2014
2015

National Savings and Investments

Annual Report and Accounts and Product Accounts 2014–15

HC71

National Savings and Investments
Annual Report and Accounts and Product Accounts 2014-15

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

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Product Accounts presented to the House of Commons pursuant to section 7 (3) (c) of the Government Resources and Accounts Act 2000.

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HC71

This is part of a series of departmental publications which, along with the Main Estimates 2015–16 and the document *Public Expenditure: Statistical Analyses 2015*, present the Government's outturn for 2014–15 and planned expenditure for 2015–16.

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Contents

Section 1 – Annual Report

Who we are	4
Chairman's statement	5
Chief Executive's review	7
Management commentary, Directors' report and Strategic report	12
– Strategy and performance	12
– Our customers	20
– Business-to-business customers	24
– Our operational partnership	26
– Our people	28
– Sustainability report	34
Remuneration report	39
Statement of Accounting Officer's responsibilities	45
Governance statement	46

Section 2 – Accounts 2014–15

The certificate and report of the Comptroller and Auditor General to the House of Commons	71
Statement of comprehensive net expenditure	73
Statement of financial position	74
Statement of cash flows	75
Statement of changes in taxpayers' equity	76
Notes to the Departmental Resource Accounts	77
Statement of Parliamentary Supply	100

Section 3 – Product Accounts 2014–15

The certificate and report of the Comptroller and Auditor General to the House of Commons	107
Product Accounts background	109
Statement of comprehensive income	111
Statement of financial position	112
Statement of cash flows	113
Notes to the accounts	114
Annex 1: Product Accounts direction	130

Section 4 – Other information

Departmental Report information	132
Glossary	137
Contacts and more information	141

Section 1

Annual Report

Who we are	4
Chairman's statement	5
Chief Executive's review	7
Management commentary, Directors' report and Strategic report	12
– Strategy and performance	12
– Our customers	20
– Business-to-business customers	24
– Our operational partnership	26
– Our people	28
– Sustainability report	34
Remuneration report	39
Statement of Accounting Officer's responsibilities	45
Governance statement	46

Who we are

NS&I is one of the largest savings organisations in the UK with over 25 million customers and more than £123 billion invested. NS&I is both a government department and an Executive Agency of the Chancellor of the Exchequer. Our origins can be traced back over 150 years to 1861.

When customers invest in NS&I products, they are lending to the Government. In return the Government pays interest or prizes for Premium Bonds. We offer 100% security on all deposits.

Our vision

Service, Value and Trust

Our mission

To help reduce the cost to the taxpayer of government borrowing now and in the future.

Our values

Security, integrity, straightforwardness, human touch

Our values are at the heart of everything we do:

- 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.

Operating framework

To balance the interests of our savers by offering a fair rate; the taxpayer by delivering long-term cost-effective finance; and the stability of the broader financial services sector by acting transparently and maintaining an appropriate competitive position.

Chairman's statement

2014–15 was a year of significant delivery for NS&I. We made important progress against our strategic goals, particularly in terms of enriching the customer experience. We delivered tangible value to taxpayers through the ongoing cost-effectiveness of our operations. Perhaps most notably of all, we delivered the 2014 Budget measures: the launch by the Chancellor of the Exchequer of market-leading bonds to savers aged 65 and over and the increase in the investment limit for Premium Bonds to £40,000.

Delivering 65+ Bonds to more than one million savers has been a significant achievement. The 65+ Bonds, as initially announced, allowed for £10 billion to be available. Although the measure was outside our established operating framework, we were pleased to be delivering this policy initiative and were keen to satisfy considerable expectations by savers and wider stakeholders.

From the day they went on sale the 65+ Bonds, which have been the biggest selling retail financial product in Britain's modern history, proved phenomenally popular. In the first three days more than £2.3 billion worth were sold. Indeed the second day saw the highest number of online sales ever through nsandi.com: £647 million.

