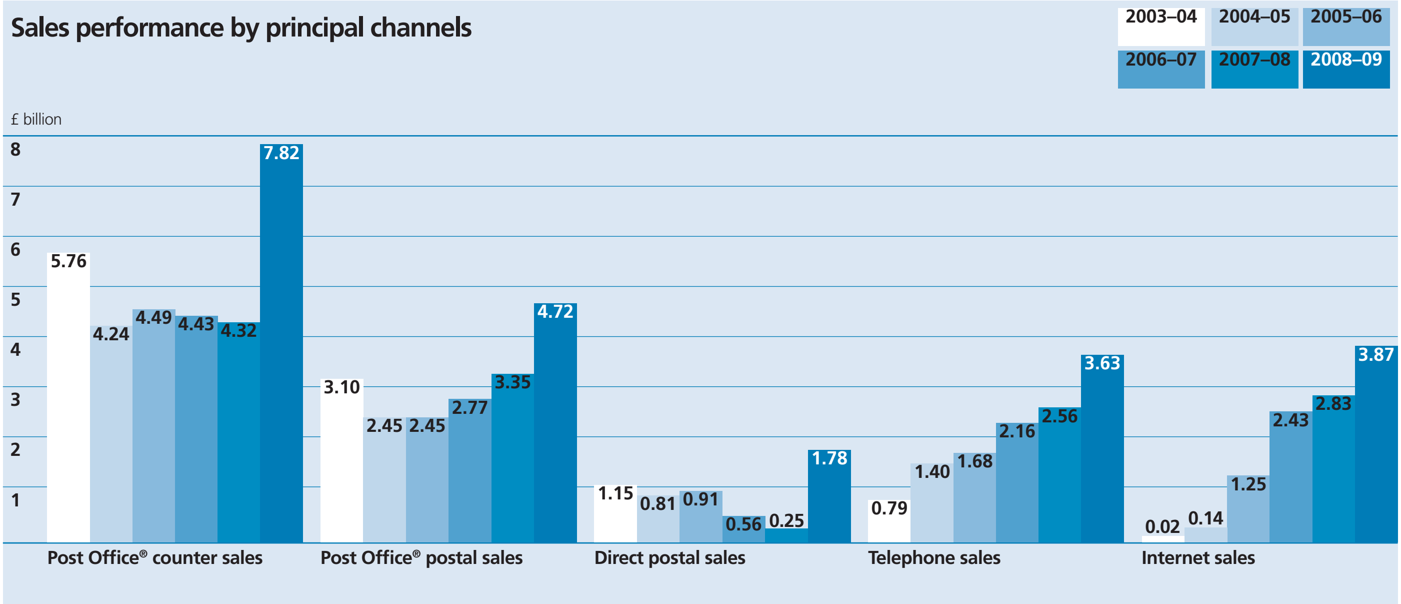
That performance is even more impressive when set against the backdrop of unprecedented volumes of traffic in our Contact Centres and operational centres. Our UK-based customer Contact Centres were also supported by a 'back office' team in Chennai, India. At the height of the 'flight to safety', sales increased significantly, yet all service delivery targets – in terms of timeliness, accuracy and customer satisfaction – were still met.

Throughout this period we were still able to continue to take forward some strategic initiatives to strengthen the back office. A new workflow system has been introduced to accelerate processing and ensure accuracy and consistency in dealing with all customer records. We are also beginning to benefit from increased channel integration: we are well advanced with a project enabling call centre agents to identify and verify customers more quickly, and to have a better understanding of transaction history – enabling further service improvements.

These initiatives are evidence of a partnership that doesn't just focus on 'business as usual', but draws on a profound understanding of each other's operations and culture to continually seek improvements. Looking back over the 10 years we have worked together, there are tangible achievements in all areas.

- On a 'like for like' basis, stripping out the impact of growth and inflation, core operations cost has been reduced by around 55%.
- The operational services delivered by the partnership have become much more efficient. In 1999 the operations teams delivered the administration to support £14 million of customer investments per person. Today that figure has risen to an average of £55 million per person. In addition to lowering our costs to meet government savings targets, we have been able to reinvest in modernising our systems, improving service and developing products for our customers, as well as reducing the overall cost of running NS&I.
- The average customer request is now fulfilled in 3 days – down from 11 days when the partnership started.

* Source: Measured by Service Matters – an independent third party specialising in this area



Meeting demand in exceptional circumstances

When the 'flight to safety' began in mid-September 2008, there was an immediate surge in calls. Working together, NS&I and Siemens quickly put into effect the contingency plan we had developed following our experiences in autumn 2007. The rapid response team – drawn from NS&I and Siemens – took over decision-making. Shift patterns were changed and our 'virtual' UK-based call centre maximised the number of staff available to speak to customers.

There are many stories of exceptional commitment during this period – staff coming in from leave, working long hours and even heading straight into work from the airport the minute they landed back from holiday. This commitment to customers, to the NS&I brand and to their colleagues was vital not only in coping with the demand, but also in maintaining team spirit.

It is therefore immensely to the credit of all Siemens staff – call centre agents, the back office processing team and the partnership managers – that customer satisfaction remained so high during this period, and throughout the year.

Our distribution partners

The Post Office®

Investing in NS&I's products through the Post Office® proved a familiar option for savers who looked to invest with NS&I during the financial uncertainty last year. We are very grateful to the Post Office® and its staff in branches around the country, who helped these customers invest with us at a time when so many people were reviewing their finances.

Our two organisations continue to work closely together, and a sound governance structure oversees not only the contract between NS&I and the Post Office® but also how the overall relationship is working on a day-to-day basis. As the Post Office® continues to develop a range of Post Office-branded financial service offers, it is particularly important that clarity exists between the Post Office's® offer and ours. Much effort has been invested in ensuring that customers clearly understand and can differentiate between the respective offers, and we have worked closely with Post Office® colleagues to help their staff understand the benefits offered by NS&I products.

We fully support the Post Office's® ambitions to improve the customer experience, particularly in larger branches, and are fully engaged in their process to modernise offices across the network. We also recognise the important role that the Post Office® plays in the broader community, and have been a major supporter of the 'People's Post Office' Awards.

WHSmith

We have now completed the first full year of our partnership with WHSmith and are pleased to be able to offer this additional high street presence. Customer literature on three key products (Premium Bonds, Inflation-beating Savings and Income Bonds) is on display in over 400 high street stores and 155 travel stores.

It has increased our profile with our customers and we are working closely with WHSmith to discuss how best to further develop the partnership.

Intermediaries

While NS&I has no commercial relationship with Independent Financial Advisers (IFAs) we are fully aware that many NS&I customers seek and receive advice from this source. We therefore ensure that the IFA community is able to receive prompt and detailed information on NS&I product and price changes as they occur. NS&I also works closely with and supports key industry professional bodies (for example the Institute of Financial Planning and the Personal Finance Society) to ensure that the benefits offered by NS&I products are fully understood by their members.

Our people

Following the introduction of a new organisational structure in 2007–08, this year has been focused on delivery – supporting staff to maintain performance levels under pressure of high demand, while continuing the evolution of our performance management processes.

As documented throughout this report, our people have responded to the exceptional market conditions, while focusing on targets and rates and maintaining service levels across all channels. Elsewhere, we acknowledge the pivotal role played by our partners in enabling us to maintain high levels of customer service. But the contribution of our own staff also deserves recognition: they responded quickly and effectively to the constant changes of the second half of the year, meaning that every aspect of our business was able to cope with the challenges we faced. Underpinning all of this was the sense of team spirit within NS&I.

We have reviewed the results of our annual employee Pulse Survey in detail and have chosen to highlight here three areas where there has been a significant change against last year's scores.

This year, 58% of our staff stated that they believe they have the opportunity for personal development and growth (against 70% last year). In response to this, we are continuing to work with all staff to focus on their ongoing personal development.

We are continuing to develop our non-pay-based recognition framework in response to a decrease in the number of staff stating that they are satisfied with the recognition they receive for doing a good job (60% this year, 69% last year).

Engagement with our overall business goals has continued to be exceptionally high – particularly when compared with financial services industry benchmarks. We are particularly pleased that the number of staff stating that they understand how their work contributes to the success of their team has risen significantly (93% this year, 84% last year). Other key indicators from the Pulse Survey are shown opposite.

While clearly this reflects well on each individual, it also serves to underline the impact of our organisational restructuring. This clarified roles and responsibilities, enhancing internal accountability and knowledge-sharing. The benefits of that became clear during the 'flight to safety' as teams were confident in making decisions and taking action quickly. The same values are clear in the continued progress against the key projects which make up the **NS&I adding value** strategy.

Learning and development

To embed those values further in the organisation, we spent time defining the skills and behaviours that would help take the business forward. We refined our learning and development programme to focus on the leadership qualities required in the future and on embedding our brand behaviours – pace and confidence, delivered with a human touch – in the leadership team. We are working with all of our staff to enable them to better identify and work towards learning goals that reflect our overall business needs. However, in 2008–09 we did not make the progress we had planned because of the demands of the 'flight to safety'.

Our approach is deliberately broad, using the full spectrum of learning and development opportunities. For example, we have made it possible for employees to choose volunteering activities as part of their personal development plan as this is often an excellent route to build self-confidence, encourage decision-making and develop team-working skills.

Communication and teamwork

Throughout the period of high demand which followed the wider financial uncertainty last autumn, we remained committed to effective staff communications. This was vital to ensure that everyone in the organisation was kept aware of how the business was performing and how external events were affecting us. Staff could then use this knowledge effectively in their own roles.

Clearly, management has an integral part to play in this and we were delighted that our Pulse Survey recorded some 77% of staff agreeing strongly that they have confidence in senior managers. This compares very well to industry benchmarks, and is an indicator of how effective communication has been during the last, often challenging, year.

Supporting our wider team

As detailed elsewhere in this report, the staff of Siemens who work with us have made – and continue to make – an enormous contribution to our success. During the last year, we have examined ways to strengthen our partnership at the people level. As a result of this, we are developing plans to improve communication between NS&I and Siemens staff, in particular focusing on ensuring that the Siemens team are kept up to date with progress towards our **NS&I adding value** strategy.

Pulse Survey

This year's Pulse Survey results, under key survey headings, were as follows. Last year's scores are included in brackets for comparison.

My job
- 76% of respondents feel able to achieve a healthy work–life balance (82%)
- 90% understand how their work contributes to the success of the organisation (88%)
- 93% understand how their work contributes to the success of their team (84%)
- 76% feel their job makes good use of their skills and abilities (79%)

Communication and teamwork
- 87% of respondents are aware of the organisation's long-term goals (90%)
- 70% feel it is safe to speak up and challenge the way things are done at NS&I (74%)
- 72% feel that their immediate line manager communicates effectively with them (73%)

Reward, recognition and participation
- 60% of respondents are satisfied with the recognition they receive for doing a good job (69%)
- 57% are satisfied with their total benefits package (59%)

Career development
- 70% of respondents feel they are given a real opportunity to improve their skills in the organisation (77%)
- 58% believe they have the opportunity for personal development and growth (70%)

Customers
- 92% of respondents believe that NS&I is committed to serving its customers well (92%)
- 91% believe the company is committed to customer satisfaction (90%)

Senior management
- 77% of respondents have confidence in NS&I's senior management (75%)
- 76% believe that senior managers are sufficiently visible within the organisation (69%)
- 76% feel that senior management provides effective leadership (69%)

Equality
- 83% of respondents believe they are treated with fairness and respect in the organisation (91%)
- 85% feel that NS&I respects individual differences (eg cultures, working styles, backgrounds, ideas) (89%)

Brand values
- 98% of respondents understand NS&I's brand values (92%)

Overall perceptions
- 98% of respondents say they are happy to go the extra mile at work when required (97%)
- 89% would be happy to recommend NS&I's products and services (91%)
- 83% would recommend NS&I as a good place to work (88%)

Pulse Survey
The table above shows some of the key results from our latest Pulse Survey (2008). It is clear that long-term confidence in the organisation and its management remains high and overall job satisfaction is good. Responses to questions testing levels of employee engagement are particularly high.

This year the Pulse Survey was conducted online for the first time. Previously the survey has been by phone. This led to a drop in response rates (92% to 80%) but this remains a high figure compared to other organisations in both government and financial services.

Our board

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The NS&I board consists of the Chief Executive, six full-time Executive Directors, four Non-executive Directors (appointed by the EST) and two representatives from HM Treasury – bringing together extensive senior level experience across the financial sector.

The board's role is technically advisory to the Chief Executive, who as Accounting Officer has overall delegated responsibility and accountability for NS&I's performance. However, to maintain good governance, board members act as if they have full corporate legal responsibilities.

Changes to our board

During 2008–09, we welcomed Gillian McGrattan to the role of People and Environment Director. Mike Glycopantis left his role as Debt and Reserves Management Team Leader at HM Treasury and was replaced on our board from 1 April 2009 by Sarah Tebbutt, who returns from maternity leave. Paul Spencer's two three-year terms as a Non-executive come to an end in August 2009. He will be succeeded as Chairman by Martin Gray, who has been a Non-executive Director since 2005 and is also chair of the Audit Committee.

1 Jane Platt, Chief Executive

Jane was appointed Chief Executive of NS&I in September 2006. Trained as an investment manager with Mercury Asset Management, she has held senior roles in institutional and retail financial services including President, Services for Asset Managers at Reuters and Chairman and Chief Executive of Barclays Stockbrokers and Barclays Bank Trust Company. She is currently Chairman of the UK ACE Association which brings together the Chief Executives of government agencies and non-departmental public bodies.

2 Paul Spencer, Non-executive Director and Chairman of the board

Paul joined the NS&I board as Non-executive Director in September 2003 before becoming Chairman in January 2005. He is currently Non-executive Director at WPP Group plc, TR Property Investment Trust plc, and Nipponkoa Insurance (Europe) Ltd; and Non-executive Chairman of the State Street Managed Pension Funds Ltd and Sovereign Reversions plc. He is Chairman of the Rolls-Royce Group Pension Fund and an Independent Trustee of the BAT Group Pension Fund. He was formerly a Non-executive Director of Resolution plc and was Chief Executive of Royal and Sun Alliance (UK) between 1998 and 2002.

3 Martin Gray, Non-executive Director

Martin was appointed in January 2005. He is also Non-executive Chairman of The Evolution Group plc. He was Chief Executive of NatWest UK between 1992 and 1999, and has held a number of board-level appointments within the financial services industry including NatWest Bank Group, MasterCard Inc Global board, and Visa European board.

4 Michael Medlicott, Non-executive Director

Michael was appointed in September 2003. He has 20 years' experience in the public and private sectors at board level. Michael is currently Chairman of Myriad Healthcare Ltd and of ING REIM Ltd Investor Committee Infrastructure Fund, and Non-executive Director for Manchester Airport Group plc and OCS Group Ltd. Until 2002, Michael was Transaction Director in the Principal Finance Group at Nomura International plc.

5 Simon Ricketts, Non-executive Director

Simon was appointed in July 2007. He is the Global Transformation Director at Logica plc. From 2003 to the end of 2007 he was the Chief Information Officer for Scottish and Newcastle plc. He is also the senior Non-executive Director of the Strategic Thought Group plc. Prior to this he spent 13 years with Cadbury Schweppes plc in various roles, including Operations Director of the Trebor Bassett Group, Managing Director of ITNET Ltd and Group Chief Information Officer. Prior to this, he had a 10-year career at British Steel, holding roles in operations research, production and IT.

6 Mike Chilton, Director, Finance and Risk

Mike joined NS&I as Finance Director in January 2007. Trained as a chartered accountant, Mike has over 20 years' commercial experience – most recently at Standard Chartered plc where he held a number of senior finance and risk positions. At NS&I, Mike is responsible for finance, risk and compliance issues.

7 Peter Cornish, Director, Customer Offer
Peter joined NS&I in December 1998 to manage and develop the savings accounts and tax-free products, having held a number of roles at Lloyds TSB. He subsequently took responsibility for customer management before becoming acting Marketing Director in 2006. He was appointed as Director of Customer Offer in April 2007 and is responsible for developing and managing our products and the customer offer.

8 Julian Hynd, Director, Change and Strategy Support
Julian joined NS&I in October 2002 to manage and develop strategic management. He subsequently took responsibility for Corporate Development and Delivery before being appointed Change and Strategy Support Director in April 2007. Julian is responsible for the development and delivery of the business strategy and our change agenda. Previously Julian held senior roles in the engineering, retail and financial services sectors, latterly at Siemens South Africa.

9 Gillian McGrattan, Director, People and Environment
Gillian is the newest of our executive team, joining NS&I in September 2008 after almost a decade as a National Director of Grant Thornton UK LLP where she was latterly responsible for all Human Resource Development activities within the firm. She previously held senior roles in HR and management development at NatWest. Before moving into HR, Gillian worked as an investment analyst and as an economist for the Confederation of British Industry and leading banks.

10 Steve Owen, Director, Channel Delivery and Management
Steve is responsible for the design and delivery of the outsourcing business model and for managing NS&I's key partnership with Siemens. Steve joined NS&I in 1993 as Deputy Head of Procurement. In 1997 he became the NS&I Project Manager responsible for delivery of the Public Private Partnership project. He was appointed Director in February 2002.

11 John Prout, Director, Customer Sales and Retention
John took up the role of Sales Director at NS&I in August 2003. He is responsible for Net Financing and delivering the customer offer message. He has HR and sales senior management experience in the financial services and manufacturing sectors. Previous companies include Rover Group and the Parker Hannifin Corporation, and more recently, Prudential plc where he held a number of senior positions.

12 Sam Beckett, Director, Fiscal Policy, HM Treasury
Sam is an HM Treasury representative on the NS&I board and a Non-executive member of HM Treasury's Debt Management Office board. She became Director of Fiscal Policy in January 2008 and is responsible for the fiscal policy framework. She is also responsible for fiscal policy advice, analysis and forecasting for public sector finances, and for government debt, cash and reserves management. Prior to this she was Director of Policy and Planning and Director of Operations, and has three years' experience as an HM Treasury board member, plus 20 years' experience in macro and micro-economic policy making.

13 Sarah Tebbutt, Debt and Reserves Management Team, HM Treasury
Sarah has been Head of the Debt and Reserves Management Team at HM Treasury since 2005 and rejoined the NS&I board in 2009–10, when she replaced Mike Glycopantis as HM Treasury representative. She has worked in the Treasury on trade, European and expenditure policy issues since 1992. She has a Masters in Business Administration.

14 Mike Glycopantis, Debt and Reserves Management Team, HM Treasury (not pictured)
Mike was Head of the Debt and Reserves Management Team at HM Treasury, and joined the NS&I board as HM Treasury representative in February 2008. He joined HM Treasury in 1994 after spending four years working for KPMG as a chartered accountant. He has worked on privatisation and outsourcing, and has led teams working on tax and European policy, Customs and Excise, the European Commission and the former Department for Education.

Sustainable development

2008–09 was the second year of measurement against our Sustainable Development Action Plan (SDAP) and we have made good progress against the actions we set ourselves and wider government targets.

Sustainability has long been an integral part of NS&I's approach. Indeed, many of our core business activities already promote sustainability in terms of minimising environmental impact and promoting good governance and sound business practice.

These kinds of initiatives are vital because, as our SDAP underlines, there are certain specific limitations regarding what we as an organisation can achieve in terms of sustainability. We are a small organisation in terms of numbers of people and operate primarily from a single location. This means that many standard approaches to improved environmental performance are hard for us to measure and scope for action can be limited.

However, as the table on page 27 shows, we are making tangible progress in the key action areas in the SDAP. Most importantly, we now have clear baseline data for almost all of our sustainability measures, enabling us to better monitor our performance against cross-government targets in the years ahead. The core targets we have focused on are the Sustainable Operations on the Government Estate (SOGE) targets set by the Office of Government Commerce (OGC). We also retained ISO14001 accreditation, first achieved in 2007–08.

NS&I is also working with Siemens in managing the estate – the NS&I sites leased by Siemens in Blackpool, Durham and Glasgow – to reduce energy usage and environmental impact.

This includes constructing an extension to the Moorland building at our Blackpool site that will meet the Building Research Establishment Environmental Assessment Method (BREEAM) 'Excellent' standard. As part of the project, the remainder of the building is also being improved, and overall this will raise the BREEAM rating of the whole Moorland building from 'Pass' (as it was previously) to 'Very Good'. When market conditions allow, our intention is to dispose of the older buildings on the same site.

Assessment and accountabilities

Our performance against our SDAP has been subject to independent testing and assessment.

Our People and Environment Director is responsible for overseeing the SDAP. Our Chief Executive has overall accountability for achieving our targets.