On 8 February, the Chancellor announced that the £10 billion limit was being removed. Instead, the 65+ Bonds would remain on sale for a fixed period up to 15 May 2015, so that everyone who wanted to invest could do so.

The unprecedented demand for 65+ Bonds affected our 2014–15 Net Financing figure. In December 2014, our forecast for the year was £13.5 billion, well within our target range of £11 billion to £15 billion. However, we ended the year at £18.2 billion, exceeding the target range.

Looking back across the last 12 months, the launch of 65+ Bonds was undoubtedly the most high-profile event. However, taking the year as a whole we met all of our customer service and satisfaction targets. Despite a short-term dip at the start of 2015, our operational performance reached new highs this year.

The new operational services contract with Atos set more challenging targets for customer service. Not only did the Atos team meet these targets but they exceeded them, including the targets for operational delivery and online availability.

This of course reflects not only the successful delivery of the 65+ Bonds, but also the progress made against our 'think ahead' strategy – in particular our target of growing the number of customers who choose to deal with us directly.

Our aim is that, by 2018–19, the overwhelming majority of customers will be engaging with us via our digital channels, for the majority of the transactions they make. This has two clear benefits: it ensures that we fulfil customer expectations and also enables us to operate more cost-effectively.

Digital channels are essential to doing this and to achieving our core remit: to deliver cost-effective finance for government. We track this by comparing the costs of raising finance through gilts with the costs of doing so through NS&I. This year, though gilt yields fell further to historic lows, we were still able to provide positive value. Added to the delivery of a flagship government initiative, this proves our value to savers and taxpayers alike.

Sir John de Trafford Bt. MBE
Chairman
National Savings and Investments

For details of the board's composition, committees and activities, please see the Governance statement on pages 46 to 69.

Chief Executive's review

In reviewing our performance and progress in 2014–15, it is clear that there were two distinct strands.

The first I would call 'business as usual' – working within our established operating framework to deliver cost-effective finance for government. This year, that meant significant progress against our strategy: achieving a substantial shift to digital channels that will deliver savings for the taxpayer while maintaining our service levels and high customer satisfaction.

The second strand was something quite separate, and outside our normal operating framework: delivering the Chancellor's 2014 Budget promise to support older savers through the launch of 65+ Bonds.

These two strands are different for a particular reason. The 65+ Bonds were designed to offer market-leading returns to older savers: in our normal operating framework, we aim to balance the interests of savers with those of taxpayers and the broader financial services sector.

However, the two come together in two vital areas. Firstly, we recognise that, in the eyes of our customers, such separation doesn't exist. Many of those who bought the 65+ Bonds were existing customers; they used exactly the same channels as they would for any other transaction with us. Secondly, the two strands were both included within our Net Financing target for the year.

Net Financing target

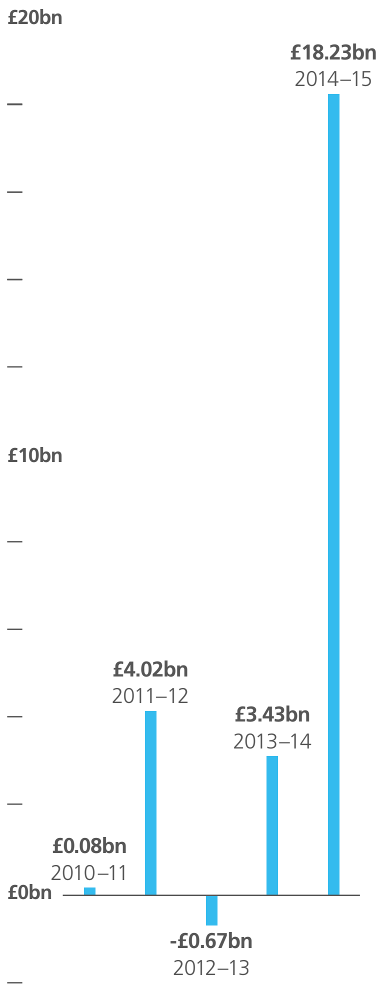
Our Net Financing target for 2014–15 was set at £13 billion (with a range of £2 billion either side). This allowed for the expected sales of 65+ Bonds. We expected that the bonds would be on sale for months, rather than weeks, reflecting our view that not all of the £10 billion allocated would necessarily be sold during the financial year.

Our target also reflected some other changes announced in the 2014 Budget, notably to Premium Bonds. From 1 June 2014, the maximum investment in Premium Bonds increased for the first time in over a decade, from £30,000 to £40,000 (it will increase further, to £50,000, on 1 June 2015). In addition, from August 2014, a second £1 million jackpot prize was reintroduced. Finally, new ISA rules meant that customers could invest up to £15,000 in our Direct ISA – although as it transpired, we did not see a significant increase in sales. Taken together, these represented major changes that were implemented smoothly.

Managing unprecedented demand

65+ Bonds have proven to be one of the most popular retail savings initiative ever launched, generating unprecedented demand by savers across the UK. Working with our operational partner, Atos, and other colleagues across government, we met demand, and everyone who wanted to buy a 65+ Bond had the opportunity to do so. Aware of the interest the 65+ Bonds would generate, we took a range of steps to manage demand. We repeated our message that we expected them to be on sale for months, rather than weeks, and that there would be no need to rush to buy. We also sought to manage initial volumes by not announcing the specific 'on sale' date in advance.

Net Financing



In spite of these steps, and due to a high public profile, demand immediately reached unprecedented levels. Shortly after sales opened on 15 January, our website went offline for a short period and service was restored after around 50 minutes. I am sorry that many customers continued to experience long delays on the opening day in trying to complete their purchase and thank those who persevered for their patience. I am pleased to say that the website issue was fully resolved overnight. In fact, over 33,000 savers were still able to invest over £422 million via our website on day one.

Our call-centres also handled an enormous volume of sales. In advance of the launch, we had doubled our call-centre's size from around 300 to around 600 staff. We had also recruited an extra 430 staff for 'back office' work on 65+ Bonds.

Given the extent of demand we brought in further staff but customers did experience frustration trying to get through to us in the first few days after launch. We introduced an alternative process so that additional call handlers who did not have access to our transaction systems could still take calls and send out application forms, enabling customers to apply by post and have their interest paid from the date of their call.

Over 194,000 people had invested in 65+ Bonds via our website alone by the end of the first week and over the four months that the Bonds have been available we also handled over 575,000 web sales and 245,000 phone sales in addition to postal applications. Customers who experienced problems with double transactions have all been refunded, and no customer has lost out.

Since launching the Bonds, and after the Chancellor removed the £10 billion limit on sales and replaced this with a sales deadline of 15 May, we are pleased to have provided over one million savers with the opportunity to invest over £13 billion collectively.

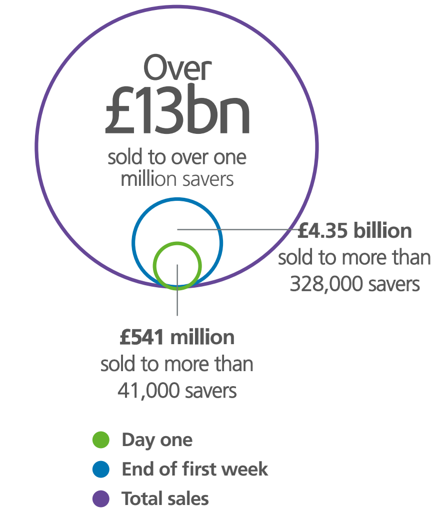
Complaints from customers around launch were taken very seriously but I am also pleased to say that, overall, numbers were low – especially when set against the number of customers we served (0.12% in the first week of sales). By the end of January, when we experienced our usual increase in transaction volumes at month-end (driven by Premium Bonds sales), we were able to meet all our normal service standards, and continued to do so for the remainder of the year.