Performance against SOGE targets

These targets are set by the OGC as effective measures of sustainability within government operations

Climate change and energy	Next target	NS&I performance to date
Reduce carbon emissions	By 2010, reduce emissions compared to 1999–2000 by 12.5%	**Unable to assess fully.** Because we are a tenant in a building where our energy bills are based on a set proportion of the total bill, we cannot provide a full assessment of our carbon emissions. However, we have taken a number of actions to reduce our office emissions, including: • introducing sensor lighting in shared areas (corridor, kitchens, etc) and replacing lightbulbs with energy saving ones • upgrading PCs so that they turn off, rather than go to standby We have also taken steps to measure and reduce emissions from travel – as set in our SDAP below.
Consumption and production		
Increase proportion of wastes arising recycled	By 2010, increase proportion recycled to 40%	**Achieved** In 2008–09, we recycled 75% of waste – not only ahead of our target for 2010 but also of the target for 2020

Performance against our Sustainable Development Action Plan

Objective	Action	Progress
Improving data and monitoring	Data collection for all modes of travel to establish baseline	Completed – new systems put in place to capture travel data
	Calculate carbon footprint of organisation	On track – work under way to define key suppliers and partners
Reducing carbon emissions	Investigate and validate appropriate offset options	Delayed – confirming accreditation of potential schemes with HM Treasury
Supporting our community	Providing independent financial information for the public – You and your money website	Completed – site successfully launched
	Choose a sustainable development project for staff volunteering	Completed – we have a corporate charity where staff can volunteer support and we actively promote other opportunities for staff to consider
Involving people	Communicate sustainable development initiatives throughout NS&I	Ongoing – using a variety of channels to promote sustainable development initiatives, including the intranet, briefings and our staff newsletter
	Introduce environmental management systems at sites	Completed – as part of ISO14001 assessment of NS&I's head office and Siemens conducting environmental health checks on each of the UK operational sites
	Ensure that key external partners and suppliers are aware of and support NS&I's environmental procedures and obligations	Completed – a key clause has been added to all new contracts
	Include 'sustainable development' on project checklist for all NS&I projects	Ongoing – new project process is under development and includes a consideration of sustainable issues in both the project brief and review stages

The table above shows our performance against specific actions in our 2008–09 SDAP. It does not reflect actions already complete from previous years, such as changes introduced to our direct marketing policy, improving recycling facilities at our offices and developing staff awareness of payroll giving.

How we operate

As an integral part of the Government's debt management arrangements, NS&I is responsible for providing cost-effective financing to Government by issuing and selling retail savings and investment products to the public.

NS&I is one of the largest savings organisations in the UK, with just under 27 million customers. In 2008–09, our annual flows were in excess of £35 billion. When customers invest in our products they are lending to the Government. In return the Government pays interest, stock market-linked returns or prizes for Premium Bonds.

NS&I is a government department and an Executive Agency of the Chancellor of the Exchequer.
The Chancellor of the Exchequer is responsible for:

- determining the policy and financial framework within which NS&I operates
- approving interest rates and the terms and conditions of NS&I products
- appointing the Chief Executive and Non-executive Directors to the NS&I board
- setting and monitoring key performance targets for NS&I

The Chancellor delegates these responsibilities to Treasury Ministers.

Departmental Report

The majority of the data and information previously published in NS&I's Departmental Report was also shown in our Annual Report. Both were previously published as separate documents.

This year we have combined the two documents and where data and/or information in the Departmental Report was not previously presented in the Annual Report it has been included in this section.

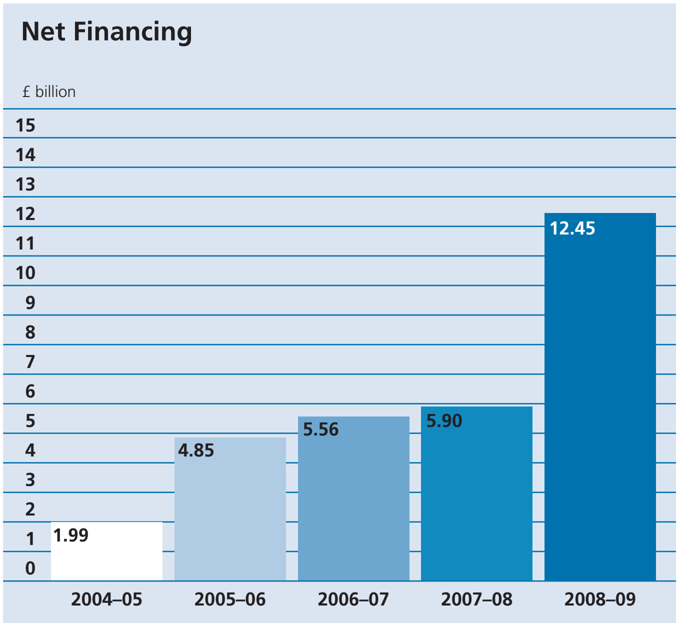
How we are measured

Our effectiveness in raising funds for the Government can be measured in a number of ways, including:

- Net Financing
- Value Add
- efficiency

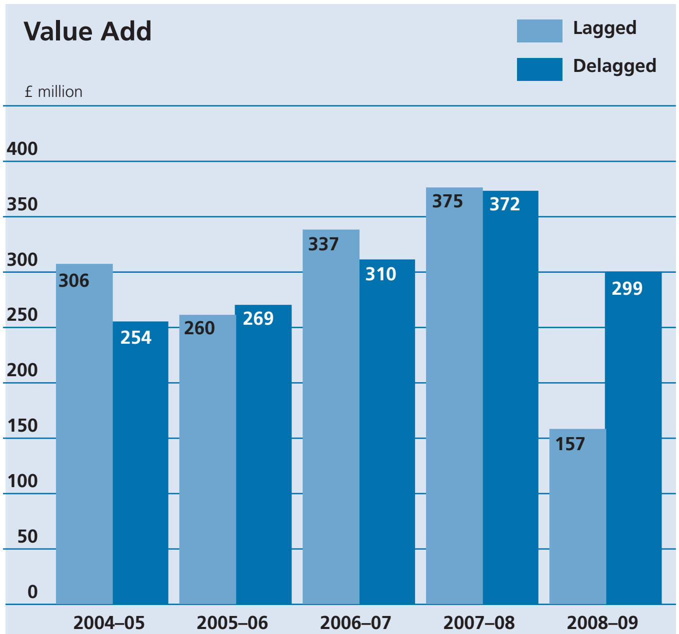
Net Financing

Net Financing is the measure of the net change of NS&I funds, meaning total inflows from deposits, retention of maturing monies and capitalised and accrued interest, less the total outflows from withdrawals and interest or Premium Bond prize draw payments. A positive Net Financing figure represents a positive contribution to government financing.



Value Add
Value Add is a relative measure of efficiency, which compares NS&I's performance with other methods the Government uses to raise funds – such as selling gilts. It compares the total costs of raising funds through NS&I, including our operating costs and tax foregone, with the costs of raising funds in the wholesale market. The difference – ie the saving – is our Value Add.

Our target for 2008–09 was to achieve at least £275 million in Value Add. However, unprecedented market conditions have had a significant effect on this measure during the last year. Financial market conditions have been unusually volatile and the Bank of England base rate has fallen to exceptionally low levels. As a result, the comparators on which Value Add is based have become temporarily invalid as a current measure of our performance and HM Treasury and NS&I agreed to suspend this measure for 2008–09 and that no Value Add target would be set for 2009–10. Our objectives are agreed each year with HM Treasury and the reintroduction of Value Add will be considered at least annually as part of this process.



*2008–09 figures up to end of Q3 when the target was suspended
See Glossary (p.105) for an explanation of lagged and delagged Value Add.

Efficiency
Another measure of our efficiency is our administrative ratio: comparing our administrative costs with the average funds invested by our customers. It is calculated in a straightforward way, by dividing the total annual cost of running NS&I by the average amount of funds we hold in that year.

This has been one of our targets for some years and our performance against it has been highly creditable, with the ratio currently at 20 basis points against a 2008–09 target of less than 23.

As the total amount of funds invested with NS&I increases, this will require greater administration costs. Our challenge therefore is to minimise increases to administration costs while continuing to invest in the business and maintain service levels.

How we set interest rates
As with any commercial operation, a reasonable return must be provided to both customers and owners. For NS&I, the 'owner' is the Government. Prior to the temporary suspension of the Value Add target, we effectively calibrated our interest rates against two benchmarks:
- the Bank of England base rate for our variable rate products, and
- the yield on equivalent gilts for our fixed rate products

Since the Value Add target was temporarily suspended, we have sought to set our rates by reference to the three factors we seek to balance:
- the interests of our customers
- delivering on our core remit of raising cost-effective finance for government, and
- to support financial stability by maintaining an appropriate competitive position

When we set our interest rates any changes are communicated to meet the requirements of the Banking Code.

What we spend our money on

£000

Objective	2009–10 (Plans)	2008–09 Actual	2007–08 Actual	2006–07 Actual	2005–06 Actual	2004–05 Actual
Gross administration costs[(1)]	188,000	189,817	159,232	173,692	180,415	170,442
Operating income (rent received)	(6,096)	(5,748)	(5,625)	(5,347)	(5,212)	(4,678)
Net resource outturn	181,904	184,069	153,607	168,615	175,203	165,764
Net cash requirements, including:	177,000	181,395	155,224	164,456	170,270	163,843
– PPP contract costs (Siemens)	120,550	120,662	95,914	101,080	107,628	99,428
– selling agents (primarily Post Office®)	27,170	28,828	27,469	32,242	29,280	33,330

(1) 2009–10 plans includes end-year flexibility to be approved by Parliament in 2009–10.

NS&I's budget is provided by Parliament and is used to deliver the products and customer service discussed throughout this report. Our operating costs include the payments made to Siemens, our delivery partner, under a Public Private Partnership (PPP) contract and the payments made to our distribution partners.

The increase in PPP contract costs in the last year reflects the overall volumes of work performed by Siemens due to the 'flight to safety' and increased investment in products and services. The basic payment for services (the unitary fee) originally contracted reduces over the life of the partnership as a result of the gains from capital investment and operational efficiency brought about by the agreement. Siemens also receives variable payments based on transactions, new product and service channel developments, and its performance.

Full details of our finances and expenditure are in the next section of this report, covering both:
- Resource Accounts, which show the costs of running NS&I in full, and
- Product Accounts, which show customer transactions and balances.

Meeting FSA requirements

NS&I is committed to adhering to the principles and standards of the Banking Code. The 2005 Landscape Review of NS&I by HM Treasury determined that it was not appropriate for NS&I to be subject to FSA regulation because it is governed by specific legislation that regulates the way in which its products are managed and because all strategic decisions require Ministerial consent. The FSA formally stated that: '… it is difficult to see how FSA regulation would (materially) enhance consumer protection'. However, HM Treasury noted that it expects NS&I to comply fully with FSA requirements where applicable and that NS&I should extend compliance with FSA requirements on a voluntary basis.

As NS&I holds no capital, has no lending or dealing activities and offers primarily simple deposit-based products, many areas of the FSA regulatory regime are not directly relevant. The relevant FSA requirements have been identified and implementation continues on enhanced compliance and risk strategies to deliver these. Progress against the strategies is tracked monthly and is discussed every six months with the FSA.

Some of the ways in which NS&I has enhanced the level of compliance with FSA and other regulations in 2008–09 include:

- continuing to implement a risk-based approach to anti-money laundering in line with the Money Laundering Regulations 2007
- embedding Treating Customers Fairly within our culture:
  - conducting regular reviews with every area of the business
  - implementing an electronic workflow approval process for any financial promotions issued to make sure that these are fair, clear and not misleading
  - enhancing the complaints-handling processes
- refining data protection and retention rules to be built into new systems
- conducting a comprehensive audit of our compliance arrangements with the Post Office®
- making further enhancements to our overall risk framework, including key policies and related assurance
- refining and reviewing the effectiveness of our governance committees to ensure that they are working as required
- providing ongoing training to our staff on key compliance issues
- continuing to embed compliance more deeply into our delivery partner, Siemens.

How we manage risk

We have well-established governance structures, including a risk management framework and associated governance committees. Our governance structures are based on both the Code of Good Practice for Corporate Governance for Central Government Departments and financial services industry standards.

The Chief Executive, as Accounting Officer, has overall responsibility for risk and is advised by the board, the Audit Committee and the executive management team. The Audit Committee meets quarterly and looks at a range of risk-related issues. It formally reviews all key risks at least annually.

The principal risks and uncertainties facing NS&I which could cause our financial results or operational delivery to materially differ from expected results are set out below, along with a summary of how we managed these risks in 2008–09.

Net Financing results

Our ability to remain within the agreed Net Financing remit depends on a number of factors, including wider market conditions. This includes any potential impact of a weakening deposit market or competition for retail deposits which may distort usual pricing patterns, market shocks that may impact on consumer confidence or material changes to (and awareness of) depositor insurance arrangements. In 2008–09, we experienced a large unsolicited inflow as a result of the 'flight to safety' following the financial turmoil post-September 2008. This was then reflected in HM Treasury agreeing to a revised 2008–09 Net Financing remit in the November 2008 Pre-Budget Report.

Value Add targets

We measure Value Add on a lagged basis, so the swift unexpected fall in base rates has had a material effect on planned results. As explained on page 29, the interest rate comparators used for Value Add, namely base rates (for variable rate products) and gilt rates (for fixed rate products), do not operate effectively in a very low interest rate environment and were not designed for the current unusual market conditions. Therefore, HM Treasury and NS&I agreed at the end of quarter three that this service delivery measure should be temporarily suspended.

Availability of funding

In order to modernise our business through the **NS&I adding value** strategy, we require access to additional funding from end-year flexibility (EYF) and access to modernisation funds (as agreed in NS&I's 2007 Comprehensive Spending Review settlement) above the agreed level of NS&I's departmental expenditure limit (DEL). The 'flight to safety' in 2008–09 has led to an increase in our operational costs. HM Treasury therefore approved access to EYF to fund these additional costs. Access to modernisation funds meanwhile was approved to support the modernisation of the business, including the implementation of the IT strategy and modernisation of the Blackpool site.

Reliance on outsourced partners

NS&I's business model relies on Siemens for operational delivery and on the Post Office® as a sales channel for over half of its sales. In order to manage the risks associated with these partners, we have well-developed governance and relationship structures, coupled with formal contract arrangements and targets, so that issues are dealt with promptly and the partnerships remain aligned.

Delivery of the change programme to time, cost and planned benefits

As part of the **NS&I adding value** strategy, we have embarked on a major upgrade to modernise our infrastructure. To manage the risks associated with this, we have the requisite programme and project management disciplines in place, including enhanced joint working with Siemens and project / programme tracking processes over the project lifecycle.

Brand health

As we did not want to encourage additional funding during the 'flight to safety', there was very limited brand promotion and related advertising of a non-discretionary nature between September 2008 and February 2009. This significant reduction in marketing support led to a marked reduction in the planned percentage of customers moving towards direct channels such as the telephone and the internet. A short online, press and TV campaign started in March 2009 to encourage greater direct channel usage, which is important for our cost reduction programme as well as for improving the service and choices offered to customers.

Operational risks in the normal course of business

In any large organisation with many systems, processes, partners, suppliers and people, there is a risk that operational losses can occur. Sources of such risks include system reliability, IT security, failure of key partners or suppliers to deliver, change management, human error, fraud or failure to comply with legislation or regulations. The key processes used to manage these risks are highlighted in the statement on internal control in the Resource and Product Accounts.

The Landscape Review

The Landscape Review takes place every five years and establishes the basic framework for NS&I's development as an organisation. The most recent Landscape Review was in 2005. In 2008–09 we continued to work with HM Revenue and Customs towards fulfilling the one outstanding recommendation made in the review, namely that we should develop a business case to evaluate the adoption of the Tax Deduction Scheme for Interest.

Table 1: NS&I public spending

£000

	Outturn 2003–04	Outturn 2004–05	Outturn 2005–06	Outturn 2006–07	Outturn 2007–08	Outturn 2008–09	2009–10 Projected	2010–11 Projected
Resource departmental expenditure limit (DEL)								
Reducing the costs to the taxpayer of government borrowing now and in the future	172,081	165,794	175,202	168,615	153,607	184,069	162,101	158,154
Total resource budget DEL	172,081	165,794	175,202	168,615	153,607	184,069	162,101	158,154
of which: near-cash	168,287	161,541	171,983	164,456	157,670	180,030	157,606	153,769
Total resource budget	172,081	165,794	175,202	168,615	153,607	184,069	162,101	158,154
of which: depreciation and amortisation	2,693	3,807	2,666	2,703	2,872	3,002	3,015	2,983
Capital DEL								
Reducing the costs to the taxpayer of government borrowing now and in the future	1,129	137	237	68	45	926	3,176	464
Total capital budget DEL	1,129	137	237	68	45	926	3,176	464
Total capital budget	1,122	139	238	68	45	926	3,176	464
Total departmental spending [1]								
National Savings and Investments	170,517	162,124	172,773	165,980	150,780	181,993	162,262	155,635
Total departmental spending [1]	170,517	162,124	172,773	165,980	150,780	181,993	162,262	155,635

[1] Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total annually managed expenditure (AME) is the sum of resource budget AME and capital budget AME less depreciation in AME.

Table 2: NS&I resource budget

£000

	Outturn 2003–04	Outturn 2004–05	Outturn 2005–06	Outturn 2006–07	Outturn 2007–08	Outturn 2008–09	2009–10 Projected	2010–11 Projected
Resource DEL								
Reducing the costs to the taxpayer of government borrowing now and in the future	172,081	165,794	175,202	168,615	153,607	184,069	162,101	158,154
of which: National Savings and Investments	172,081	165,794	175,202	168,615	153,607	184,069	162,101	158,154
Total resource budget DEL	172,081	165,794	175,202	168,615	153,607	184,069	162,101	158,154
of which:								
Near-cash	168,287	161,541	171,983	164,456	150,006	180,030	157,606	153,769
of which: [1]								
Pay (permanent staff)	6,155	6,711	7,497	7,692	7,993	8,922		
Procurement	162,132	154,830	164,486	156,764	142,013	171,108		
Current grants and subsidies to the private sector and abroad	–	–	–	–	–	–	–	–
Current grants to local authorities	–	–	–	–	–	–	–	–
Depreciation and amortisation	2,693	3,807	2,666	2,703	2,872	3,002	3,015	2,983
Total resource budget	172,081	165,794	175,202	168,615	153,607	184,069	162,101	158,154

[1] The breakdown of near-cash in Resource DEL by economic category may exceed the total near-cash Resource DEL reported above because of other income and receipts that score in near-cash Resource DEL but are not included as pay, procurement, or current grants and subsidies to the private sector, abroad and local authorities.

Table 3: NS&I capital budget

£000

	Outturn 2003–04	Outturn 2004–05	Outturn 2005–06	Outturn 2006–07	Outturn 2007–08	Outturn 2008–09	2009–10 Projected	2010–11 Projected
Reducing the costs to the taxpayer of government borrowing now and in the future								
Capital DEL	1,129	137	237	68	45	926	3,176	464
of which: National Savings and Investments	1,129	137	237	68	45	926	3,176	464
Total capital budget DEL	1,129	137	237	68	45	926	3,176	464
Total capital budget	1,129	137	237	68	45	926	3,176	464

Table 4: NS&I capital employed

£000

	Outturn 2003–04	Outturn 2004–05	Outturn 2005–06	Outturn 2006–07	Outturn 2007–08	Outturn 2008–09	2009–10 Projected	2010–11 Projected
Assets on balance sheet at end of year								
Fixed assets								
Intangible	109	141	222	144	89	40	200	300
Tangible	29,953	24,841	25,318	25,204	26,830	25,703	29,000	31,000
of which:								
Land and buildings	26,672	22,014	22,842	23,139	25,156	23,838	27,500	28,000
Plant and machinery, IT, furniture and fittings [(1)]	3,281	2,827	2,476	2,065	1,674	1,865	1,500	3,000
Vehicles								
Investments								
Current assets	11,706	10,384	9,145	4,641	3,593	1,577	3,000	3,000
Creditors <1 year	(20,612)	(17,833)	(23,161)	(26,356)	(20,113)	(19,197)	(19,000)	(19,000)
Provisions	(1,480)	(1,575)	(1,045)	(728)	(547)	(543)	(500)	(500)
Capital employed within main department	19,676	15,958	10,479	2,905	9,852	7,580	12,700	14,800

[(1)] Includes asset under construction in 2008–09.

Table 5: NS&I staff numbers

Staff number at	1 April 2004	1 April 2005	1 April 2006	1 April 2007	1 April 2008	1 April 2009
Permanent	110	123	125	129	135	141
Casual	8	4	7	4	1	6
Total	118	127	132	133	136	147

Table 6: NS&I consultancy and professional services

£000

	Outturn 2003–04	Outturn 2004–05	Outturn 2005–06	Outturn 2006–07	Outturn 2007–08	Outturn 2008–09
Consultancy services	1,616	1,400	853	1,341	1,585	2,042
Professional services other	495	1,025	1,726	1,983	2,035	3,626
Professional services legal	370	502	340	169	310	390
Contract staff/interim managers	862	557	670	583	943	908
Other services	721	574	977	1,090	950	1,031
Total	4,064	4,058	4,566	5,166	5,823	7,997 [(1)]

[(1)] Apart from the contract staff costs of £908,000 that are included in Note 7 (page 70) of the Resource Accounts, the remainder is included in Note 8 (page 72) under other expenditure.

Resource Accounts 2008–09

Management commentary

National Savings and Investments (NS&I) is a government department and became an Executive Agency of the Chancellor of the Exchequer in 1996.

As an integral part of the Government's debt management arrangements, NS&I is responsible for providing cost-effective financing by issuing and selling savings and investment products to the public.

NS&I is one of the largest savings organisations in the UK with over £97.23 billion of investors' money at the end of March 2009 (representing over 12.24% of the National Debt), and annual flows in excess of £35 billion.

NS&I administration costs are funded by Parliamentary Vote and are shown in these Resource Accounts. However, the interest costs on NS&I products are included in the total cost of servicing the National Debt, and these costs are therefore reflected as a charge on the National Loans Fund (NLF) and are shown in the NS&I Product Accounts. HM Treasury is responsible for the operation of the NLF.

Aims

NS&I helps to reduce the cost to the taxpayer of government borrowing now and in the future. To achieve this, its single strategic objective is to provide retail funding for Government that is cost-effective in relation to funds raised on the wholesale market.

Vision

Securing a better financial future for its customers by providing the most valued and trusted saving experience.

NS&I adding value

NS&I adding value is NS&I's current five-year strategy, which is designed to deliver sustainable long-term value to stakeholders by simplifying, modernising and diversifying the business.

When launched, it was intended to:

- deliver more than £1.6 billion of Value Add over five years
- deliver around £13 billion of Net Financing over five years (subsequently increased in 2007-08 to £21 billion)
- deliver a substantially lower whole business unit cost, positioning the business for continued successful delivery of Value Add.

by:

- **Building** low-cost channel capabilities that satisfy the long-term needs and expectations of the customer
- **Revitalising** the product mix, rationalising some products, simplifying and modernising the product range
- **Shifting** sales and fulfilment towards low-cost channels while retaining the Post Office® as a strong sales channel
- **Delivering** our compliance strategy and developing a compliance culture
- **Engaging** and **developing** NS&I's people and capabilities so that it can attract and retain the best talent.

The implementation of the strategy is tracked by metrics relating to sales, operations and projects that are contained in the corporate balanced scorecard, rather than captured separately, reflecting an integrated management approach. NS&I uses the balanced scorecard methodology at a corporate and business unit level to ensure that strategy is delivered to plan.

Market and competitive environment

NS&I competes for retail savings in the highly competitive cash deposit market. NS&I has a diverse portfolio of products that attract different types of savers.

The year 2008–09 proved to be another year of unprecedented market conditions. The financial turmoil post-September 2008 had a profound effect on customer behaviour within the retail savings market, while the decline in interest rates – to historically low levels – eroded the interest rate differential between competing deposit takers.

NS&I experienced substantial inflows as a result of the 'flight to safety' despite ceasing discretionary marketing activity and pricing our products towards the lower end of the competitive range.

The market and competitive environment during 2009–10 is expected to remain uncertain and challenging. The Bank of England base rate and inflation are forecast to remain at low levels for much of the year.

Performance against targets in 2008–09

NS&I's Service Delivery Measures (SDMs) were agreed with HM Treasury as part of the 2007 Comprehensive Spending Review. During 2008–09, and in response to the changing market conditions, the Value Add SDM was temporarily suspended. All other SDMs were met, including a revised Net Financing remit.

NS&I's SDMs are to:

- create at least an agreed amount of Value Added (currently temporarily suspended) and generate an agreed amount of Net Financing
- maintain the current high levels of customer satisfaction and service
- reduce the ratio of total NS&I administrative costs to average funds invested by customers
- improve the effectiveness of fraud management
- maintain Banking Code and Financial Ombudsman Service (FOS) compliance.

NS&I's SDMs are shown in the 'Our strategy' section of the Annual Report and Accounts on page 10.

Developments in 2008–09

2008–09 was the second year of **NS&I adding value**, a five-year strategy designed to modernise, simplify and diversify the business to deliver long-term, sustainable Value Add. This strategy is designed to maximise the potential of the five years remaining of the contract with Siemens, our operating partner. It will improve and lower the cost of operations while enhancing the customer proposition.

Highlights from 2008–09

- Net Financing of £12.45 billion was achieved, against a remit of £11 billion (+/– £2 billion). This target was revised by HM Treasury during the year to reflect the inflow of funds resulting from the 'flight to safety', which was outside the control of NS&I's management team
- excellent operational performance in the context of the exceptional and unsolicited inflows seen during the year, especially during the period immediately following the events of September 2008
- simplification of the product range, with closure of Mini Cash ISA to new sales announced during the year and withdrawal of the product from the Post Office® (effective from 5 April 2009)
- progress on the modernisation of NS&I's IT infrastructure, including a new banking platform
- **mylostaccount.org.uk**, the online tracing service launched with the British Bankers' Association (BBA) and Building Societies' Association (BSA) on 30 January 2008, continued to successfully reunite NS&I's customers with their unclaimed assets. In 2008–09, NS&I reunited £102 million of assets with their owners (£37 million in 2007–08)
- as part of the move to voluntary compliance with relevant FSA standards, NS&I continued to implement the compliance and risk strategies that were developed and agreed in 2007–08. In recognition of our legal obligations under the Proceeds of Crime Act 2002, Terrorism Act 2000 and Money Laundering Regulation 2007, NS&I introduced a verification of identity check for 15 million existing customer records
- NS&I achieved its highest score ever in the NS&I and Siemens partnership survey, reflecting the health of this key relationship.

Other notable achievements

- following a full Charter Mark assessment in November 2008, NS&I achieved 100% compliance and retained the standard it has held continuously since 1997
- NS&I retained its Investors in People accreditation in 2008

- NS&I achieved reaccreditation of the ISO14001:2004 standard in respect of its environmental management systems
- Siemens and NS&I retained the Customer Contract Association (CCA) Global Standard following an extensive interim assessment of our Customer Interaction Centres (CIC) in Glasgow, Blackpool and Durham
- Siemens (NS&I account) was the 2008 winner of the Best Use of the CCA Global Standard award
- NS&I received a Highly Commended award in the Central e-Government excellence category Take-up & usage growth (for **mylostaccount.org.uk**)
- NS&I received awards at the Financial Services Forum Awards for Marketing Effectiveness 2008 for Most Effective Advertising Campaign (for **mylostaccount.org.uk**), and commendations in the Digital Activity and the New Product, Service or Innovation categories (for **mylostaccount.org.uk** again) and in the Sponsorship category for building effectiveness through Classic FM
- NS&I and Siemens were finalists in the Best Outsourcing Partner category at the European Call Centre Awards.

Targets for 2009–10

The Net Financing target for 2009–10 is to maintain a neutral position (nil for the year +/- £2 billion).

Other NS&I SDMs remaining in place for 2009–10 are:

- ensure that the ratio of total NS&I administrative costs to average funds invested by customers is 20 basis points or below
- generate an agreed amount of Net Financing while continuing to reduce the ratio of administrative costs to customer funds invested
- maintain the current high levels of customer satisfaction and service
- improve the effectiveness of fraud management
- maintain Banking Code and Financial Ombudsman Service (FOS) compliance.

The existing Value Add target remains temporarily suspended because the unprecedented market conditions have made the calculation unrealistic and potentially misleading. Financial markets have been unusually volatile, and the Bank of England base rate has fallen to exceptionally low levels. As a result, the comparators on which Value Add is based have become invalid as a current measure of performance.

Principal risks and uncertainties facing NS&I

A summary of principal risks and uncertainties facing NS&I shown in the 'How we operate' section of the Annual Report on pages 31 and 32.

Expenditure

The NS&I Vote is approved by Parliament. For 2008–09, Parliament approved a resource budget of £185.2 million (2007–08: £170.29 million) a capital budget of £1.43 million (2007–08: £0.5 million) and a net cash requirement of £183.63 million (2007–08: £167.67 million). This included £12 million for the incremental costs associated with administering the unexpected inflows driven by the 'flight to safety', and £0.95 million for modernising the Moorland building in Blackpool.

The resource outturn was £184.07 million (2007–08: £153.61 million), capital outturn £0.93 million (2007–08: £0.05 million) and the net cash outturn was £181.4 million (2007–08: £155.22 million).

The difference between the resource budget and the resource outturn was £1.13 million (2007–08: £16.69 million). The table on the next page shows the key differences between the resource budget and outturn during 2008–09.

Difference between Resource Budget and Resource Outturn

Overspend / (underspend) category	Difference between estimate and outturn £ million
Increase in volume charges not in budgets	15.59
Project costs lower due to deferment	(6.41)
Cancellation of marketing and research plans due to early achievement of Net Financing target	(4.86)
Professional fees lower in part due to scaling down of marketing programme	(2.35)
Lower printing, evidence of identity costs and internet-hosting costs	(2.26)
Lower cost of capital charges	(0.36)
Other differences	(0.48)
Total underspend	**(1.13)**

The difference between the net cash requirement and the net cash outturn was £2.24 million (2007–08: £12.45 million).

	2008–09 £000	2007–08 £000
Net resource outturn (estimates)	**184,069**	**153,607**
Adjustments to remove:		
Provision voted for earlier years	–	–
Adjustments to additionally include:		
Non-voted expenditure in OCS(1)	–	–
Consolidated Fund extra receipts in the OCS	–	–
Net operating cost (accounts)	**184,069**	**153,607**
Adjustments to remove:		
Capital grants to local authorities	–	–
Capital grants finance from the Capital Modernisation Fund	–	–
European Union income and related adjustments	–	–
Voted expenditure outside the budget	–	–
Adjustments to additionally include:		
Other Consolidated Fund extra receipts	–	–
Resource consumption of non-departmental bodies	–	–
Unallocated resource provision	–	–
Other adjustments	–	–
Resource Budget Outturn (budget)	**184,069**	**153,607**
of which:		
Departmental Expenditure Limit (DEL)	184,069	153,607
Annually Managed Expenditure (AME)	–	–

(1) OCS – Operating cost statement

Departmental Report

For 2008–09, NS&I has elected to combine its Departmental Report with the Annual Report and Accounts, rather than publish them separately. The core tables from the Departmental Report are shown within the 'How we operate' section of the Annual Report on pages 33 and 34.

Comprehensive Spending Review settlement – securing value for money for our stakeholders

As part of the 2007 Comprehensive Spending Review (CSR), NS&I agreed a settlement with HM Treasury that requires average annual real reductions of 5% on its 2007–08 baseline costs for the period from 2008–09 to 2010–11, despite a planned rise in liabilities to investors over that period.

In 2008–09, NS&I's DEL was initially £166.2 million. In 2010–11, NS&I's total DEL will be £158.2 million. Around 80% of NS&I's DEL is spent on the Public Private Partnership (PPP) with Siemens and on the Post Office® distribution contract.

NS&I adding value is aligned with the need to achieve value for money savings over the CSR period. The strategy also aims to increase the use of direct sales channels, thereby reducing distribution costs. To meet the transitional and up-front costs of **NS&I adding value**, the CSR settlement confirmed NS&I's access to Modernisation Funds and to end-year flexibility, in accordance with standard procedures. The **NS&I adding value** strategy aims to lower the cost of operations by simplifying, standardising and modernising the business.

The unforecast and unsolicited 'flight to safety' has meant that NS&I is now substantially larger than envisaged at the time that CSR2007 was agreed and the financial strategy is being replanned to account for this.

Post balance sheet events

There were no other reportable post balance sheet events between the balance sheet date and 10 July 2009, the date of authorisation of the accounts. The financial statements do not reflect events after that date.

Sick absence data

The average number of sick days per person in the twelve-month ending 31 March 2009 is 5.18 days (2007–08: 5.51). This figure includes all absences including long-term absence. Short-term absences were 2.7 days (2007–08: 2.82).

Reporting of personal data-related incidents

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Summary of protected personal data-related incidents formally reported to the Information Commissioner's Office in 2008–09

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
n/a	There are no incidents to report	n/a	n/a	n/a

Further action on information risk	NS&I will continue to monitor and assess its information risks. Although no events are noted above, NS&I will ensure continuous improvement of its systems. NS&I will continue to proactively monitor and assess its information risks in order to identify and address any potential weaknesses and, in so doing, minimise the risk of personal data-related incidents and ensure continuous improvement of its systems and processes. NS&I has reviewed its internal security policies and procedures, including those that specifically deal with the secure handling of information and protected personal data. NS&I has ensured that these policies are compliant with the mandatory minimum standards of protection, specifically regarding limiting the use of removable media to the minimum necessary for business operation and ensuring that any information shared with third parties is transferred securely. An enhanced approval and control process has been put in place to ensure that any information shared with third parties is necessary and is properly authorised, and that the mechanism for transferring the information is secure. A programme has been completed to encrypt all NS&I laptops to ensure that information will remain secure in the event that a laptop is lost or stolen. Planned steps for the coming year include: Extending the existing programme of staff vetting, including extending the use of identity and financial checks, to ensure that all staff working for NS&I and their sub-contractors are people in whom NS&I can have confidence and whose identities are assured. Continue to review policies to ensure that they provide a secure environment for information handling and to ensure that they meet the requirements set out in Her Majesty's Government (HMG) Security Policy Framework. All staff will be required to provide written confirmation that they are aware of the policies and the responsibilities that the policies place on them. Security awareness training for all staff will be enhanced to include a regular, ongoing programme of assessed computer-based training to ensure that staff remain alert to the risk of data loss.

Ministerial responsibility

NS&I is an Executive Agency of the Chancellor of the Exchequer. The Government Minister with the portfolio for NS&I was the Economic Secretary to the Treasury (EST) until 16 June 2009. The position was held by Kitty Ussher MP until October 2008. From October 2008 this position has been held by Ian Pearson MP. Details of the Minister's salary and pension entitlements are shown in HM Treasury's 2008–09 Resource Accounts. On 16 June 2009, the Government Minister with the portfolio for NS&I was changed to the Financial Services Secretary and Minister for the City, Paul Myners CBE.

Code of Good Practice for Corporate Governance for Central Government Departments

The NS&I board reviewed its composition and practices against the Code of Good Practice for Corporate Governance for Central Government Departments and has concluded that it is highly compliant with the Code's provisions. One area where it was decided not to follow the Code was in the appointment of a Senior Independent Director. The board has identified HM Treasury as NS&I's main stakeholder and considers that HM Treasury representation on the board, together with agreement that the Non-executive Directors can meet the responsible Minister annually, means that there is no need for a separate independent Director other than the Chairman.

The board is comprised of the Chief Executive (who is also the Accounting Officer), six Executive Directors, four Non-executive Directors (appointed by the Chancellor of the Exchequer following an open recruitment process), and two representatives from the Debt and Reserves Management (DRM) area of HM Treasury. The four Non-executive Directors are fully independent. In reaching that conclusion, the board took into account a number of factors that might appear to affect their independence, including length of service on the board, cross-directorships, whether they have been an employee of the company and whether they have received remuneration other than directors' fees. In each case, the board is completely satisfied that the independence of the relevant Non-executive Director is not compromised.

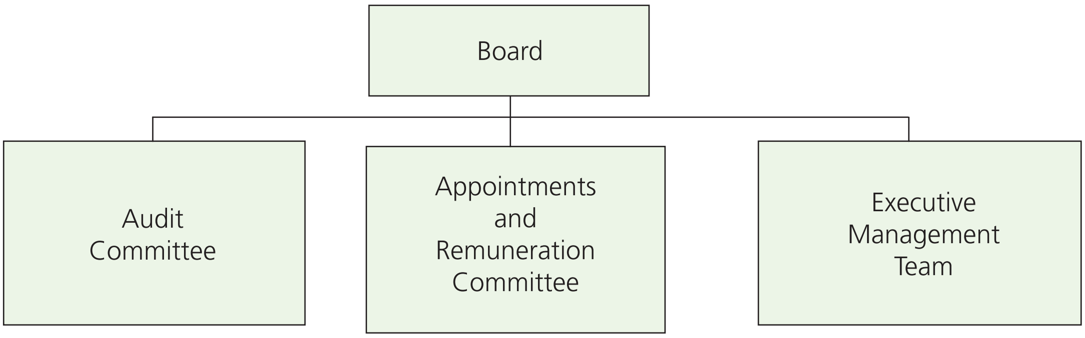
The HM Treasury members, representing NS&I's main stakeholder, are also considered to be independent. Full board meetings are held every two months, and additional board workshops are held to discuss specific issues, such as strategy and planning.

In the light of the Accounting Officer's overall government-delegated responsibility and accountability for the performance of NS&I, the board is advisory. However, to ensure good governance practice, individual board members act as if they have full corporate legal responsibilities, accepting the consequences of their actions, recommendations and decisions. The Chief Executive is therefore expected to accept the majority view of the board, except where she sees this as conflicting with her Accounting Officer responsibilities. Should such an occasion arise, the board minutes would record why the Chief Executive declined to accept the majority view.

Operating within instructions and guidance from HM Treasury, and in support of the Chief Executive in the achievement of the Agency's objectives, the board operates within terms of reference that are published on NS&I's website.

In addition to its normal meetings, the board meets regularly to review the way in which it operates in discharging its responsibilities; and the board Chairman discusses performance with board members on an individual basis, feeding back comments both individually and to the board as a whole. The board Chairman's performance is reviewed by the Chairman of the Appointments and Remuneration Committee.

The board has three key subsidiary committees:



Executive members of the board who served during the year

Jane Platt (Chief Executive, Accounting Officer and Director of Savings), appointed in September 2006.

Mike Chilton (Finance and Risk Director), appointed in January 2007.

Peter Cornish (Customer Offer Director), appointed in April 2006 in an acting capacity. Appointed permanently in April 2007.

Julian Hynd (Change and Strategy Support Director), appointed in April 2007.

Steve Owen (Channel Delivery Director), appointed in February 2002.

Gillian McGrattan (People and Environment Director), appointed in September 2008.

John Prout (Customer Sales and Retention Director), appointed in August 2003.

Representatives of HM Treasury

Samantha Beckett (Director of Fiscal Policy), appointed in April 2008.

Mike Glycopantis (Debt and Reserves Management joint Team Leader), left in March 2009.

Sarah Tebbutt (Debt and Reserves Management joint Team Leader), appointed in April 2009.

Board appointments
All executive board members, including the Chief Executive, were appointed, where applicable, in accordance with the Civil Service Commissioners' Recruitment Code. Each member of the board has a personal contract, which stipulates the procedures for termination in accordance with the NS&I Management Code. Non-executive members of the board are appointed by the Chancellor of the Exchequer and contracted by the Director of Savings.

There is a formal induction programme for all new directors (both Executive and Non-executive) that is tailored to their specific requirements and that includes meetings with senior management and HM Treasury representatives, and visits to sites. Additional business updates on particular issues are arranged as appropriate.

Non-executive members of the board
Paul Spencer, appointed in September 2003, became Chairman of the board in January 2005. He has a contract extension to August 2009.

Michael Medlicott, joined in September 2003 as Non-executive Director, appointed Chairman of Appointments, and Remuneration Committee in March 2008. He is contracted to September 2009. For continuity, he has been requested, and has agreed, to stay on until December 2009 while two new Non-executive Directors are recruited.

Martin Gray, joined in January 2005 as Non-executive Director, appointed Chairman of the Audit Committee in July 2007. He has a contract extension to January 2011. He has been appointed as the new Chairman effective from September 2009 to run until December 2010.

Simon Ricketts, appointed in July 2007 for a three-year term.