More important still, we have met our service delivery measure on customer experience – meeting all of our customer service and satisfaction targets overall, reflecting a robust and popular product range.

Driving channel shift

Our new Twitter service, @nsandihelp, which was launched in December 2014, has proved to be an invaluable method of providing prompt assurance and advice. In a digital age, where more and more transactions are automated, the human contact that Twitter offers is a real asset, and one we intend to build on as we continue to encourage customers to deal with us via digital channels (non-paper direct channels).

Channel shift is one of our ongoing strategic objectives. We believe that channel shift should be a positive move, with customers choosing digital channels



as the easiest and more appropriate option for their interactions with us. This year, 64.5% of transactions were via digital channels.

To help us maintain the pace of channel shift, in January we launched a new website for retail customers. It is easier to use and optimised for viewing on mobile devices – reflecting the fact that 30% of visits to nsandi.com now come from tablets or smartphones.

Net Financing outturn

Our final Net Financing figure for 2014–15 was £18.2 billion. This is due to a number of factors, most notably the unprecedented demand for 65+ Bonds when they first went on sale and the removal of the £10 billion ceiling on sales. The increase in the Premium Bonds investment limit to £40,000 in June 2014 also proved very popular with customers.

Our Net Financing target for 2015–16 is £10 billion in a range of £8 billion to £12 billion. This includes an allowance for sales of 65+ Bonds in April and May 2015.

Maintaining efficiency and delivering value

As well as being a response to customer demand, channel shift is also crucial to our efficiency as an organisation: last year, we handled over 22 million interactions online – a far lower-cost way of doing so than taking calls or using paper.

Our service delivery measure for the efficient administration of funds, the ratio of our total administrative costs to average funds invested by customers, is 14 basis points.

We also track the value we deliver to taxpayers via the Value Indicator. This compares the cost to government of raising funding through NS&I with raising money through the gilt market: a positive figure shows that we are the more cost-effective route. Our target for the year was simply to deliver a positive figure, and we met it, delivering £330 million of value – even though in January gilt yields fell to historically low levels. If gilt yields remain at their unprecedented low, delivering a positive figure will be an ongoing challenge for next year.

The 65+ Bonds are not included within our Value Indicator target. As they were a specific Budget measure, the costs for delivering them were set out in the 2014 and 2015 HM Treasury Budget scorecards.

Our business-to-business services

Another way we are reducing our costs, and becoming increasingly self-funding, is through our business-to-business services. This year we have made solid progress with our three existing partners – the Equitable Life Payment Scheme; Court Funds Office; and Home Office Payments Processing. In January 2015, we passed the milestone of issuing over £1 billion of payments under the Equitable Life Payment Scheme.

It was announced in March 2014 that we would take responsibility for delivering the Government's new Tax-Free Childcare scheme. This was challenged in the courts by the companies that currently deliver childcare vouchers. The courts found in our favour in December 2014 and again in March 2015, but the decision is currently still under appeal, with a final judgment expected in the summer.

In April 2014, we renewed the agreement to provide payment processing services to the Court Funds Office (CFO). The new agreement will reduce the CFO's costs by £14 million over the next seven years – further proof of the way that NS&I Government Payment Services are providing benefits across government and ultimately to taxpayers.

£1bn

Over the last year, we issued Equitable Life payments with a total value of around £100 million. In January 2015 we reached £1 billion of payments in total