Audit Committee
The main responsibilities of the Audit Committee are to advise the Accounting Officer and the board on:

- the adequacy of the strategic processes for risk, control and governance within NS&I and also NS&I work outsourced to Siemens
- the accounting policies, accounts and annual report of NS&I
- the adequacy of internal and external audit plans and the results of this work, along with management's responses to any issues identified
- assurances relating to the system of internal control within both NS&I and Siemens, including internal audit arrangements within NS&I and the NS&I account within Siemens
- the adequacy of the risk-mitigation policies for residual red top risks
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

The Audit Committee of NS&I meets quarterly. Membership of the Audit Committee during 2008–09 comprised Martin Gray (Chair), Simon Ricketts and a member of HM Treasury's Debt and Reserves Management team. Executive Directors have a standing invitation to attend, as do NS&I's Head of Internal Audit, the National Audit Office (NAO) and PriceWaterhouseCoopers, who are the NAO's framework partners for the NS&I Product Accounts. Siemens also has a standing invitation for appropriate matters.

During the year under review, the Audit Committee debated a wide range of issues, including, but not limited to, the following:

- implementation progress on compliance, risk and fraud strategies
- business continuity arrangements, including data centres
- the annual budget and annual accounts, including NS&I's preparatory work on the planned implementation of International Financial Reporting Standards (IFRS)
- internal and external audit plans and progress against these plans, as well as the adequacy of management's responses to any issues identified.

Appointments and Remuneration Committee

The Committee's role relates to the pay and performance of senior NS&I staff. Full details of the Committee's membership, role and senior staff salary entitlements are given in the Remuneration report on pages 47 to 51.

Board attendance

Name	Board (5 meetings)		Audit Committee (4 meetings)		Appointments and Remuneration Committee (3 meetings)	
	Possible	**Actual**	**Possible**	**Actual**	**Possible**	**Actual**
Jane Platt	5	5			3	3
Mike Chilton	5	5				
Peter Cornish	5	5				
Julian Hynd	5	4				
Steve Owen	5	4				
Gillian McGrattan	3	3			2	2
John Prout	5	5				
Paul Spencer	5	5			3	3
Martin Gray	5	3	4	4		
Michael Medlicott	5	5			3	3
Simon Ricketts	5	5	4	4		
Sam Beckett (HM Treasury)	5	2				
Mike Glycopantis (HM Treasury)	5	5	4	2		
Dan Dorner (HM Treasury)			1	1		

Executive Management Team (EMT)

The EMT members are the Executive Directors of NS&I supported by the board secretary. The EMT meets twice a month to discuss issues relating to strategy, people, risk and financial results.

Auditors

The Comptroller and Auditor General is responsible for the audit of the Resource Accounts, in accordance with section 7 of the Government Resources and Accounts Act 2000. The notional charge for audit of these Resource Accounts as disclosed in the accounts is £58,000 (2007–08: £58,000). There was no auditors' remuneration (actual or notional) for non-audit work.

The Accounting Officer has taken all the steps that ought to have been taken to make herself aware of any relevant audit information and to establish that NS&I's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which NS&I's auditors are unaware.

NS&I's internal audit service provides an independent appraisal service for management by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit make recommendations based on the appraisal of each system reviewed. An annual assurance report is provided to the Accounting Officer. NS&I chose to outsource the provision of internal audit services to ensure wholly independent and fully professional analysis and recommendations. Deloitte is NS&I's current provider of the internal audit function. The current contract will come to an end in June 2009. NS&I has therefore conducted a re-tender exercise for the internal audit function, and KPMG will be its new internal auditors from July 2009.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
23 June 2009

Remuneration report

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprises Non-executive Directors, Paul Spencer and Michael Medlicott (as Chairman). It also comprises two Executive Directors: the Chief Executive and the People and Environment Director, Gillian McGrattan (from 1 September 2008). Tricia Ghatauray, in her capacity as interim People and Environment Director, attended as an observer up until October 2008. Support to the Committee was provided by Paul Farley (Group Head of Reward Lloyds TSB plc) in an independent advisory capacity until October 2008. We have now appointed Gerard Hutchinson (Rolls-Royce) as our new independent advisor.

The Committee's role is to determine NS&I's pay strategy for Senior Civil Service (SCS) members. This includes reviewing the Chief Executive's recommendations on pay and bonus awards within the parameters set by the Cabinet Office for the SCS following recommendations by the Senior Salaries Review Body. The Cabinet Office gives overall approval to the pay and bonus award for the NS&I SCS members.

Service contracts

The remuneration arrangements of senior members are set out in their contracts and are subject to annual review in line with awards recommended by the Senior Salaries Review Body. The notice period for all senior members of NS&I does not exceed three months. The arrangements for early termination of senior members are made in accordance with the service contract of the relevant individual.

With the exception of the Chief Executive, whose remuneration is determined by HM Treasury, executive board members' pay awards and bonuses are determined by the NS&I Appointments and Remuneration Committee, based on the performance against targets of both NS&I and the individual Director.

Under the Chief Executive's contract, provided performance is satisfactory, her salary is adjusted by HM Treasury, with reference to the annual increase in salary bands for the SCS, laid down by the Cabinet Office in accordance with the Senior Salaries Review Body report. The position of Chief Executive could qualify for a performance bonus, depending on the achievement of targets set by HM Treasury.

Non-executive Directors have fixed-term appointments not exceeding three years. Normally they can serve for two terms of office. Their remuneration is accounted for in 'other costs'. The details of their payments are shown in Table C. No Executive Directors hold any Non-executive directorships elsewhere.

Salary and pension entitlements

The salary and pension entitlements of the executive board are shown below. There were no taxable benefits in kind paid. Jane Platt and Mike Chilton are members of the Civil Service Supplementary (Earnings Cap) Scheme. Bonuses for 2008–09 were accrued.

Table A: The salary and bonus entitlements of the executive board members of NS&I Audited

Name	2008–09 Salary £000	2008–09 Bonus £000	2008–09 Total £000	2007–08 Salary £000	2007–08 Bonus £000	2007–08 Total £000
Jane Platt *Chief Executive*	185–190	15–20[(3)]	200–205	180–185	35–40	215–220
Mike Chilton *Finance and Risk Director*	135–140	15–20	155–160	130–135	20–25	155–160
Peter Cornish *Customer Offer Director*	100–105	15–20	115–120	95–100	15–20	115–120
Julian Hynd *Change and Strategy Support Director*	95–100	15–20	110–115	90–95	10–15	105–110
Steve Owen *Channel Delivery Director*	110–115	15–20	130–135	105–110	15–20	130–135
Sandra Postles[(1)] *People and Environment Director*	–	–	–	80–85	–	80–85
Gillian McGrattan[(2)] *People and Environment Director*	60–65	5–10	65–70	–	–	–
John Prout *Customer Sales and Retention Director*	110–115	15–20	130–135	110–115	15–20	130–135

The information in the above table is covered by the Comptroller & Auditor General's audit opinion.

(1) Left 31 January 2008. Equivalent annual salary for 2007–08 was £95,000–£100,000.

(2) Appointed 1 September 2008. Equivalent annual salary for 2008–09 was £100,000–£105,000.

(3) In view of the current economic background, the Chief Executive has chosen to limit her variable pay for 2008–09 to the maximum bonus set for Senior Civil Servants regardless of her contract entitlement.

Table B: Pension benefits of the executive board members of NS&I Audited

Name	Real increase in pension at age 60 £000	Real increase in pension related lump sum at age 60 at 31 March 2009 £000	Total accrued pension at age 60 at 31 March 2009 £000	Pension related lump sum at age 60 at 31 March 2009 £000	Cash equivalent transfer value (CETV) at 31 March 2008(1) £000	Cash equivalent transfer value (CETV) at 31 March 2009 £000	Employee contributions and transfers £000	Real increase in CETV after adjustment for inflation and changes in market investment factors £000
Jane Platt *Chief Executive*	2.5–5	–	5–10	–	48	97	15–20	27
Mike Chilton *Finance and Risk Director*	0–2.5	–	0–5	–	30	61	0–5	24
Peter Cornish *Customer Offer Director*	0–2.5	2.5–5	10–15	35–40	189	222	0–5	15
Julian Hynd *Change and Strategy Support Director*	0–2.5	–	5–10	–	75	101	5–10	13
Steve Owen *Channel Delivery Director*	0–2.5	2.5–5	35–40	115–120	613	683	15–20	10
Gillian McGrattan *People and Environment Director*	0–2.5	–	0–5	–	–	17	0–5	15
John Prout *Customer Sales and Retention Director*	0–2.5	–	10–15	–	229	294	15–20	30

The information in the above table is covered by the Comptroller & Auditor General's audit opinion.

(1) Due to refinements in CETV calculator there are slight differences between the final period CETV for 2007–08 and the start of period CETV for 2008–09.

The salary entitlements of Non–executive Directors are provided in Table C.

Table C: The remuneration of Non-executive Directors Audited

Name	2008–09 £000	2007–08 £000
Martin Gray	10–15	10–15
Michael Medlicott	10–15	10–15
Paul Spencer (Chairman)	15–20	15–20
Simon Ricketts	10–15	10–15

The information in the above table is covered by the Comptroller & Auditor General's audit opinion.

Salary
'Salary' includes gross salary; overtime; rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation.

Civil Service pensions
Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (classic, premium or classic plus) or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid, with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos, a member builds up a pension based on pensionable earnings during the period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with the RPI. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3.0% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3.0% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, but NS&I is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details may be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2008–09, employers' contributions of £1,366,721 were payable to the PCSPS (2007–08: £1,269,883) at one of four rates in the range 17.1% to 25.5% (2007–08: 17.1% to 25.5%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2009–10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008–09 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £19,008 (2007–08: £14,420) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0% to 12.5% (2007–08: 3.0% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3.0% of pensionable pay. In addition, employer contributions of £1,170, 0.8% (2007–08: £1,003, 0.8%) of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

There were no contributions due to the partnership pension providers at the balance sheet date. There were no contributions prepaid at that date.

There were no additional pension liabilities during 2008–09 payable by the Civil Service pension arrangements for individuals who retired early on health grounds.

Cash equivalent transfer values
Table B above shows the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. The final column reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement that the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV
This reflects the increase in CETVs effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
23 June 2009

Sustainability report

Environmental Policy

NS&I is committed to sustainable business practices. Governance by the Sustainability Committee drives actions on both environmental and sustainability issues. Siemens is involved in the Committee.

NS&I's policy reflects its aim to deliver long-term value to its stakeholders in a way that is both financially viable and socially and environmentally responsible. Everyone in NS&I has a role to play, especially those responsible for NS&I's buildings, plant and machinery or for obtaining / using goods and services.

NS&I has engaged staff on environmental issues by using a variety of channels to promote substantial development initiatives, including via the intranet, staff briefings and its staff newsletters.

Suppliers

Payment of suppliers, policy and performance

NS&I is committed to a policy of prompt payment and is a signatory to the Better Payment Practice Code. It endeavours to pay all suppliers within 30 days of acceptance of the relevant goods and services, or receipt of a legitimate invoice if that is later.

In 2008–09 NS&I paid 96.0% (2007–08: 89.3%) of bills within this standard.

During the year, the Government made a commitment to speed up the payment process for small or medium size enterprises (SMEs). HM Treasury's *Managing Public Money* guidance stated that 'Public sector organisations should aim to pay suppliers wherever possible within 10 days.' NS&I has followed this commitment and implemented a process to pay SMEs within 10 days of acceptance of the relevant goods and services or receipt of a legitimate invoice if that is later.

Employees

Training and development

NS&I recognises that training and development is essential for all its employees – to support them in their job roles, to meet team goals and to meet NS&I's business objectives. NS&I is committed to providing and maintaining a learning and development framework to Investors in People standards, which encourages a 'learning culture' and strives for continuous improvement.

NS&I EMT and senior managers fully support the training and development of the staff by:

- providing resources such as finance, equipment, time and opportunities to ensure that all employees have the right skills and the knowledge required to carry out their roles
- ensuring that all managers are aware of their role with regard to their staff's training and development, and that they have the skills and knowledge required to support their staff in identifying learning and development needs and to follow through with the implementation of that training and development in the workplace
- encouraging employees to pursue development over and above their job role and to give consideration to career development
- offering learning and development on a fair basis to all employees and ensuring that no employee receives less favourable treatment or consideration in relation to training and development on the grounds of their gender, sexual orientation, racial group, marital status, disability, age, religion or religious beliefs, working pattern or any other unlawful criterion or circumstances
- taking part in the corporate mentoring scheme.

Health and safety

NS&I recognises and accepts its responsibility as an employer for ensuring that, as far as is reasonably practical, every employee has a place of work that is both safe and without risk to their health.

NS&I complies with current health and safety legislation, approved codes of practice, guidance documentation and British Standards, and satisfies the spirit as well as the legal requirements of the Health and Safety at Work Act 1974 and other relevant statutory provisions.

NS&I is committed to continuous assessment and improvement of the health and safety culture of the organisation.

Disabled employees
NS&I qualified as a user of the 'Positive about Disabled People' (Two Ticks) symbol in 1996. The application and impact of NS&I's employment policies, practices and procedures, including those covering recruitment, promotion and performance appraisal, are monitored to ensure equality of opportunity for disabled staff. NS&I also provides any special equipment or assistance required by disabled staff to help them perform their jobs.

Pension liabilities
The majority of present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a defined benefit scheme which, in the main, provides benefits based upon length of service and final salary. The scheme is non-contributory and unfunded. Liability for payment of future benefits lies with the PCSPS. There is a separate scheme statement for the PCSPS as a whole. NS&I meets the cost of pension cover provided for its employees by payment of charges calculated on an accruing basis. The rate of the employer's contribution is determined from time to time by the Government Actuary and advised by HM Treasury. For 2008–09 the rates were between 17.1% and 25.5% (2007–08: 17.1% and 25.5%) of pensionable pay, depending on salary.

NS&I is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. NS&I provides for this cost when it has entered into contractual arrangements with the early retirees, and creates a corresponding provision for its future payments in its balance sheet.

Equal opportunities
NS&I is committed to equality of opportunity in all its employment practices, policies and procedures. No employee or potential employee will therefore receive less favourable treatment due to their ethnic origin, age, language, religion, political or other opinion affiliation, gender, sexual orientation, marital status, connections with a national minority, property, birth or other status, family connections, working pattern, membership or non-membership of a trade union or, unless justifiable, disability.

Equal opportunities monitoring is undertaken for each recruitment campaign, and candidates are sent an equal opportunities statement with an equal opportunities form to complete.

Recruitment monitoring
NS&I operates fair and open competition for all recruitment campaigns, in line with the Civil Service Commissioners' guidelines. Appointments are made against robust criteria, which are applied throughout the recruitment and assessment process.

NS&I has a monitoring system in place to ensure that recruitment is carried out on the basis of fair and open competition and selection on merit, in accordance with the guidelines laid down by the Civil Service Commissioners.

NS&I's recruitment campaign files are independently audited annually through a reciprocal agreement with the Office of the Rail Regulator (a requirement of the Civil Service Commissioners). This includes comparing CVs against the selection criteria and reviewing diversity breakdowns to ensure that the criteria were fair and robustly applied. NS&I submits an annual audit return to the Office of the Civil Service Commissioners which summarises campaigns, policy and processes. All activities may then be subject to a further audit review by the Civil Service Commissioners, and campaign files are kept for 12 months to comply with this requirement.

During 2008–09, there was a total of 23 permanent and fixed-term appointments, and these are summarised in the table below. There were no permitted exceptions to the recruitment principle of fair and open competition.

Permanent and fixed-term appointments in 2008–09

	Non-executive Directors	Senior civil servants*	Range A	Range B	Range C	Range D
Male	0	0	5	2	2	0
Female	0	1	0	5	5	3
White	0	1	5	5	4	2
Non-white	0	0	0	2	3	1
Disabled	0	0	0	0	0	0

* Includes Executive Directors

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed NS&I to prepare, for each financial year, Resource Accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the principal Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual*, and in particular to:

- observe the *Accounts Direction* issued by HM Treasury, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going-concern basis.

HM Treasury has appointed the Chief Executive as Accounting Officer of NS&I.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding NS&I's assets, are set out in *Managing Public Money* published by HM Treasury.

Statement on internal control

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of NS&I policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in HM Treasury's *Managing Public Money* document.

As Accounting Officer I retain sole responsibility for the system of internal control within NS&I. I am assisted in discharging this responsibility by the board, which, in addition to me and the other NS&I Executive Directors, comprises four independent Non-executive Directors and two representatives of HM Treasury, who provide the key assurance link back to the Treasury Ministers.

The Treasury Minister, while maintaining accountability, has delegated day-to-day dealings with NS&I to HM Treasury's Debt and Reserves Management (DRM) team. The NS&I board has assumed overall responsibility for monitoring the effectiveness of the Agency's risk management processes. My senior staff and I also hold regular briefing meetings with other relevant HM Treasury teams, and a monthly performance report is sent to the Economic Secretary to the Treasury as part of our overall governance arrangements with HM Treasury.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in NS&I for the year ended 31 March 2009 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

3. Capability to handle risk

The board, Audit Committee and Executive Management Team (EMT) have primary responsibility for identifying and monitoring the key risks which NS&I faces. The board delegates the responsibility for overseeing the risk management process to the Audit Committee, with the Audit Committee reporting back to the board after each meeting. Every month the EMT considers whether there are any new risks to the business to be registered and discusses the key risks as part of its monthly risk review. The Audit Committee formally reviews the key risks at least annually to ensure that they remain valid and complete in the light of changing circumstances in the year and business plans for the coming year.

NS&I has a risk management strategy, a risk management framework and agreed risk management reporting protocols, and these are reviewed and approved annually by the Audit Committee.

The Audit Committee, chaired by an independent Director, is responsible for providing assurance, in conjunction with internal and external auditors, to the board on the existence and effectiveness of the overall processes for managing risk within NS&I and within these parts of Siemens concerned with NS&I business.

NS&I's business model means that we are critically reliant on our business partner, Siemens, for the delivery of our strategic objectives. Consequently, we have established joint processes with Siemens to manage the partnership as one business. These include Siemens' representation at relevant committees; joint working between project offices; joint project teams; and a Joint Audit and Risk Management Committee (JARMC). The JARMC updates the Audit Committee on the management of risks to the joint business. Across the whole business, Directors and operational managers are responsible for embedding risk identification and management within the design, documentation and operation of business processes, in line with agreed risk tolerances.

NS&I's Committee structure is reviewed every year to enhance governance, empower staff and include Siemens personnel in all appropriate areas. Compliance Risk, Fraud and Security functions have all been strengthened. Key risks are shared with HM Treasury through the Audit Committee.

The risk management process is led by the EMT, which comprises the Executive Directors and the Siemens Account Director responsible for the NS&I account, and is responsible for:

- implementation of the risk management strategy
- developing and overseeing the risk management framework
- identifying and evaluating strategic risks
- designing, operating and monitoring a suitable system of internal control.

4. The risk and control framework

An analysis of key risks and the consequent significant sub-risks has been established through an ongoing programme of individual and collective discussion with the Executive Directors. With very few exceptions where sub-risks have been retained by the Directors, all sub-risks have been allocated to senior managers. An organisation-wide risk register records all significant risks identified, links lower level risks through to the key risks, records mitigating controls and named risk managers. The Audit Committee reviews the key risks annually to ensure that they remain valid and complete in the light of business plans for the coming year.

For each key risk and sub-risk identified, the assessment and scoring of the probability and impact both before and after mitigating controls is performed using a consistent methodology on a risk matrix. The results of this are considered against our agreed organisational risk appetite as approved annually by the Audit Committee. Reviews of risks and their risk scores are performed regularly by senior managers and the EMT. Where further action is necessary to reduce exposure, the action, and its intended effect on the status of the risk, is logged, responsibility allocated, and a completion date agreed. This ensures that there is ongoing tracking of any risk where exposure remains unacceptably high despite the controls that are in place. These risks are flagged as red, reviewed monthly by the EMT and reported to the Audit Committee.

Our management of risk is embedded in policy making, planning and delivery by Executive Directors and senior managers, who are responsible for ensuring the proper management of risks and for cascading implementation of the risk management strategy and framework within their respective directorates and teams. Senior managers are responsible for implementation of self-assessment processes.

As part of the annual planning cycle, senior managers are required to identify the significant risks that could impact on the achievement of each main element of their proposed business plans for the year. These risks are then compared with the existing risk register, which is amended as necessary.

Contingency plans are in place or are being implemented for all sub-risks where exposure is inherently unacceptable.

A programme management function ensures that all projects are subject to formal project management disciplines, including an assessment of inherent and residual risks. Projects are governed by formal project management disciplines, including regular review of project and programme risks overseen by the project board, EMT, Audit Committee and the board.

Senior managers provide assurance to the relevant Executive Directors that they are satisfied that all their sub-risks are adequately controlled, or that plans are in place to provide that control. In addition, EMT members provide me with equivalent assurance for the key risks for which they have responsibility. Executive Directors also provide assurance that an adequate system of internal control operates within their directorates, and that, to the best of their knowledge, their staff comply with all relevant legal and regulatory requirements.