£14m

Reduction in the Court Funds Office costs over the next seven years

People and partnerships

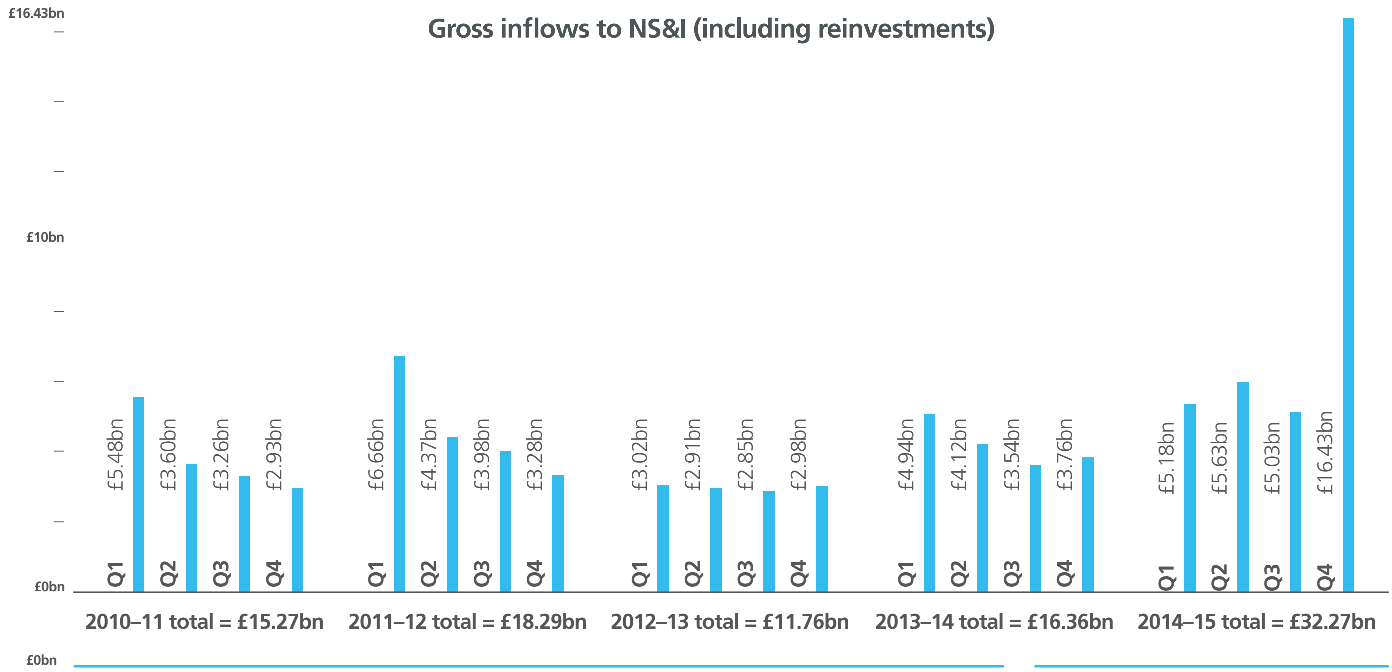
The opportunity to expand our business-to-business services is integral to our new outsourcing contract with Atos, which began on 1 April 2014. We began the year with both parties signing a Partnership Charter, which set out the ways in which we would work together under the new contract.

While the new contract brings significant changes to our partnership and in particular how the relationship is managed, it is clear that the commitment of Atos staff remains as high as ever. To give just one example, Atos had to adapt to deliver 65+ Bonds, which were not envisaged during contract discussions. The team was excellent in its readiness to recalibrate its plans and in its agility to deploy extra people and resources as needed: to me, this was the strongest possible demonstration that the Partnership Charter is not just a piece of paper, but articulates a set of principles which drive the way we work together.

Reflecting on our heritage

During the year, we have continued our estates strategy to move our staff into modern premises. This will allow us to dispose of the old buildings at our three sites and return the proceeds to the public purse. The new buildings give our staff a more modern working environment, but we have a strong desire not to lose connections with our heritage. Our old Durham office contained a memorial to those who were killed in the First and Second World Wars, and staff were keen to ensure that this was retained. The memorial stone was moved into our new building, and a re-dedication ceremony held. We also found a wealth of material relating to NS&I staff who died in the First World War. To commemorate the centenary of the

Gross inflows to NS&I (including reinvestments)



start of the war, we put the material on display in our London offices in time for Remembrance Day.