The risk management process continues to be enhanced.

The key achievements in 2008–09 include:

- continuing to implement a risk based approach to anti-money laundering in line with the Money Laundering Regulations 2007
- embedding Treating Customers Fairly within our culture:
  - conducting regular reviews with every area of the business
  - implementing an electronic workflow approval process for any financial promotions issued to make sure that these are fair, clear and not misleading
  - enhancing the complaints-handling processes
- refining data protection and retention rules to be built into our new systems
- conducting a comprehensive audit of our compliance arrangements with the Post Office®
- making further enhancements to our overall risk framework, including key policies and related assurance
- refining and reviewing the effectiveness of our governance committees to ensure that they are working as required
- providing ongoing training to our staff on key compliance issues
- continuing to embed compliance more deeply into our delivery partner, Siemens.

Plans for 2009–10 include the continued strengthening of our risk management and compliance assurance processes and increased investment in Information Security and in our fraud risk management capabilities.

5. Statement of information risk

NS&I holds personal information relating to its customers and readily acknowledges its responsibility to ensure that this information is accurate and up-to-date, and its duty to ensure that the personal information entrusted to it is properly safeguarded from loss and unauthorised access.

The Cabinet Office's review of data-handling procedures in government, published in June 2008, made a number of recommendations to be implemented across government. In December 2008, the Cabinet Office published Her Majesty's Government (HMG) Security Policy Framework which embraces the requirements of the Data Handling Review. This framework superseded the Manual of Protective Security and set out mandatory requirements for government departments on protective security, covering physical, personnel and information security.

NS&I has followed the Cabinet Office's recommendations on information security and is complying with the HMG Security Policy Framework. NS&I undertook a gap analysis of practice against the Cabinet Office data-handling guidance and the Security Policy Framework, and developed an action plan to implement the recommendations from its review of data handling and any disparities identified by the gap analysis.

NS&I's risk register includes a number of sub-risks on data handling and information assurance. NS&I has zero tolerance for information asset losses and will continue to reinforce this through policies and procedures and staff acceptance of them.

Roles and responsibilities for information assurance within NS&I have been clearly defined.

NS&I has produced clear guidance for NS&I staff and those of delivery partners for the management of personal data and has introduced procedures to ensure that any information shared with third parties is properly authorised, protected at all times and securely delivered.

In 2008–09, all NS&I staff received training in data protection and information security through e-learning packages, and in 2009–10 this will be augmented by more focused security awareness training and will be expanded to include Siemens staff working for NS&I.

NS&I has also encrypted the hard drives of all laptops, in line with Cabinet Office guidance. For data that cannot be transmitted electronically, it has implemented bulk data transfer via disk using approved encryption and defined procedures.

An information charter is available on the NS&I website.

NS&I will shortly establish a network of Information Asset Owners whose role will be to understand what information is held, what is added and what is removed, how information is moved, and who has access, so as to understand and address risks to the information they use. The Information Asset Owners will provide additional overall assurance quarterly on the use and security of the data for which they are responsible.

The existing programme of staff vetting will be extended during 2009–10 to include increased levels of identity and financial checks for all NS&I staff and those in Siemens handling NS&I customer information.

NS&I's policies will continue to be reviewed to ensure that they provide a secure environment for information handling and to ensure that they continue to meet the requirements set out in the HMG Security Policy Framework. All staff will be required to provide written confirmation that they are aware of the policies and the responsibilities that the policies place on them.

6. Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and those Executive Directors and managers within the department and Siemens who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The board, via the Audit Committee, satisfies itself as to the adequacy of the risk management process and reviews the management of each key residually red risk at least annually by examining evidence of performance against objectives and targets, the timely identification and assessment of significant risks, the prioritisation of risks and the allocation of resources to address areas of exposure, the ability of NS&I to learn from its experiences and the commitment and speed with which corrective actions are implemented. The board, via the Audit Committee, also reviews the internal and external risk profile for the coming year and considers if current internal control arrangements are likely to be effective.

The Executive Directors conduct regular reviews of the risk register, with the top risks being reported monthly to the EMT for review. These are reviewed at least annually by the Audit Committee. The Audit Committee also reviews annually assurance on the overall system of internal control provided by the Head of Internal Audit, and advises the board of its assessment of the internal control system.

The Head of Internal Audit provides the Audit Committee with regular reports on internal audit activity, including an independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

The overall internal audit plan and internal audit process for the NS&I business, led by Deloitte, is based on management's assessment of risk throughout the business. In my opinion, and that of the Audit Committee, this appreciably enhances the internal audit process, and hence the value of the internal audit assurance. We will continue our ongoing process for assessing internal controls against best practice across all systems and products. The approach to reviewing effectiveness and plans to ensure the continuous improvement of the systems in place will be further refined in 2009–10.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
23 June 2009

The certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of National Savings and Investments (the Department) for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Net Operating Costs by Departmental Strategic Objective and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Management Commentary (excluding the section headed "Difference between Resource Budget and Resource Outturn"), Strategy, Board and Sustainable development, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the Remuneration Report, the Management Commentary section headed "Difference between Resource Budget and Resource Outturn", Who we are, Chairman's statement, Chief Executive's review, Customers, Products, Partners, People and How we operate. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of affairs of the Department as at 31 March 2009, and the net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental aim and objective, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Management Commentary (excluding the section headed "Difference between Resource Budget and Resource Outturn"), Strategy, Board, and Sustainable development, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

10 July 2009

Statement of parliamentary supply

Summary of resource outturn 2008–09

		Estimate £000			Outturn £000			£000 Net total outturn compared with estimate: saving	£000 Prior year outturn
	Note	Gross expenditure	A in A[1]	Net total	Gross expenditure	A in A	Net total		Net total
Request for resources, to provide retail funding for the Government that is cost-effective compared with raising funds on the wholesale market	2	191,117	(5,918)	**185,199**	189,817	(5,748)	**184,069**	**1,130**	**153,607**

Explanation of the variation between estimate and outturn are provided in the management commentary.

Net cash requirement 2008–09

	Note	Estimate £000	Outturn £000	2008–09 Net total outturn compared with estimate: saving £000	2007–08 Outturn £000
Net cash requirement	3	183,630	181,395	2,235	155,224

Summary of income payable to the Consolidated Fund

In addition to A in A[1], the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in *italics*).

		2008–09 Forecast		2008–09 Outturn	
	Note	Income £000	*Receipts* £000	Income £000	*Receipts* £000
Operating income and receipts – excess A in A		–	–	–	–
Other non-operating income and receipts not classified as A in A[1]	4	–	–	62	*62*
Total		**–**	**–**	**62**	**62**

The actual receipts surrendered to the Consolidated Fund were £61,850.

[1] A in A: Appropriations in aid. Full definition in Glossary

The notes on pages 66 to 78 form part of the Resource Accounts.

Operating cost statement

for the year ended 31 March 2009

	Note	2008–09 £000	2007–08 £000
Administration costs			
Request for resources:			
Staff costs	7	9,830	8,937
Other administration costs	8	179,987	150,295
Operating income	9	(5,748)	(5,625)
Net operating costs		**184,069**	**153,607**

All income and expenditure is derived from continuing operations.

Statement of recognised gains and losses

for the year ended 31 March 2009

	Note	2008–09 £000	2007–08 £000
Net gain / (loss) on revaluation of tangible fixed assets	16	(638)	2,881
Total recognised gain / (loss) for the financial year		**(638)**	**2,881**

The notes on pages 66 to 78 form part of the Resource Accounts.

Balance sheet

as at 31 March 2009

	Note	31 March 09 £000	31 March 09 £000	31 March 08 £000	31 March 08 £000
Fixed assets:					
Tangible assets	10(a)	25,703		26,830	
Intangible assets	10(b)	40		89	
			25,743		26,919
Current assets					
Debtors	11(a)	242		2,167	
Cash at bank and in hand	12	1,335		1,426	
		1,577		3,593	
Current liabilities					
Creditors (falling due within one year)	13(a)	(19,197)		(20,113)	
Net current assets			(17,620)		(16,520)
Total assets less current liabilities			8,123		10,399
Provisions for liabilities and charges	14		(543)		(547)
			7,580		**9,852**
Taxpayer's equity					
General Fund	15		(3,214)		(1,580)
Revaluation reserve	16		10,794		11,432
			7,580		**9,852**

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
23 June 2009

The notes on pages 66 to 78 form part of the Resource Accounts.

Cash flow statement

for the year ended 31 March 2009

	Note	2008–09 £000	2007–08 £000
Net cash outflow from operating activities	17(a)	(180,469)	(155,179)
Capital expenditure	17(b)	(926)	(45)
Receipts due to the Consolidated Fund which are outside the scope of the department's activities	4	62	214
Payments of amounts due to the Consolidated Fund		(62)	(214)
Financing	17(c)	181,304	158,750
Increase / (decrease) in cash in the period	**17(d)**	**(91)**	**3,526**

Statement of net operating costs by departmental strategic objective

for the year ended 31 March 2009

MISSION: To help reduce the cost to the taxpayer of Government borrowing now and in the future.

NS&I's strategic objective is to provide the Government with cost-effective retail finance compared with raising funds on the wholesale market.

During 2008–09, NS&I incurred the following resource costs in pursuit of its objective.

	2008–09 Gross £000	2008–09 Income £000	2008–09 Net £000	2007–08 Gross £000	2007–08 Income £000	2007–08 Net £000
Resource cost of objective	189,817	(5,748)	184,069	159,232	(5,625)	153,607
Net operating cost	**189,817**	**(5,748)**	**184,069**	**159,232**	**(5,625)**	**153,607**

The notes on pages 66 to 78 form part of the Resource Accounts.

Notes to the accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2008–09 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the department to prepare two additional primary statements. The statement of parliamentary supply and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement. The statement of operating costs by departmental aim and objectives and supporting notes analyse the department's income and expenditure by the objective agreed with the Treasury Minister.

Where the FReM permits a choice of accounting policy, the accounting policy that has been adjudged to be most appropriate to NS&I's circumstances for the purpose of giving a true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets at their value to the business by their current costs.

The accounts comply with the *Accounts Direction* issued by HM Treasury in pursuance of section 5(2) of the Government Resources and Accounts Act 2000.

1.2 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount, which is the higher of net realisable value or value in use. Expenditure on tangible fixed assets of £500 and over is capitalised. On initial recognition they are measured at cost, including any costs, such as installation, directly attributable to bringing them into working condition.

All tangible fixed assets are restated to current value each year. Land and buildings are restated to current value using professional valuations in accordance with Financial Reporting Standard (FRS) 15 every five years, and in the intervening years by the use of published indices appropriate to the type of land or building.

Any revaluation reserve balances realised on asset disposals are transferred to the General Fund.

Individual desks, chairs, computer furniture and cabinets generally individually fall below the prescribed capitalisation limit, but these assets are grouped together for capitalisation purposes.

1.3 Intangible fixed assets

Intangible fixed assets comprise purchased computer software licences. Where material, they are valued at their net current replacement cost using appropriate indices.

1.4 Depreciation and amortisation

In accordance with FRS 15, freehold land is not depreciated.

Depreciation and amortisation is provided on freehold buildings and other fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life. Lives, which are reviewed regularly, are normally in the following ranges:

Freehold buildings	20 to 50 years
Plant and equipment	7 to 10 years
Computers	5 to 7 years
Telecommunications equipment	5 to 7 years
Furniture and fittings	10 years
Software licences	5 years

Fixed assets, other than freehold land, are depreciated or amortised from the later of the month of acquisition or the month when the asset is brought into use. Under HM Treasury guidance, an additional charge is made for backlog depreciation arising as a result of revaluations. This ensures that revalued assets are fully written off within their estimated useful lives.

1.5 Operating leases
Expenditure on operating leases is charged to the operating cost statement in the year in which it is incurred.

1.6 Research and development
Expenditure on research and development is charged to the operating cost statement as it is incurred.

1.7 Website development costs
The costs of designing and developing the content of the NS&I website are expensed in the year in which they are incurred.

1.8 Operating income
Operating income is income which relates directly to the operating activities of the department. It comprises rent from external tenants.

1.9 Administration expenditure
Administration costs reflect the costs of running the department. These include those administrative costs and associated operating income controlled under the administration cost-control regime (through the Departmental Expenditure Limit). NS&I does not have any programme expenditure.

1.10 Capital charges
A charge, reflecting the cost of capital utilised by NS&I, is included in the operating costs. The charge is calculated at the real rate set by HM Treasury, being 3.5% for 2008–09 on the average carrying amount of all assets less liabilities, except for:

- cash balances with the Office of the Paymaster General where the charge is nil
- liabilities for amounts to be surrendered to the Consolidated Fund where the credit is nil.

1.11 Pensions
Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is non-contributory and unfunded. Liability for payment of future benefits is a charge to the PCSPS.

Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

Full details are given in note 7 on page 70.

1.12 Early departure costs
The department is required to meet the additional cost of benefits beyond the normal Civil Service pension benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. The department provides for this cost when it has entered into contractual arrangements with the early retirees and creates a corresponding provision for its future payments in the balance sheet. In accordance with the requirements of FRS 12, this provision has been discounted. The department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote.

1.13 Other provisions
The department provides for known obligations on the basis of the best estimate of the cost, where the final liability is uncertain at the balance sheet date.

1.14 Value Added Tax (VAT)
The activities of the department are exempted under the terms of VAT legislation and therefore input VAT is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase of fixed assets.

1.15 The Statement of parliamentary supply and the Statement of operating costs by departmental aim and objectives

The information contained in the statement of parliamentary supply and associated notes is based on Request for Resources information. NS&I has only one Request for Resources. This information forms part of the parliamentary approval process.

2 Reconciliation of outturn to net operating cost and against administration budget

2(a) Reconciliation of net resource outturn to net operating cost

	2008–09 Outturn £000	2008–09 Supply estimate £000	2008–09 Outturn compared with estimate £000	2007–08 Outturn £000
Net resource outturn	184,069	185,199	1,130	153,607
Net operating cost	**184,069**	**185,199**	**1,130**	**153,607**

2(b) Outturn against final administration budget

	Note	2008–09 Budget £000	2008–09 Outturn £000	2007–08 Outturn £000
Gross administration budget		191,117	189,817	159,232
Income allowable against final administration budget	5	(5,918)	(5,748)	(5,625)
Net outturn against administration budget		**185,199**	**184,069**	**153,607**

3 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving / (excess) £000
Resource outturn		185,199	184,069	1,130
Capital				
• Acquisition of fixed assets	10(a)	1,438	926	512
Accruals adjustments				
• Non-cash items	8	(4,607)	(4,246)	(361)
• Changes in working capital other than cash		1,600	439	1,161
Use of provision	14(a)	–	207	(207)
Net cash requirement		**183,630**	**181,395**	**2,235**

4 Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid (A in A), the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in *italics*).

	Note	2008–09 Forecast income £000	2008–09 Outturn *receipts* £000	2007–08 Forecast income £000	2007–08 Outturn *receipts* £000
Operating income and receipts – excess A in A	5	–	–	–	–
Other non-operating income and receipts not classified as A in A	6	–	*62*	–	*214*
Total		**–**	**62**	**–**	**214**

5 Reconciliation of income recorded within the operating cost statement to operating income payable to the Consolidated Fund

	Note	2008-09 £000	2007-08 £000
Operating income	9	5,748	5,625
Income authorised to be A in A		(5,748)	(5,625)
Operating income payable to the Consolidated Fund		**–**	**–**

6 Non-operating income not classified as A in A

	Note	2008–09 Income £000	2008–09 Receipt £000	2007–08 Income £000	2007–08 Receipt £000
Prior year fraud recoveries	4	62	62	214	214
Total non-operating income not classified as A in A		**62**	**62**	**214**	**214**

7 Staff numbers and related costs

Staff costs comprise:

	2008–09 Permanently employed UK staff £000	2008–09 Others £000	2008–09 Total £000	2007–08 Total £000
Wages and salaries	6,922	908	7,830	7,125
Social security costs	614	–	614	542
Other pension costs	1,386	–	1,386	1,270
Total net costs	**8,922**	**908**	**9,830**	**8,937**

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, but NS&I is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2008–09, employers' contributions of £1,366,721 were payable to the PCSPS (2007–08 £1,269,883) at one of four rates in the range 17.1% to 25.5% (2007–08: 17.1% to 25.5%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2009–10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008–09 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £19,008 (2007–08: £14,420) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0% to 12.5% (2007–08: 3.0% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3.0% of pensionable pay. In addition, employer contributions of £1,170, 0.8% (2007–08: £1,003, 0.8%) of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

7.1 Average number of persons employed

The average number of full-time equivalent persons employed during the year was as follows:

	2008–09 Permanently employed UK staff	2008–09 Others	2008–09 Total	2007–08 Total
Administration of NS&I	136	22	158	146
Total	**136**	**22**	**158**	**146**

8 Other administration costs

	Note	2008–09 £000	2008–09 £000	2007–08 £000	2007–08 £000
Operational contract costs					
Public Private Partnership provider costs		120,662		95,914	
Selling agents		28,828		27,469	
Giro fees, Link line, ATMOS and banking charges		1,394		1,384	
			150,884		124,767
Marketing and research costs					
Marketing		12,405		11,554	
Research		2,243		2,192	
			14,648		13,746
Other expenditure					
Consultancy, internal audit contract and personnel costs		4,507		3,957	
Professional services		4,016		2,346	
Rentals under operating leases		514		473	
Other costs		890		789	
Losses and special payments	25	224		282	
Audit of Ordinary Deposits White Paper Account		58		58	
			10,209		7,905
Non-cash items					
Tangible fixed assets depreciation	10(a)	1,414		1,289	
Intangible fixed assets amortisation	10(b)	49		44	
Prepayment amortisation	11(a)	1,539		1,539	
Diminution in fixed assets		–		22	
Loss on disposal of fixed assets		1		–	
Increase in early departure provision	14(a)	43		73	
Increase in losses provision	14(b)	160		–	
Cost of capital charge	15	306		255	
Notional external audit fees:					
Product Accounts statutory audit		650		597	
Product Accounts IFRS dry-run audit		8		–	
Resource Accounts statutory audit		58		58	
Resource Accounts IFRS dry-run audit		18		–	
			4,246		3,877
Administration costs			**179,987**		**150,295**

Selling agents include our distribution partners, Post Office®, WHSmith and other minor agents.

The external audit fees relating to Ordinary Deposits White Paper Account of £58,000 (2007–08: £58,000) are paid in cash. The National Audit Office (NAO) is NS&I external auditor and received no remuneration for non-audit work.

PriceWaterhouseCoopers (PWC) is the NAO's framework partner for the Product Accounts audit. PWC did not undertake any non-audit work for NS&I.

9 Operating income

Operating income comprises:

	2008–09 £000	2007–08 £000
Rent from external tenants	5,748	5,625
Total operating income	**5,748**	**5,625**

Non-operating income and receipts not classified as A in A comprises amounts that relate to prior years, including prior year loss recoveries. The actual receipts surrenderable were £61,850.

10 Fixed assets

10(a) Tangible fixed assets

	Freehold land & buildings £000	Information technology £000	Plant & machinery £000	Furniture & fittings £000	Asset under construction £000	Total £000
Cost or valuation						
At 1 April 2008	31,921	307	793	3,897	–	36,918
Additions	–	27	8	41	850	926
Disposals	–	(94)	(16)	(5)	–	(115)
Revaluation	–	34	61	20	–	115
Downward revaluation	(805)	–	–	–	–	(805)
At 31 March 2009	**31,116**	**274**	**846**	**3,953**	**850**	**37,039**
Depreciation						
At 1 April 2008	(6,765)	(212)	(581)	(2,530)	–	(10,088)
Provided in year	(681)	(43)	(78)	(612)	–	(1,414)
Disposals	–	94	14	5	–	113
Backlog depreciation	–	(34)	(61)	(20)	–	(115)
Downward revaluation adjustment	168	–	–	–	–	168
At 31 March 2009	**(7,278)**	**(195)**	**(706)**	**(3,157)**	**–**	**(11,336)**
Net book value						
At 31 March 2008	25,156	95	212	1,367	–	26,830
At 31 March 2009	**23,838**	**79**	**140**	**796**	**850**	**25,703**

The freehold land and buildings were revalued at 31 March 2005 by professional valuers on an existing use basis. Chartered surveyors Montagu Evans (Glasgow), Knight Frank (Durham) and Edmund Kirby (Blackpool) carried out the valuations in accordance with the Appraisal and Valuation Manual.

The land and buildings are under an operating lease with Siemens.