For over 150 years we have delivered for savers: we were founded to provide options to save for those people who previously had few or none. We're proud of that heritage. This year we have delivered something new and valuable for older savers as well as continuing to develop our services for all customers.

Jane Platt

Jane Platt CBE
Chief Executive
National Savings and Investments

03 June 2015

Management commentary, Directors' report and Strategic report
Strategy and performance

Our strategy

In 2013–14, we set our strategy for the five years from 2014–15 to 2018–19. The strategy, 'think ahead', focuses on what, with the support of our partner Atos, we must achieve to meet the targets set in the Spending Review while delivering our core remit of helping reduce the cost to the taxpayer of government borrowing, now and in the future.

Objective: Meet NS&I's core remit

Progress in 2014–15

Our core remit is to help reduce the cost to the taxpayer of government borrowing, now and in the future. Performance against our Value Indicator target shows that we were able to do this for our business-as-usual activity, even though gilt yields reached their lowest levels ever in January 2015. See page 140 for an explanation of what the Value Indicator means.

Objective: Achieve retail channel shift to digital channels (i.e. non-paper direct channels) of at least 75% by 2018–19

Progress in 2014–15

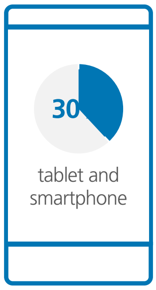
This year 64.5% of interactions were conducted using digital channels. A full breakdown of sales by channel is shown on page 23.

We are focused on channel shift both because we know our customers want to interact with us via digital channels and to help us achieve the overall savings we need to deliver in line with the Spending Review. We will continue to improve the experience of using digital channels over the next year, so more customers choose to use them.

Interactions conducted using digital channels

2014–15 total

64.5%



Objective: Deliver an appealing retail digital customer experience

Progress in 2014–15

In January 2015, we relaunched nsandi.com to improve the experience for customers. The redesigned site was tested extensively in our Customer Experience Lab to optimise its usability. It is also responsive – meaning it displays differently on smartphones/tablets and on PCs. We will continue to refine the site in line with further customer feedback, and also add new capabilities and digital tools that meet the needs of customers.

Objective: Deliver a retail product portfolio which meets the needs of target customers

Progress in 2014–15

The success of 65+ Bonds – a product based on our popular Guaranteed Growth Bonds structure – is clear evidence of a product meeting the needs of a specific group of customers. In addition, the changes to Premium Bonds (raising the maximum holding and reintroducing a second £1 million jackpot prize) have proved to be popular with existing customers, as well as attracting new customers to NS&I.

We will continue to review our product portfolio as a whole, developing new propositions where appropriate, particularly in the context of the changes announced in the 2015 Budget. In particular, we are currently reviewing product terms and conditions and we are planning to end the deduction of tax from interest for those NS&I products that pay interest in this way.

Objective: Move progressively towards a self-funding model

Progress in 2014–15

Our work with other areas of government has continued to contribute important sums to our operating costs. Our aim remains to grow business-to-business revenues significantly over the next five years so that we can contribute a larger sum to our operating costs and we are well placed to do this.

For more information, see Business-to-business customers, pages 24 to 25.

Objective: Provide good careers and work/life balance

Progress in 2014–15

To deliver the objectives above, it is essential that we can attract and retain high-quality staff. Unlike many other areas of the Civil Service, we compete against banks and building societies to attract and retain staff with the specialist skills to work in the financial services sector. This year we developed a new People Strategy that focuses on how we can best do this. There was a higher level of staff turnover than in previous years as conditions improved across the wider financial services market. However, this also meant we were able to offer promotions or new roles to 15 staff.

For more information, see Our people, pages 28 to 33.

Our performance in 2014–15

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.

		2013–14	2014–15	2015–16
1	**Net Financing** **Goals and objectives** To raise an amount of Net Financing within an agreed range **Measure** Absolute amount of Net Financing from NS&I products	**Performance** £3.4 billion	**Target** £13 billion (+/-£2 billion) **Performance** **£18.2 billion**	**Target** £10 billion (+/-£2 billion)
2	**Value Indicator** **Goals and objectives** To create value for government as measured using the Value Indicator **Measure** Absolute amount of value from NS&I products	**Performance** £346 million	**Target** To deliver positive value for the taxpayer (excluding 65+ Bonds)[1] **Performance** **£330 million[2]**	**Target** To deliver positive value for the taxpayer with a lower limit of –£100 million (excluding 65+ Bonds)
3	**Customer satisfaction** **Goals and objectives** To exceed a threshold level of customer experience with NS&I[3] **Measure** Average level of satisfaction against question: 'Taking everything into account, how would you rate NS&I's customer service?'	**Performance** 86%	**Target** At least 87% **Performance** **87.2%**	**Target[4]** At least 87%

	KPI	2013–14	2014–15	2015–16
4	**Customer service – operational delivery[5]** **Goals and objectives** To meet a consistently high timeliness target **Measure** Average performance against timeliness key performance indicators (KPI) targets	**Performance** N/A	**Target** At least 95% **Performance** **98.06%**	**Target** At least 95%
5	**Customer service – online availability** **Goals and objectives** To ensure that NS&I's online services are consistently available **Measure** Availability of transactional and marketing website as a percentage of total time, taking into account planned service downtime	**Performance** 99.96%	**Target** At least 97% **Performance** **98.93%**	**Target** At least 97%
6	**Efficient administration of funds[6]** **Goals and objectives** To improve the efficiency of administering total funds **Measure** Ratio of total NS&I administrative costs to total stock	**Performance** 14 basis points	**Target** Fewer than 19 basis points (excluding one-off costs) **Performance** **14 basis points**	**Target** Fewer than 16 basis points

		2013–14	2014–15	2015–16
7	**Contact Centre Association (CCA) Global Standard© V5 accreditation** **Goals and objectives** To maintain accreditation **Measure** A respected independent customer service standard, widely used by other organisations with a large contact centre operation	**Performance** Gained accreditation under the Contact Centre Association Global Standard© V5	**Target** Maintain accreditation **Performance** **Met**	**Target** CCA Global Standard© accredited

		2013–14	2014–15	2015–16
8	**Financial Ombudsman Service (FOS)** **Goals and objectives** To minimise the incidence where FOS intervention is justified **Measure** The ratio of the number of complaints upheld by FOS in favour of the complainant to the total number of complaints closed by NS&I	**Performance** 0.24%	**Target** Less than 0.5% of total complaints raised found against us by FOS **Performance** **0.19%**	**Target** Less than 0.5% of total complaints raised found against us by FOS

		2013–14	2014–15	2015–16
9	**Fraud**[7] **Goals and objectives** To minimise the cost of fraud **Measure** The cost of fraud as a percentage of total stock	**Performance** 0.00023%	**Target** Below 0.001% of average funds invested by customers **Performance** **0.00022%**	**Target** Below 0.001% of average funds invested by customers

(1) 65+ Bonds are not included within our Value Indicator target. As they were a specific Budget measure, the costs for delivering them were set out in HM Treasury's 2014 Budget scorecard. An updated cost projection was given in the 2015 Budget to reflect the change that they would now be on sale until 15 May.

(2) Calculating the Value Indicator

First we calculate the cost of delivering Net Financing and servicing existing customers' deposits by adding together:

- the cost of interest and, for Premium Bonds, prizes earned by investors in NS&I's products
- management costs to deliver NS&I products (less the equivalent management costs of running the Debt Management Office which issues government gilts; and less the revenue NS&I receives for providing payment processing services for other public bodies, like the Equitable Life Payment Scheme)
- tax foregone on NS&I's total stock of tax-free products (i.e. tax revenue potentially not received by HM Treasury for NS&I's tax-free products, such as Savings Certificates).