The asset under construction is the extension on the Moorlands building at NS&I's Blackpool site. The work began during 2008–09 and will be completed during 2009–10. A certified valuation of the building work completed was carried out by Hulme Upright Manning Architects. The value of this work was £492,000 at 31 March 2009. Other costs capitalised on this site include legal fees, architect fees and other professional costs.

10(b) Intangible fixed assets

	Software licences 2008–09 £000	Software licences 2007–08 £000
Cost or valuation		
At 1 April	301	312
Additions	–	–
Disposals	–	–
Revaluation	(11)	(11)
At 31 March	**290**	**301**
Amortisation		
At 1 April	(212)	(168)
Provided in year	(49)	(44)
Disposals	–	–
Revaluation adjustment	11	–
At 31 March	**(250)**	**(212)**
Net book value		
At 31 March	**40**	**89**

11 Debtors

11(a) Debtors

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
Deposits and advances	53	38
Prepayments and accrued income	162	571
PPP contract prepayment from asset transfer	–	1,539
Other debtors	27	19
Total	**242**	**2,167**

At 31 March 2009 there were no debtors falling due after more than one year.

The number of employees with an advance for season-ticket purchases in excess of £2,500 at 31 March 2009 was six.

Under a contract signed with Siemens in January 1999 for the provision of operational services, the majority of the department's assets were reclassified as a prepayment at 31 March 1999 and subsequently transferred to Siemens on 1 April 1999, for a nominal sum. This had the effect of reducing charges that would otherwise have been payable to Siemens over the life of the contract. The prepayment was being amortised over the initial life (10 years) of the contract on a straight-line basis.

11(b) Intra-Government balances – debtors

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
Balance with other central Government bodies	–	–
Balance with public corporations and trading funds	–	–
Subtotal: Intra-Government balances	–	–
Balance with bodies external to Government	242	2,167
Total debtors at 31 March	**242**	**2,167**

At 31 March 2009 there were no Intra-Government debtors falling due after more than one year.

12 Cash at bank and in hand

	Note	2008–09 £000	2008–09 £000	2007–08 £000	2007–08 £000
Balance at 1 April			1,426		189
Movement in cash balance (decrease)/increase	17(d)	(91)		3,526	
Exclude overdrawn HM Paymaster balance		–		(2,289)	
Net change in cash balances			(91)		1,237
Closing cash balance 31 March			**1,335**		**1,426**
The following balances at 31 March are held at:					
Office of HM Paymaster General		1,281		1,418	
Commercial banks		54		8	
			1,335		1,426
The balance at 31 March comprises:					
Cash due to be paid to the Consolidated Fund			**1,335**		**1,426**

13 Creditors

13(a) Creditors

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
Taxation and social security	276	292
Trade creditors	7,815	10,156
Other creditors	141	124
Accruals	9,630	8,115
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,335	1,426
Total	**19,197**	**20,113**

At 31 March 2009 there were no creditors falling due after more than one year.

13(b) Intra-Government balances – creditors

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
Balance with other central Government bodies	1,614	1,718
Balance with public corporations and trading funds	1,974	1,314
Subtotal: Intra-Government balances	3,588	3,032
Balance with bodies external to Government	15,609	17,081
Total creditors at 31 March	**19,197**	**20,113**

At 31 March 2009, there were no Intra-Government creditors falling due after more than one year.

14 Provisions for liabilities and charges

14(a) Movements in the provision for early departure costs

	2008–09 £000	2008–09 £000	2007–08 £000	2007–08 £000
Balance at 1 April		547		728
Use of provisions	(207)		(254)	
Increase in provision	43		73	
		(164)		(181)
Total early departure costs provision at 31 March		**383**		**547**

14(b) Movements in the provision for losses

	2008–09 £000	2007–08 £000
Balance at 1 April	–	–
Increase in provision	160	–
Total losses provision at 31 March	**160**	**–**
Provisions for liabilities and charges (total of 14(a) and 14(b))	**543**	**547**

The department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. The department provides for this cost when it has entered into contractual arrangements with the early retirees and creates a corresponding provision for its future payments in the balance sheet.

The provision for losses represents amounts for fraud where probable future obligations exist.

15 General Fund

	Note	2008–09 £000	2008–09 £000	2007–08 £000	2007–08 £000
Balance at 1 April			(1,580)		(4,107)
Parliamentary funding drawn down	17(c)		182,730		156,650
Net transfer from operating activities:					
Net operating cost			(184,069)		(153,607)
Year-end adjustment:					
Consolidated Fund creditors for cash unspent	13(a)		(1,335)		(1,426)
Non-cash charges:					
Cost of capital		306		255	
NAO notional audit fee		734		655	
			1,040		910
Balance at 31 March			**(3,214)**		**(1,580)**

16 Revaluation reserve

	2008–09 £000	2007–08 £000
Balance at 1 April	11,432	8,551
Arising on revaluation during the year (net)	(638)	2,881
Balance at 31 March	**10,794**	**11,432**

17 Notes to cash flow statement

17(a) Reconciliation of operating cost to operating cash flows

	Note	2008–09 £000	2007–08 £000
Net operating cost		184,069	153,607
Adjustments for non-cash transactions	8	(4,246)	(3,877)
Increase / (decrease) in debtors		(386)	(184)
Decrease / (increase) in creditors		825	5,379
Use of provisions	14	207	254
Net cash outflow from operating activities		**180,469**	**155,179**

17(b) Analysis of capital expenditure and financial investment

	Note	2008–09 £000	2007–08 £000
Tangible fixed asset additions	10(a)	926	45
Intangible fixed asset additions	10(b)	–	–
Net cash outflow from investing activities		**926**	**45**

17(c) Analysis of financing

	Note	2008–09 £000	2007–08 £000
From the Consolidated Fund (supply) – current year	17(d)	182,730	156,650
Cash surrender of part of prior year's unspent supply	17(d)	(1,426)	2,100
Net Financing		**181,304**	**158,750**

17(d) Reconciliation of net cash requirement to increase / (decrease) in cash

	2008–09 £000	2007–08 £000
Net cash requirement	(181,395)	(155,224)
From the Consolidated Fund (supply) – current year	182,730	156,650
From the Consolidated Fund (supply) – prior year	–	2,100
Cash surrender of part of prior year's unspent supply	(1,426)	–
(Decrease) / increase in cash	**(91)**	**3,526**

18 Capital commitments

	31 March 2009 £000	31 March 2008 £000
Contracted for but not provided	2,541	20
Authorised but not contracted	–	–
Total	**2,541**	**20**

19 Commitments under operating leases

The department was committed to making the following payments during the next financial year in respect of operating leases.

	31 March 2009 £000	31 March 2008 £000
Land and buildings		
Lease expiring within:		
One year	–	–
Two to five years	483	453
After five years	–	–
Total	**483**	**453**
Other:		
Lease expiring within:		
One year	–	3
Two to five years	22	13
After five years	11	11
Total	**33**	**27**

The lease payments due under the contract which expires after five years relate to land. None of these leases relate to the hire of plant.

20 The Public Private Partnership (PPP) contract

In January 1999, NS&I signed a 10-year contract with Siemens for the provision of operational services, which came into effect on 1 April 1999. The initial 10-year contract was extended to a 15-year contract, ending in March 2014. Exercising the option to extend on pre-agreed terms was covered in the terms of the original contract signed in 1999. The majority of NS&I's assets transferred to Siemens for a nominal sum, which had the effect of reducing charges, which would otherwise have been payable to Siemens over the life of the contract. The majority of NS&I's staff also transferred to Siemens on 1 April 1999.

NS&I is committed to making annual payments to Siemens, and these payments are set to reduce significantly over the life of the contract as NS&I gains from the capital investment and operational efficiency brought about by this agreement. The estimated capital value of the contract is £48.1 million.

The level of annual payment is specified in the contract but may vary according to transaction volumes, new product and service channel developments, and the level of Siemens' performance. It is also uplifted each year in line with movements in the Retail Prices Index excluding mortgage interest payments (RPIX). If Siemens meets the performance standards in the contract and the transaction levels and business developments fall within agreed parameters, the payments under the contract at constant price levels would be as follows.

	£000
Amounts falling due within one year	83,148
Net present value of amounts falling due within two to five years	279,402

A discount rate of 3.5% has been used to derive the net present value of the payment stream in years two to five.

Under the terms of the contract, NS&I is also committed to paying for the cost of making its systems capable of handling the Euro while the UK remains outside the Euro area, and for possible changes should the UK decide to join. Under the terms of the contract, Siemens is entitled to charge for the actual cost of the work, but an upper limit of £9 million (plus uplift charges) has been set. Any costs incurred above the upper limit will be met by Siemens.

21 Contingent liabilities disclosed under FRS 12

There were no contingent liabilities at 31 March 2009.

22 Post balance sheet events

There were no other reportable post balance sheet events between the balance sheet date and 10 July 2009, the date of authorisation of the accounts. The financial statements do not reflect events after that date.

23 Related party transactions

NS&I is an Executive Agency of the Chancellor of the Exchequer and a government department.

Post Office® is a major distributor of NS&I products and, as a public body, Post Office® is a related party. NS&I had a significant number of transactions with Post Office® during the accounting period. NS&I Post Office® costs during 2008–09 were £28,487,056 (2007–08: £27,195,244) for contract services and £nil for non-contract services (2007–08: £117,500).

NS&I entered into a 10-year PPP contract with Siemens for the provision of operational services, which came into effect on 1 April 1999. This was extended to 31 March 2014. As the major provider of operational services, Siemens is a related party. Note 8 to these accounts contain details of amounts payable under the contract during 2008–09 and note 20 to the accounts contains details of future commitments arising under the contract. Under the same contract, Siemens has entered into an agreement to lease NS&I's three operational sites in return for a monthly rent. Details of the amounts receivable are provided in note 9 to these accounts.

During the year, none of the board members, members of key management staff or other related parties have undertaken any material transactions with NS&I. Investments in NS&I products by members of staff are not considered to be related party transactions and are therefore excluded from this declaration.

24 Resources by departmental aims and objectives

During 2000–01, NS&I objectives were redefined as part of the quinquennial review of the department. HM Treasury confirmed that NS&I has only one aim and one objective, as noted on 'Statement of parliamentary supply' (shown on page 62). This has subsequently been confirmed in the Landscape Review in 2005. To comply with the *Government Financial Reporting Manual* (FReM) and the *Accounts Direction* in these accounts, there is only one departmental strategic objective. The associated administrative cost is therefore equal to the net resource outturn, as shown in the operating cost statement.

25 Losses and special payments

	No of cases	31 March 2009 £000	No of cases	31 March 2008 £000
Compensation payments	15	4	9	15
Fraud loss	162	195	159	267
Operational losses	–	–	3	–
Constructive losses	–	–	–	–
Special payment	1	25	–	–
Other	–	–	–	–
Total	**178**	**224**	**171**	**282**

26 Financial instruments

As the cash requirements of the department are met through the Estimates process, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the department's expected purchase and usage requirements, and the department is therefore exposed to little credit, liquidity or market risk.

Product Accounts 2008–09

Foreword

Background

National Savings and Investments (NS&I)

NS&I became an Executive Agency of the Chancellor of the Exchequer in 1996. Its origins can be traced back to the National Savings Bank in the 1860s. In February 2002 National Savings launched its new name and corporate identity, and is now known as 'NS&I'.

NS&I is an integral part of the UK's debt management arrangements. Its sole aim is to help reduce the cost to the taxpayer of Government borrowing now and in the future, through the sale of savings and investment products to the retail market, thus providing retail funding for Government that is cost-effective in relation to funds raised on the wholesale market.

The Director of Savings, who is also NS&I's Chief Executive, is the Accounting Officer responsible for administering NS&I's products. The Chief Executive of NS&I is accountable to HM Treasury Ministers for the performance of the Agency and, as Accounting Officer, to Parliament for the proper, effective and efficient use of public funds. Accountability to HM Treasury Ministers is achieved via a governance framework, which includes a Framework Document, Corporate Plan, Service Delivery Measures and the annual Financing Remit.

Siemens

In January 1999, NS&I signed a 10-year contract with Siemens for the provision of operational services which came into effect on 1 April 1999. The initial 10-year contract was extended to a 15-year contract ending in March 2014.

The National Loans Fund (NLF)

The NLF is central Government's main borrowing and lending account. The NLF undertakes borrowing and uses the proceeds to meet any deficits on the Consolidated Fund. Most of the NLF's borrowing needs are met indirectly through borrowing on its behalf by NS&I and the Debt Management Office (DMO). The NLF finishes every day with a nil balance on its bank account because any cash surpluses or deficits are offset by transfers to or from the Debt Management Account (DMA). HM Treasury is responsible for the operation of the NLF.

The Commissioners for the Reduction of the National Debt (CRND)

Under the National Savings Bank Act 1971, Ordinary Account investments are passed to the CRND who invest them under section 18 of that Act. The CRND forms part of the DMO.

Under the National Savings Stock Register Regulations 1976, some old un-cleared payments are also passed to the CRND for inclusion in the Unclaimed Dividends Account.

NS&I's products and regulation

These accounts cover transactions and balances on all NS&I's products.

The products covered by these accounts and their governing legislation and regulations are as follows:

Products governed by the National Debt Act 1972

British Savings Bonds	National Savings Stock Register Regulations 1976
Capital Bonds	National Savings Stock Register Regulations 1976
Children's Bonus Bonds	Savings Certificates (Children's Bonus Bonds) Regulations 1991
Deposit Bonds	National Savings Stock Register Regulations 1976
First Option Bonds	National Savings Stock Register Regulations 1976
Guaranteed Income Bonds and Guaranteed Growth Bonds (previously known as Fixed Rate Savings Bonds)	National Savings Stock Register Regulations 1976
Gift Tokens	
Guaranteed Equity Bonds (GEB)	National Savings Stock Register Regulations 1976
Income Bonds	National Savings Stock Register Regulations 1976
Pensioners' Guaranteed Income Bonds	National Savings Stock Register Regulations 1976
Premium Bonds	Premium Savings Bonds Regulations 1972
Save As You Earn	Savings Contracts Regulations 1969
Savings Certificates	Savings Certificates Regulations 1991
Savings Stamps	National Savings Stamps Regulations 1969
Yearly Plan	Savings Certificates (Yearly Plan) Regulations 1984

Products governed by the National Savings Bank Act 1971

Easy Access Savings Account	National Savings Bank Regulations 1972
Individual Savings Account	National Savings Bank Regulations 1972
Investment Account	National Savings Bank Regulations 1972
Ordinary Account	National Savings Bank Regulations 1972
Residual Account	National Savings Bank Regulations 1972
Treasurers' Account	National Savings Bank Regulations 1972

British Savings Bonds, Deposit Bonds, First Option Bonds, Gift Tokens, Ordinary Account, Save As You Earn, Savings Stamps, Treasurers' Account, Yearly Plan, Capital Bonds and Pensioners' Guaranteed Income Bonds were not on sale during the year, but some customer funds are still invested within them. During 2008–09, NS&I announced its intention to close the Mini Cash Individual Savings Account (ISA) to new customers and withdrew the facility for existing customers to make deposits into the Mini Cash ISA at the Post Office® in April 2009.

British Savings Bonds, Deposit Bonds, Gift Tokens, Ordinary Account, Save As You Earn, Savings Stamps, Treasurers' Account and Yearly Plan were transferred to the Residual Account in April 2008 under the Legacy Management project as part of the **NS&I adding value** strategy to simplify and modernise the business. The Residual Account was developed to manage investments which NS&I has been unable to repay the customers. It acts as a single repository for investments from closed and matured products.

Although NS&I is not regulated by the Financial Services Authority (FSA), it recognises the relevant regulations, and aims for voluntary compliance with relevant FSA standards and works in the spirit of the overall regulatory framework. Over the past 12 months, the focus has been on implementing and embedding relevant work practices and ensuring closer adherence to the relevant standards set out in the FSA handbook, and this focus will continue in the future.

NS&I joined the Financial Ombudsman Service (FOS) voluntary jurisdiction scheme in 2005. Under FOS jurisdiction, NS&I's complaints procedure has been streamlined to achieve clarity and transparency and to deliver greater simplicity for customers, who have access to the same dispute resolution process as other financial services providers.

NS&I strives to meet both the regulatory and the best practice standards within the financial services industry that are applicable to a savings organisation dealing in cash deposits.

Accounts

The accounts have been prepared under a direction issued by HM Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000. This direction is disclosed in an Annex to these accounts.

Scope of the Product Accounts

These accounts record the transactions for the year ended 31 March 2009 on retail savings and investment products administered by NS&I and the balances in respect of those products as at that date. They do not include:

- *The investment or use of funds*. Customer funds are not directly invested by NS&I. They are passed to either the NLF to fund public sector activity, or to the CRND, where they are invested mainly in Government securities.
- *NS&I's administration costs*. These are funded by Parliamentary Vote and accounted for separately in the 'Resource Accounts' in the Annual Report. However, the interest costs on NS&I products are included in the total cost of servicing the national debt, and these costs are therefore reflected as a charge on the NLF account and these accounts.
- *Tax foregone*. Some NS&I products are tax free. The notional cost of tax foregone by the Exchequer is not recognised as a cost in these accounts, but is considered as part of NS&I's overall Value Add metric when computing how cost-effective NS&I has been at financing the national debt.

A separate White Paper account (Ordinary Deposits Account) is also published for the Ordinary Account.

Performance for the year

NS&I's objective is to provide the Government with cost-effective retail finance, compared to funds raised on the wholesale market. In response to the changing market conditions, one of NS&I's Service Delivery Measures (SDMs), Value Add, was temporarily suspended as agreed with HM Treasury.

Highlights from 2008–09

- NS&I raised £26.03 billion through sales and deposits for the year ended 31 March 2009 (2007–08: £15.54 billion). After repayments and interest, total liabilities to customers (Net Financing) increased by £12.45 billion during 2008–09 to £97.23 billion
- excellent operational performance in the context of the exceptional and unsolicited inflows seen during the year, especially during the period immediately following the events of September 2008
- simplification of the product range, with closure of Mini Cash ISA to new sales announced during the year and withdrawal of the product from the Post Office® (effective from 5 April 2009)
- progress on the modernisation of NS&I's IT infrastructure, including a new banking platform
- **mylostaccount.org.uk**, the online tracing service launched with the British Bankers' Association (BBA) and Building Societies' Association (BSA) on 30 January 2008, continued to successfully reunite NS&I's customers with their unclaimed assets. In 2008–09, NS&I reunited £102 million of assets with their owners (£37 million in 2007–08)

- as part of the move to voluntary compliance with relevant FSA standards, NS&I continued to implement the compliance and risk strategies that were developed and agreed in 2007–08. In recognition of our legal obligations under the Proceeds of Crime Act 2002, Terrorism Act 2000 and Money Laundering Regulation 2007, NS&I introduced a verification of identity check for 15 million existing customer records
- Siemens and NS&I retained the Customer Contract Association (CCA) Global Standard following an extensive interim assessment of our Customer Interaction Centres (CIC) in Glasgow, Blackpool and Durham
- Siemens (NS&I account) was the 2008 winner of the Best Use of the CCA Global Standard award
- NS&I received a Highly Commended award in the Central e-Government excellence category Take-up & usage growth (for **mylostaccount.org.uk**)
- NS&I received awards at the Financial Services Forum Awards for Marketing Effectiveness 2008 for Most Effective Advertising Campaign (for **mylostaccount.org.uk**), and commendations in the Digital Activity and the New Product, Service or Innovation categories (for **mylostaccount.org.uk** again) and in the Sponsorship category for building effectiveness through Classic FM
- NS&I and Siemens were finalists in the Best Outsourcing Partner category at the European Call Centre Awards
- as part of the **NS&I adding value** strategy to simplify and modernise the business, NS&I amalgamated all dormant accounts, such as the Ordinary Account, into a newly created Residual Account.

Looking forward

The Net Financing target for 2009–10 is to maintain a neutral position (nil for the year +/– £2 billion) and NS&I will continue implementing its **NS&I adding value** strategy, although the existing Value Add target remains temporarily suspended.

Audit

These accounts have been audited by the Comptroller and Auditor General, whose Certificate and Report appear on pages 89 and 90.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
23 June 2009

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed NS&I to prepare, for each financial year, accounts covering all its products. The accounts are prepared on an accruals basis and must give a true and fair view of the products' balances at the year end, and of the income and expenditure and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual*, and in particular to:

- observe the *Accounts Direction* issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going-concern basis.

HM Treasury has appointed the Chief Executive as Accounting Officer of NS&I.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding NS&I's assets, are set out in *Managing Public Money* published by HM Treasury.

The Accounting Officer's responsibility to keep information relating to proper records includes responsibility for the maintenance, the integrity and the upkeep of the Product Accounts on the NS&I website.

Statement on internal control

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of NS&I policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in HM Treasury's *Managing Public Money* document.

As Accounting Officer I retain sole responsibility for the system of internal control within NS&I. I am assisted in discharging this responsibility by the board, which, in addition to me and the other NS&I Executive Directors, comprises four independent Non-executive Directors and two representatives of HM Treasury, who provide the key assurance link back to the Treasury Ministers.

The Treasury Minister, while maintaining accountability, has delegated day-to-day dealings with NS&I to HM Treasury's Debt and Reserves Management (DRM) team. The NS&I board has assumed overall responsibility for monitoring the effectiveness of the Agency's risk management processes. My senior staff and I also hold regular briefing meetings with other relevant HM Treasury teams, and a monthly performance report is sent to the Economic Secretary to the Treasury as part of our overall governance arrangements with HM Treasury.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in NS&I for the year ended 31 March 2009 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

3. Capability to handle risk

The board, Audit Committee and Executive Management Team (EMT) have primary responsibility for identifying and monitoring the key risks which NS&I faces. The board delegates the responsibility for overseeing the risk management process to the Audit Committee, with the Audit Committee reporting back to the board after each meeting. Every month the EMT considers whether there are any new risks to the business to be registered and discusses the key risks as part of its monthly risk review. The Audit Committee formally reviews the key risks at least annually to ensure that they remain valid and complete in the light of changing circumstances in the year and business plans for the coming year.

NS&I has a risk management strategy, a risk management framework and agreed risk management reporting protocols, and these are reviewed and approved annually by the Audit Committee.

The Audit Committee, chaired by an independent Director, is responsible for providing assurance, in conjunction with internal and external auditors, to the board on the existence and effectiveness of the overall processes for managing risk within NS&I and within these parts of Siemens concerned with NS&I business.

NS&I's business model means that we are critically reliant on our business partner, Siemens, for the delivery of our strategic objectives. Consequently, we have established joint processes with Siemens to manage the partnership as one business. These include Siemens' representation at relevant committees; joint working between project offices; joint project teams; and a Joint Audit and Risk Management Committee (JARMC). The JARMC updates the Audit Committee on the management of risks to the joint business. Across the whole business, Directors and operational managers are responsible for embedding risk identification and management within the design, documentation and operation of business processes, in line with agreed risk tolerances.

NS&I's Committee structure is reviewed every year to enhance governance, empower staff and include Siemens personnel in all appropriate areas. Compliance Risk, Fraud and Security functions have all been strengthened. Key risks are shared with HM Treasury through the Audit Committee.

The risk management process is led by the EMT, which comprises the Executive Directors and the Siemens Account Director responsible for the NS&I account, and is responsible for:

- implementation of the risk management strategy
- developing and overseeing the risk management framework
- identifying and evaluating strategic risks
- designing, operating and monitoring a suitable system of internal control.

4. The risk and control framework

An analysis of key risks and the consequent significant sub-risks has been established through an ongoing programme of individual and collective discussion with the Executive Directors. With very few exceptions where sub-risks have been retained by the Directors, all sub-risks have been allocated to senior managers. An organisation-wide risk register records all significant risks identified, links lower level risks through to the key risks, records mitigating controls and named risk managers. The Audit Committee reviews the key risks annually to ensure that they remain valid and complete in the light of business plans for the coming year.

For each key risk and sub-risk identified, the assessment and scoring of the probability and impact both before and after mitigating controls is performed using a consistent methodology on a risk matrix. The results of this are considered against our agreed organisational risk appetite as approved annually by the Audit Committee. Reviews of risks and their risk scores are performed regularly by senior managers and the EMT. Where further action is necessary to reduce exposure, the action, and its intended effect on the status of the risk, is logged, responsibility allocated, and a completion date agreed. This ensures that there is ongoing tracking of any risk where exposure remains unacceptably high despite the controls that are in place. These risks are flagged as red, reviewed monthly by the EMT and reported to the Audit Committee.

Our management of risk is embedded in policy making, planning and delivery by Executive Directors and senior managers, who are responsible for ensuring the proper management of risks and for cascading implementation of the risk management strategy and framework within their respective directorates and teams. Senior managers are responsible for implementation of self-assessment processes.

As part of the annual planning cycle, senior managers are required to identify the significant risks that could impact on the achievement of each main element of their proposed business plans for the year. These risks are then compared with the existing risk register, which is amended as necessary.

Contingency plans are in place or are being implemented for all sub-risks where exposure is inherently unacceptable.

A programme management function ensures that all projects are subject to formal project management disciplines, including an assessment of inherent and residual risks. Projects are governed by formal project management disciplines, including regular review of project and programme risks overseen by the project board, EMT, Audit Committee and the board.

Senior managers provide assurance to the relevant Executive Directors that they are satisfied that all their sub-risks are adequately controlled, or that plans are in place to provide that control. In addition, EMT members provide me with equivalent assurance for the key risks for which they have responsibility. Executive Directors also provide assurance that an adequate system of internal control operates within their directorates, and that, to the best of their knowledge, their staff comply with all relevant legal and regulatory requirements.

The risk management process continues to be enhanced.

The key achievements in 2008–09 include:

- continuing to implement a risk based approach to anti-money laundering in line with the Money Laundering Regulations 2007
- embedding Treating Customers Fairly within our culture:
  - conducting regular reviews with every area of the business
  - implementing an electronic workflow approval process for any financial promotions issued to make sure that these are fair, clear and not misleading
  - enhancing the complaints-handling processes
- refining data protection and retention rules to be built into our new systems
- conducting a comprehensive audit of our compliance arrangements with the Post Office®
- making further enhancements to our overall risk framework, including key policies and related assurance
- refining and reviewing the effectiveness of our governance committees to ensure that they are working as required
- providing ongoing training to our staff on key compliance issues
- continuing to embed compliance more deeply into our delivery partner, Siemens.

Plans for 2009–10 include the continued strengthening of our risk management and compliance assurance processes and increased investment in Information Security and in our fraud risk management capabilities.

5. Statement of information risk

NS&I holds personal information relating to its customers and readily acknowledges its responsibility to ensure that this information is accurate and up-to-date, and its duty to ensure that the personal information entrusted to it is properly safeguarded from loss and unauthorised access.

The Cabinet Office's review of data-handling procedures in government, published in June 2008, made a number of recommendations to be implemented across government. In December 2008, the Cabinet Office published Her Majesty's Government (HMG) Security Policy Framework which embraces the requirements of the Data Handling Review. This framework superseded the Manual of Protective Security and set out mandatory requirements for government departments on protective security, covering physical, personnel and information security.

NS&I has followed the Cabinet Office's recommendations on information security and is complying with the HMG Security Policy Framework. NS&I undertook a gap analysis of practice against the Cabinet Office data-handling guidance and the Security Policy Framework, and developed an action plan to implement the recommendations from its review of data handling and any disparities identified by the gap analysis.

NS&I's risk register includes a number of sub-risks on data handling and information assurance. NS&I has zero tolerance for information asset losses and will continue to reinforce this through policies and procedures and staff acceptance of them.

Roles and responsibilities for information assurance within NS&I have been clearly defined.

NS&I has produced clear guidance for NS&I staff and those of delivery partners for the management of personal data and has introduced procedures to ensure that any information shared with third parties is properly authorised, protected at all times and securely delivered.

In 2008–09, all NS&I staff received training in data protection and information security through e-learning packages, and in 2009–10 this will be augmented by more focused security awareness training and will be expanded to include Siemens staff working for NS&I.

NS&I has also encrypted the hard drives of all laptops, in line with Cabinet Office guidance. For data that cannot be transmitted electronically, it has implemented bulk data transfer via disk using approved encryption and defined procedures.

An information charter is available on the NS&I website.

NS&I will shortly establish a network of Information Asset Owners whose role will be to understand what information is held, what is added and what is removed, how information is moved, and who has access, so as to understand and address risks to the information they use. The Information Asset Owners will provide additional overall assurance quarterly on the use and security of the data for which they are responsible.

The existing programme of staff vetting will be extended during 2009–10 to include increased levels of identity and financial checks for all NS&I staff and those in Siemens handling NS&I customer information.

NS&I's policies will continue to be reviewed to ensure that they provide a secure environment for information handling and to ensure that they continue to meet the requirements set out in the HMG Security Policy Framework. All staff will be required to provide written confirmation that they are aware of the policies and the responsibilities that the policies place on them.

6. Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and those Executive Directors and managers within the department and Siemens who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The board, via the Audit Committee, satisfies itself as to the adequacy of the risk management process and reviews the management of each key residually red risk at least annually by examining evidence of performance against objectives and targets, the timely identification and assessment of significant risks, the prioritisation of risks and the allocation of resources to address areas of exposure, the ability of NS&I to learn from its experiences and the commitment and speed with which corrective actions are implemented. The board, via the Audit Committee, also reviews the internal and external risk profile for the coming year and considers if current internal control arrangements are likely to be effective.

The Executive Directors conduct regular reviews of the risk register, with the top risks being reported monthly to the EMT for review. These are reviewed at least annually by the Audit Committee. The Audit Committee also reviews annually assurance on the overall system of internal control provided by the Head of Internal Audit, and advises the board of its assessment of the internal control system.

The Head of Internal Audit provides the Audit Committee with regular reports on internal audit activity, including an independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

The overall internal audit plan and internal audit process for the NS&I business, led by Deloitte, is based on management's assessment of risk throughout the business. In my opinion, and that of the Audit Committee, this appreciably enhances the internal audit process, and hence the value of the internal audit assurance. We will continue our ongoing process for assessing internal controls against best practice across all systems and products. The approach to reviewing effectiveness and plans to ensure the continuous improvement of the systems in place will be further refined in 2009–10.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
23 June 2009

The certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of National Savings and Investments' Product Accounts for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, and the financial statements, in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the Foreword is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if National Savings and Investments has not kept proper accounting records, if I have not received all the information and explanations I require for my audit.

I review whether the Statement on Internal Control reflects National Savings and Investments' compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of National Savings and Investments' corporate governance procedures or its risk and control procedures.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to National Savings and Investments' circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the Foreword.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of affairs of the National Savings and Investments Product Accounts as at 31 March 2009, and of the income and expenditure and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information within the Foreword is consistent with the financial statements.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

10 July 2009

Income and expenditure (I&E) statement

for the year ended 31 March 2009

	Notes	2008–09 £000	2007–08[1] £000
Interest and prizes financed by the NLF (excluding revaluation of embedded derivatives)		2,785,027	3,494,659
Loss on revaluation of embedded derivatives		(230,738)	(169,934)
Interest and prizes financed by the NLF	4	2,554,289	3,324,725
Interest and prizes financed by the CRND	5	732	5,665
		2,555,021	3,330,390
Interest and prizes payable to investors (excluding revaluation of embedded derivatives)		(2,785,759)	(3,500,324)
Gain on revaluation of embedded derivatives		230,738	169,934
Interest and prizes payable to investors	3	(2,555,021)	(3,330,390)
Net cost		–	–

The notes on pages 94 to 103 form part of these accounts.

An analysis of the income and expenditure by product is disclosed in note 2.

[1] The presentation above has been amended to place income above expenditure, to reflect the requirement of the Accounts Direction for the Executive Agency to prepare an Income and Expenditure statement rather than an Operating Cost Statement, in which expenditure would precede income.

Balance sheet

as at 31 March 2009

	Notes	31 March 2009 £000	31 March 2008 £000
Assets			
Held by the NLF	4	96,551,545	83,707,804
Held by the CRND	5	45,894	336,186
		96,597,439	84,043,990
Current assets			
Cash and cash equivalents		436,892	527,591
Debtors	6	207,887	215,946
		644,779	743,537
Creditors: amounts falling due within one year	7	(11,385)	(7,275)
Net current assets		633,394	736,262
		97,230,833	**84,780,252**
Liabilities			
Liability to investors			
Principal	8	(96,503,049)	(83,483,638)
Accrued interest and prizes	8	(691,922)	(1,254,012)
		(97,194,971)	(84,737,650)
Unclaimed funds	9	(35,862)	(42,602)
		(97,230,833)	**(84,780,252)**

The notes on pages 94 to 103 form part of these accounts.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
23 June 2009

Cash flow statement

for the year ended 31 March 2009

	Notes	2008–09 £000	2007–08 £000
Cash flow from operating activities			
Net increase in total funds invested		12,450,581	5,879,388
Decrease / (increase) in debtors		8,059	(44,406)
Increase / (decrease) in creditors		4,110	(548)
Net cash transfer to the NLF and the CRND	10	(12,551,122)	(5,719,367)
Non-cash adjustment for the amortisation of GEB		(2,327)	(18,438)
Net cash flow from operating activities		(90,699)	96,629
Net (decrease) / increase in cash and cash equivalents		(90,699)	96,629
Cash and cash equivalents, beginning of the year		527,591	430,962
Cash and cash equivalents, end of the year		**436,892**	**527,591**

The notes on pages 94 to 103 form part of these accounts.

Notes to the accounts

1 Accounting policies

1.1 Presentation of accounts

The accounts are prepared in accordance with an *Accounts Direction* given by HM Treasury under the Government Resources and Accounts Act 2000 to the extent specified therein and with HM Treasury's *Government Financial Reporting Manual*. The principal accounting policies applied in the preparation of the accounts are set out below.

1.2 Interest and prizes recognition

Interest and prizes earned by investors are recognised in accordance with the terms and conditions applicable to each product. Capitalised interest is accrued and included in interest and prizes earned in the Income and Expenditure (I&E) statement and liabilities to investors principal in the Balance Sheet. Interest and index linking, where applicable, are accrued from the date of receipt or most recent capitalisation to the end of the accounting period.

The monthly Premium Bond prizes are drawn on the first day of the following month. The prizes are accrued for Premium Bonds which are eligible and still held at the end of each month.

1.3 Financed by the CRND / NLF

The interest and prizes earned by investors are funded by the NLF except for the Ordinary Account, which was funded by the CRND until June 2008 when the product was transferred to the NLF under the Residual Account. The accounting policy for the CRND / NLF interest is as outlined under 'interest and prizes recognition' and is therefore equal and opposite in total, resulting in a net cost of zero.

1.4 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

1.5 Financial assets

On initial recognition, financial assets are classified into loans and receivables. Loans and receivables are assets with fixed or determinable repayments that are not quoted in an active market. Loans and receivables are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, with the exception of Guaranteed Equity Bonds (GEB), which have an embedded derivative. This is measured at fair value, with the movements recognised through the I&E statement. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period. Derecognition of financial assets only occurs when NS&I transfers both its contractual right to receive cash flows from the financial assets and substantially all the risks and rewards of ownership.

1.6 Relationships with the CRND and the NLF

NS&I is the Government's retail savings agency. All funds from investors are payable to either the NLF or the CRND, and all liabilities to investors are discharged from funds payable by the NLF and the CRND, on a statutory basis. Risks relating to liabilities to investors are met wholly by the NLF and the CRND. Further, the Product Accounts present only a part of the Government's overall financing requirement managed by HM Treasury through the NLF and the CRND (with recourse to the Consolidated Fund), and is financed ultimately from the Government's tax revenues or borrowings. Due to the nature of these arrangements, the risk management and capital disclosure requirements of *Financial Reporting Standard 29 – Financial Instruments: Disclosure* are not applicable for these accounts.

The analysis by principal liability and accrued interest of the total funds held / financed by the NLF (note 4) and the CRND (note 5) does not equal the total funds invested by product (note 8), i.e. liability to investors. This is due to timing differences in the flow of funding and defunding movements between NS&I and its agents and the NLF / CRND via HM Treasury's bank account at the Bank of England. This difference is represented by the net of cash plus debtors minus other creditors.

1.7 Financial liabilities
All financial liabilities are measured at amortised cost using the effective interest method unless stated otherwise. The treatment of GEB is an exception, as noted under the 'financial assets' policy above. Financial liabilities are derecognised when the obligation is discharged.

A receipt from an investor is recognised as a liability when NS&I or one of its agents receives a payment instrument for a valid investment. Investments are considered valid when investors satisfy evidence of identity requirements. Payments are recognised as a reduction in the liability to the investor on the date of the payment instrument. Where payment instruments are not cashed by the investor within their stipulated time limit, the liability to the investor is reinstated under 'Out of Date Warrants', then transferred to the CRND as unclaimed money after an appropriate period.

If an investor decides to reinvest funds in the same or another product, this is termed a reinvestment and is recognised as a payment and new receipt. An automatic or default rollover of funds within the same product, which requires no action by the investor, is not recognised as a payment or receipt.

1.8 Derivative financial instruments
A derivative embedded in a product is accounted for as a stand-alone derivative if it is not evidently closely related to the product. It is recognised initially, and subsequently measured, at fair value. Gains and losses arising from changes in the fair value of a derivative are recognised in the I&E statement.

In March 2002, NS&I began to issue GEBs in partnership with the DMO. GEBs include an embedded equity derivative, which is exposed to equity index risk and interest rate risk over the life of each of the GEB issues. These risks were transferred to the DMO to manage and mitigate for each of the GEB issues as NS&I does not hold any underlying position in this product.

Financial Reporting Standard 26 – Financial Instruments: Recognition and Measurement requires all embedded derivatives that are not closely related to the host contract to be separately accounted for from the host contract. The separated embedded derivative must be measured at fair value through the I&E statement.

The fair value of the GEB embedded derivative is calculated by an independent specialist and provided to NS&I by the DMO. The embedded derivative is an Asian option on the FTSE 100. The value is determined by the use of a local volatility model, which includes the following standard factors for options: FTSE 100 strike; FTSE dividend yield; time to maturity; implied FTSE volatility; and the risk-free yield.

The fair value of the embedded derivative is set at an equal and opposite value to the hedging derivative, with both values being reflected on the liability and the asset sides of the Balance Sheet respectively.

2 Transactions with investors by product

	Received from investors £000	Interest and prizes earned £000	Paid to investors including tax deducted at source £000	Transfer to Residual Account £000	Increase/ (decrease) in investors funds £000	Invested 31 March 2009 £000	Invested 31 March 2008 £000
British Savings Bonds	–	–	(4)	(2,652)	(2,656)	–	2,656
Capital Bonds	(2)	40,353	(230,172)	–	(189,821)	827,265	1,017,086
Children's Bonus Bonds	46,232	51,333	(106,102)	–	(8,537)	1,297,765	1,306,302
Deposit Bonds	–	–	(332)	(5,206)	(5,538)	–	5,538
Easy Access Savings Account	3,739,764	70,999	(1,502,204)	–	2,308,559	3,839,033	1,530,474
First Option Bonds	–	7,378	(25,068)	–	(17,690)	162,494	180,184
Gift Tokens	–	–	(1)	(1,530)	(1,531)	–	1,531
Guaranteed Equity Bonds	95,401	(132,487)	(368,007)	–	(405,093)	604,211	1,009,304
Guaranteed Income Bonds and Guaranteed Growth Bonds	4,354,965	89,439	(270,138)	–	4,174,266	5,037,764	863,498
Income Bonds	3,133,280	330,053	(2,493,442)	–	969,891	9,195,023	8,225,132
Individual Savings Account	1,013,443	161,617	(1,021,893)	–	153,167	4,146,575	3,993,408
Investment Account	1,065,705	136,949	(1,049,549)	–	153,105	5,587,369	5,434,264
Ordinary Account	751	732	(4,982)	(303,793)	(307,292)	–	307,292
Pensioners' Guaranteed Income Bonds	(60)	99,248	(1,434,609)	–	(1,335,421)	1,560,648	2,896,069
Premium Bonds	8,579,086	978,631	(5,688,331)	–	3,869,386	40,792,842	36,923,456
Residual Account	14	3,339	(11,929)	353,194	344,618	344,618	–
Save As You Earn	–	104	(233)	(9,933)	(10,062)	–	10,062
Savings Certificates	4,001,463	717,252	(1,912,719)	–	2,805,996	23,835,226	21,029,230
Savings Stamps	–	–	(1)	(5,772)	(5,773)	–	5,773
Treasurers' Account	–	80	(14,311)	(5,234)	(19,465)	–	19,465
Yearly Plan	–	1	(455)	(19,074)	(19,528)	–	19,528
Total	**26,030,042**	**2,555,021**	**(16,134,482)**	**–**	**12,450,581**	**97,230,833**	**84,780,252**

First Option Bonds, Guaranteed Income Bonds and Guaranteed Growth Bonds are the only products that have tax deducted at source. The total tax deducted during 2008–09 was £13,801,000 (2007–08: £7,906,000).

Guaranteed Equity Bonds (GEB) interest earned figure includes revaluation loss from the embedded derivative at 31 March 2009 of £230,738,000 (31 March 2008: £169,934,000).

The total liabilities to investors transferred to the newly created Residual Account for dormant products was £353,194,000.

3 Interest and prizes payable to investors

	2008–09 £000	2007–08 £000
National Loans Fund	2,554,289	3,324,725
Commissioners for the Reduction of the National Debt	732	5,665
Total	**2,555,021**	**3,330,390**

4 Amounts held by the NLF

	2008–09 £000	2007–08 £000
As at 1 April	83,707,804	77,965,989
Interest and prizes earned by investors	2,554,289	3,324,725
Received from the NLF	(15,277,391)	(11,928,171)
Paid to the NLF	25,564,516	14,326,823
Amortisation of GEB principal liabilities due to fair value accounting	2,327	18,438
As at 31 March	**96,551,545**	**83,707,804**

The amounts held by the NLF as at 31 March 2009 relate to the following products:

	Principal liability £000	Accrued interest £000	Total £000
Capital Bonds	800,838	24,558	825,396
Children's Bonus Bonds	1,241,911	52,507	1,294,418
Easy Access Savings Account	3,788,484	–	3,788,484
First Option Bonds	157,520	3,745	161,265
Guaranteed Equity Bonds	581,720	16,667	598,387
Guaranteed Income Bonds and Guaranteed Growth Bonds	4,964,716	43,509	5,008,225
Income Bonds	9,135,780	7,607	9,143,387
Individual Savings Account	3,985,847	141,137	4,126,984
Investment Account	5,546,750	8,833	5,555,583
Pensioners' Guaranteed Income Bonds	1,548,089	2,436	1,550,525
Premium Bonds	40,332,400	33,114	40,365,514
Residual Account	331,578	132	331,710
Savings Certificates	23,470,020	331,647	23,801,667
Total	**95,885,653**	**665,892**	**96,551,545**

The GEB accrued interest figure at 31 March 2009 of £16,667,000 (31 March 2008: £247,405,000) represents the fair value on the hedging derivative contained within the GEB products. Accordingly, the GEB principal liability is amortised using the effective interest rate method as described in note 1.5.

The amount paid to the NLF included money transferred from the CRND in relation to the transfer of the Ordinary Account into the Residual Account during June 2008.

5 Amounts held by the CRND

	2008–09 £000	2007–08 £000
As at 1 April	336,186	340,196
Interest and prizes earned by investors	732	5,665
Received from the CRND	(1,529)	(14,312)
Paid to the CRND	5,955	4,637
Transferred to the NLF in respect of Residual Account	(295,465)	–
Loss recoveries paid to the CRND	15	–
As at 31 March	**45,894**	**336,186**

The amounts held by the CRND as at 31 March 2009 relate to the following products:

	Principal liability £000	Accrued interest £000	Unclaimed monies £000	Total £000
British Savings Bonds	–	–	2,623	2,623
Gift Tokens	–	–	1,525	1,525
Income Bonds	–	–	3,329	3,329
Ordinary Account	–	–	–	–
Pensioners' Guaranteed Income Bonds	–	–	586	586
Premium Bonds	–	–	32,064	32,064
Saving Stamps	–	–	5,767	5,767
Total	**–**	**–**	**45,894**	**45,894**

In June 2008, liabilities to investors for British Savings Bonds, Gift Tokens and Saving Stamps were transferred to the Residual Account, held by the NLF, however the physical transfer of funds to the NLF took place on 15 June 2009.

6 Debtors

	31 March 2009 £000	31 March 2008 £000
Agents	203,011	208,749
Other debtors	4,876	7,197
	207,887	**215,946**

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7 Creditors: amounts falling due within one year

	31 March 2009 £000	31 March 2008 £000
NLF	100	48
HM Revenue and Customs	2	–
Agents	–	173
Sales accruals and evidence of identity refunds	11,283	7,054
	11,385	**7,275**

8 Liability to investors

	Principal liability £000	Accrued interest £000	Liability 31 March 2009 £000	Liability 31 March 2008 £000
Capital Bonds	802,707	24,558	827,265	1,017,086
Children's Bonus Bonds	1,245,258	52,507	1,297,765	1,306,302
Deposit Bonds	–	–	–	5,538
Easy Access Savings Account	3,839,033	–	3,839,033	1,530,474
First Option Bonds	158,749	3,745	162,494	180,184
Guaranteed Equity Bonds	587,544	16,667	604,211	1,009,304
Guaranteed Income Bonds and Guaranteed Growth Bonds	4,994,255	43,509	5,037,764	863,498
Income Bonds	9,174,579	17,077	9,191,656	8,222,185
Individual Savings Account	4,005,438	141,137	4,146,575	3,993,408
Investment Account	5,578,536	8,833	5,587,369	5,434,264
Ordinary Account	–	–	–	307,292
Pensioners' Guaranteed Income Bonds	1,554,679	5,367	1,560,046	2,895,638
Premium Bonds	40,714,206	46,743	40,760,949	36,894,192
Residual Account	344,486	132	344,618	–
Save As You Earn	–	–	–	10,062
Savings Certificates	23,503,579	331,647	23,835,226	21,029,230
Treasurers' Account	–	–	–	19,465
Yearly Plan	–	–	–	19,528
Total	**96,503,049**	**691,922**	**97,194,971**	**84,737,650**

9 Unclaimed funds

	31 March 2009 £000	31 March 2008 £000
British Savings Bonds	–	2,656
Gift Tokens	–	1,531
Income Bonds	3,367	2,947
Pensioners' Guaranteed Income Bonds	602	431
Premium Bonds	31,893	29,264
Saving Stamps	–	5,773
	35,862	**42,602**
Aged one year or less	–	–
Aged more than one year but not more than two years	–	–
Aged more than two years but not more than five years	8,672	7,133
Aged more than five years	27,190	35,469
	35,862	**42,602**

Unclaimed funds represent old un-cleared payments to investors. Unclaimed funds are repayable to investors on demand. All unclaimed funds were transferred to the Residual Account in April 2008 with the exception of Income Bonds, Pensioners' Guaranteed Income Bonds and Premium Bonds, which will be transferred once the relevant legislation has been passed.

10 Net cash transfer to the NLF and the CRND

	2008–09 £000	2007–08 £000
NLF		
Received from the NLF	15,277,391	11,928,171
Paid to the NLF	(25,564,516)	(14,326,823)
	(10,287,125)	(2,398,652)
CRND		
Received from the CRND	1,529	14,312
Paid to the CRND	(5,955)	(4,637)
Transferred to the NLF in respect of Residual Account	295,465	–
Loss recoveries paid to the CRND	(15)	–
	291,024	9,675
Interest/prizes earned	(2,555,021)	(3,330,390)
Net cash outflow	**(12,551,122)**	**(5,719,367)**

Cash received from investors is not invested by NS&I but is passed daily to the NLF for all products apart from the Ordinary Account and unclaimed monies in note 9, which were passed to the CRND. From June 2008, Ordinary Account cash is held by the NLF as part of the Residual Account. Cash is drawn from the NLF or the CRND for payments to investors as and when required.

11 Categorisation of financial assets and liabilities

	31 March 2009 £000	31 March 2008 £000
Assets		
Financial assets measured at fair value through I&E statement	16,667	247,405
Loans and receivables	96,788,659	84,012,531
Cash and cash equivalents	436,892	527,591
	97,242,218	**84,787,527**
Liabilities		
Financial liabilities measured at fair value through I&E statement	(16,667)	(247,405)
Financial liabilities measured at amortised cost	(97,225,551)	(84,540,122)
	(97,242,218)	**(84,787,527)**

12 Product maturity profile

All products are repayable on demand, except for GEB products, which are repayable in accordance with their terms. As required by FRS 29, the undiscounted maturity profile for the total liability for all products is as follows:

	Variable rate and index-linked products 31 March 2009 £000	Fixed rate products 31 March 2009 £000	Non-interest bearing products 31 March 2009 £000	Total 31 March 2009 £000
Maturing in one year or less or repayable on demand	81,366,538	15,428,838	159,236	96,954,612
Maturing in more than one year but not more than two years	84,671	–	–	84,671
Maturing in more than two years but not more than five years	223,104	–	–	223,104
Maturing in more than five years	–	–	–	–
	81,674,313	**15,428,838**	**159,236**	**97,262,387**

	Variable rate and index-linked products 31 March 2008 £000	Fixed rate products 31 March 2008 £000	Non-interest bearing products 31 March 2008 £000	Total 31 March 2008 £000
Maturing in one year or less or repayable on demand	70,748,212	13,354,147	48,866	84,151,225
Maturing in more than one year but not more than two years	421,858	–	–	421,858
Maturing in more than two years but not more than five years	235,927	–	–	235,927
Maturing in more than five years	4,223	–	–	4,223
	71,410,220	**13,354,147**	**48,866**	**84,813,233**

13 Fair values of assets and liabilities

	Total per accounts 31 March 2009 £000	Fair value 31 March 2009 £000
Assets		
Held by the NLF – all products apart from GEB	95,953,158	96,141,783
Held by the NLF – GEB	598,387	607,668
Held by the CRND	45,894	45,894
Cash and cash equivalents	436,892	436,892
Debtors	207,887	207,887
	97,242,218	**97,440,124**
Liabilities		
Fixed rate products	(15,428,837)	(15,617,462)
GEB	(604,211)	(613,492)
Floating rate products	(81,038,549)	(81,038,549)
Non-interest bearing products	(159,236)	(159,236)
Creditors: amounts falling due within one year	(11,385)	(11,385)
	(97,242,218)	**(97,440,124)**

	Total per accounts 31 March 2008 £000	Fair value 31 March 2008 £000
Assets		
Held by the NLF – all products apart from GEB	82,708,934	81,605,502
Held by the NLF – GEB	998,870	988,803
Held by the CRND	336,186	336,186
Cash and cash equivalents	527,591	527,591
Debtors	215,946	215,946
	84,787,527	**83,674,028**
Liabilities		
Fixed rate products	(13,292,806)	(12,189,376)
GEB	(1,009,304)	(999,235)
Floating rate products	(70,429,276)	(70,429,276)
Non-interest bearing products	(48,866)	(48,866)
Creditors: amounts falling due within one year	(7,275)	(7,275)
	(84,787,527)	**(83,674,028)**

There is no material difference between the carrying value and the fair value of the floating rate products (except GEB), non-interest bearing products, other creditors and debtors. Therefore all of these balances are deemed to be at fair value. The fair value of the fixed rate products is derived by discounting future expected cash flows using the relevant gilt rates obtained from the DMO. Any impact of early repayments is ignored, as the impact of these is immaterial. The fair value of the assets held by the NLF is a mirror of the related liabilities which it guarantees subject to timing differences.

The fair value of the GEB product is the total of the fair value of the embedded derivative and the fair value of the related host contract. The fair value of the embedded derivative is calculated by an independent specialist company and provided to NS&I by the DMO. The fair value of the host contract is derived by discounting future expected cash flows at an appropriate zero coupon bond rate. The impact of early repayments on the GEB product has proven not to be material, and therefore does not impact upon the fair values shown. For each GEB issue a matched hedge is in place with the DMO.

14 Market and credit risk

NS&I is a Government agency. NS&I's principal activity is to finance a part of the Government's borrowing by selling savings and investments products to retail savers and investors. Monies received by NS&I are passed to the NLF or the CRND, who guarantee to honour the product terms and conditions in the form of 100% HM Treasury guarantee. Therefore NS&I does not face any material market or credit risk. Credit risk relating to the agency and other debtors is mitigated by the short settlement period.

NS&I has no liquidity risk in respect of customer sales and repayments, as liquidity risk is managed through bank accounts held at the Bank of England and linked to the Ways and Means accounts at the NLF to ensure a smooth flow of funds between the NLF, NS&I and our customers. Interest rate risk belongs to the UK Government and is managed by the NLF in conjunction with the DMO. Liquidity is also managed by giving customers a fair deal in a highly competitive market. NS&I offers products that suit customers' needs, backed by excellent customer service and consistent product pricing. There is no currency exposure, as all assets and liabilities are denominated in sterling.

15 Post balance sheet events

There are no other reportable post balance sheet events between the balance sheet date and 10 July 2009, the date of authorisation of the accounts. The financial statements do not reflect events after that date.

Annex – Accounts Direction

Accounts Direction given by HM Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000

1. The Department of National Savings and Investments shall prepare accounts for its Product Accounts for the year ending 31 March 2009 (and each subsequent financial year) that give a true and fair view of the state of affairs of the Product Accounts at the balance sheet date and of their income and expenditure and cash flows for the year then ended. The accounts shall be prepared under the historical cost convention modified to include certain financial instruments at valuation and in accordance with applicable accounting standards.

2. The accounts shall be consistent with relevant requirements of the *Government Financial Reporting Manual*, except to the extent set out below:
   a. an income and expenditure account shall be prepared instead of an Operating Cost Statement.
   b. the Statement of Parliamentary Supply and the Statement of Operating Costs by Departmental Aim and Objectives are not relevant to the Product Accounts.
   c. the accounts shall follow the requirements of FRS 23 (IAS 21) The Effects of Changes in Foreign Exchange Rates (instead of SSAP 13, Foreign Currency Translation), FRS 25 (IAS 32) Financial Instruments: Presentation, FRS 26 (IAS 39) Financial Instruments: Recognition and Measurement, and FRS 29 (IFRS 7) Financial Instruments: Disclosures (instead of FRS 13 Derivatives and other financial instruments: disclosures) other than Appendix E, Capital disclosures.

3. This Accounts Direction shall be reproduced as an Appendix to the Product Accounts.

4. This Accounts Direction supersedes that issued on 22 May 2002.

David Watkins
Head, Financial Reporting Policy
HM Treasury
23 May 2007

Glossary

Accounting Officer
A person appointed by HM Treasury or designated by a department to be accountable for the operations of an organisation and the preparation of its accounts. The appointee is, by convention, usually the head of a department or other organisation or the Chief Executive of a non-departmental public body (NDPB).

Appropriations in aid (A in A)
Income received by a government department which it is authorised to retain to finance related expenditure. Such income is voted by Parliament and accounted for in departmental Resource Accounts.

Banking Code
A voluntary code that sets standards of good banking practice. NS&I and most banks, building societies and credit card companies subscribe to the code.

Basis points (bps)
This is one hundredth of a percentage point.

Bonds
Apart from specific bonds issued by NS&I, a bond is another name given to fixed interest securities – including those issued by governments.

Capital
The total amount of deposits in the customer's account, or the original investment in the customer's bond or certificate.

Capitalised interest
Interest that has been added to the customer's investment and may now be earning further interest in accordance with the terms and conditions of the product.

Delagged
Used in relation to our Value Add performance measure (see page 107). Delagged Value Add allows for timing differences between product interest rate changes being announced and the rate coming into effect. From 2006–07, NS&I switched to lagged Value Add to measure our performance.

Departmental expenditure limit (DEL)
Expenditure limit within which a government department has responsibility for allocation, although some elements may be demand led.

Director of Savings
The person appointed by HM Treasury to manage NS&I in accordance with the statutory functions set out in the National Debt Act and the National Savings Bank Act. Since we acquired Executive Agency status, the Director of Savings has also been the Chief Executive and the Accounting Officer.

Dormant holdings
Savings or investments belonging to a customer with whom we've lost contact. Customers who think they have dormant holdings can contact us to trace them through **www.mylostaccount.org.uk**

Efficiency ratio
NS&I uses basis points as a measure of the efficiency of our administration. We calculate the ratio of total administrative costs in the year to the average funds invested in the year by our customers as a number of basis points.

End-year flexibility (EYF)
A financial system that allows government departments to carry forward any unspent resources from one year to the next.

Equities
Investments (shares) in a company listed on a stock market.

Executive Agency
NS&I is a government department and an Executive Agency of the Chancellor of the Exchequer. Executive Agencies have greater autonomy than departments in making management decisions to ensure the effective delivery of their services.

Financial Ombudsman Service (FOS)
The independent service for settling disputes between businesses that provide financial services and their customers.

Financial Services Authority (FSA)
The regulator of the financial services industry in the UK.

Fixed or guaranteed rate products
Savings and investments which have rates of interest fixed at the outset for a specified period.

Flows
Annual flows of total sales and repayments on NS&I products and investments.

Gilts (or gilt-edged stock)
The name given to marketable UK Government securities. The name came from the original certificate issued for these securities, which had gilded edges.

Gross inflows
The total inflows from all deposits, including retention of maturing monies.

Gross interest
The taxable rate of interest without deduction of UK Income Tax.

Growth
How the customer's savings grow through the addition of interest.

Hedge
Using our Guaranteed Equity Bond as an example, the Exchequer's exposure to paying an equity-linked return is covered by entering a swap (exchanging a variable rate of interest for the equity-linked return) with a third party bank. (No NS&I customer is exposed to risk with a third party bank.)

Index-linking
For Index-linked Savings Certificates, this means that the value of a Certificate moves in line with changes in the Retail Prices Index (RPI) – a commonly used measure of inflation.

Inflation-beating
Inflation-beating is achieved through the addition of interest, on top of index-linking.

Investment term (or term)
For fixed rate products, this refers to the period of time for which the interest rates are fixed.

ISO14001
An international standard used to evaluate an organisation's environmental management systems.

Issue / Series
Our fixed rate products are sold in either Issues or Series, each with its own guaranteed interest rate(s). We bring out a new Issue / Series whenever the fixed rate on offer changes.

Lagged
Used in relation to our Value Add performance measure (see below). From 2006–07, NS&I switched from delagged to lagged Value Add to measure our performance. Lagged Value Add does not allow for timing differences between product interest rate changes being announced and the rate coming into effect.

LIBOR
LIBOR stands for the London Interbank Offered Rate. It is a reference rate used by the financial services industry to help set and manage interest rates, based on the average rates being used by banks when lending money to each other. It is calculated daily and published by the British Bankers' Association.

Net Financing
Net Financing is the measure of the net change of NS&I funds, meaning total inflows from deposits, retention of maturing monies and capitalised and accrued interest less the total outflows from withdrawals and interest or Premium Bond prize draw payments. A positive Net Financing figure represents a positive contribution to government financing.

Net interest
This is the rate of interest payable after the deduction of UK Income Tax at the rate specified by law.

Public Private Partnership (PPP)
A long-term partnership between a public sector and private sector organisation, designed for mutual benefit. Our PPP with Siemens encompasses the provision of transaction processing together with front and back-office operations.

Retail market
The market for the sale of securities or banking facilities to members of the public.

Retail Prices Index (RPI)
A frequently used measure of price inflation, calculated by the Office for National Statistics each month.

Tax foregone
As NS&I's tax-free products potentially deprive HM Treasury of tax revenue, this tax foregone is taken into account when calculating Value Add.

Tax-free
This means that the interest is exempt from UK Income Tax and Capital Gains Tax.

Treasury Bills
Treasury Bills are short-term government bonds. They don't earn interest. Instead, they are sold at a discount to their face value.

UK Debt Management Office (DMO)
An Executive Agency of HM Treasury responsible for cash management on behalf of the Exchequer and the sale of government stock (gilts) and Treasury Bills.

UK Government Securities
Our bonds and certificates are UK Government Securities issued by HM Treasury under the National Loans Act 1968.

Value Add
A relative measure of our cost-effectiveness in raising finance for Government. The total cost of NS&I raising funds is compared with how much it would cost the Government to raise funds through the wholesale market via gilts and Treasury Bills.

Variable rate products
Savings and investments where the rate of interest can be changed from time to time in accordance with the terms and conditions.

Warrant
A type of payment similar to a cheque.

Wholesale markets
Used to describe the market in which non-retail financial services customers operate, for example the sale of gilts or Treasury Bills by the Government to banks and other financial institutions such as pension funds or other fund managers.

Contacts and more information

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Banking Code
As a voluntary code, the Banking Code allows competition and market forces to work to encourage higher standards for the benefit of customers. Key commitments of the Banking Code are to:
- act fairly and reasonably in all our dealings with you
- help you to understand how our financial products and services work
- deal with things that go wrong quickly and sympathetically
- publicise the code, have copies available and make sure that our staff are trained to put it into practice.

If you would like a copy of the Banking Code brochure please see our website at **www.nsandi.com** or call us on **0845 964 5000**.

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Thank you
NS&I would like to thank all staff for their contribution to the 2008–09 Annual Report.

*Our customer service team is available every day from 7am until midnight. We don't use premium rate numbers – the maximum call charge is 4p per minute from a BT landline as at May 2009; charges from other providers may vary. For your security, and to maintain the highest levels of service, calls may be recorded.

**Calls from mobiles may be chargeable.

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