We then calculate the comparator cost to the Government if it were to replace all the deposits held by NS&I through the wholesale markets in the following way.

- Fixed rate products: we compare the interest cost for each of our fixed rate products and terms (i.e. Savings Certificates and Guaranteed Growth/Income Bonds across 1-, 3- or 5-year terms) with the interest cost of an equivalent maturity gilt. So the interest costs of a 5-year term of NS&I's Fixed Interest Savings Certificates is compared with the interest costs of a 5-year gilt; a 3-year term of NS&I's Guaranteed Growth bonds is compared with a 3-year gilt.

These costs are calculated on a term-by-term and product-by-product basis then added together to give a total comparator cost for our fixed-term products.

- Variable rate products: we calculate the average length of time our customers hold a variable rate product and then compare the interest cost of delivering this with the cost of delivering an equivalent maturity gilt.

We then add the comparator costs for fixed and variable rate products together.

The cost of delivering Net Financing and servicing existing customers' deposits is then subtracted from the total comparator cost figure to give the Value Indicator figure.

(3) Each month, 600 NS&I customers who have recently transacted are interviewed by Ipsos Mori on NS&I's behalf. Approximately 500 of those will answer the question on overall satisfaction. They are asked: 'Taking everything into account, how would you rate NS&I customer service?' They answer on a scale where 10 means 'completely meets needs' and 1 means 'does not meet needs at all'. The SDM is based on the percentage of those that give a rating of 7 or above.

(4) Although the customer experience target is remaining at 87%, for 2015–16 we will be using our 'EvaluAgent' tool to measure overall satisfaction with NS&I's service. A key benefit is more timely feedback enabling quicker improvements to customer experience, where expectations are not being met.

(5) This is a new measure introduced in 2014–15 to replace our two previous customer service measures of accuracy and timeliness. The new measure covers average performance against timeliness and accuracy KPI targets, but links the two, so timeliness is now only counted if accuracy is 100%.

(6) The amount of NS&I administrative cost used in the calculation of the 2014–15 performance excludes a reserve claim of £58.3 million.

(7) Following the commencement of the new contract on 1 April 2014, Atos, NS&I's operational services provider, is liable for any fraud losses that are incurred under the new contract. Previously, the liability was shared equally once the amount of fraud exceeded £300,000. The fraud losses borne by Atos in the financial year 2014–15 were £253,000. Compared on a like for like basis against 2013–14, net fraud losses in 2014–15 were 15% lower. The contractual changes have no impact on how customers are reinstated in the event of a fraud. While recoveries may follow, the customer is not disadvantaged. In addition, the controls we have in place to combat fraud have resulted in attempts with a total value of £877,000 being prevented.

Our finances

The resources available to NS&I are determined by Parliament through the Supply Estimates procedure. These resources are used to deliver the products and customer service discussed throughout this report. Our operating costs include our internal costs, the payments made to Atos (our operational delivery partner under a Public Private Partnership (PPP) contract) and the payments made to the Post Office®.

Our Spending Review 2010 resources for the 2014–15 financial year were boosted by a one-off reserve claim to cover the considerable investment and operational change planned in the first year of our new partnership contract with Atos. In addition, in the Supplementary Estimate we received additional ring-fenced funding to cover the costs associated with the new 65+ Bonds and our contract with the Post Office®.

In 2014–15, NS&I's actual net resource requirement was £224.3 million, which is £6.1 million lower than the net resource requirement approved in the 2014–15 Estimate. It is £77.0 million higher than the net resource outturn in 2013–14. The following table provides a more detailed comparison of NS&I's 2014–15 outturn with the 2014–15 Estimate.

Comparison of outturn with Estimate(1)

	2014–15 Outturn £m	2014–15 Savings compared with Estimate £m	2013–14 Outturn £m	2013–14 Savings compared with Estimate £m
Net resource requirement	224.3	6.1	147.3	8.1
of which:				
Departmental Expenditure Limit (DEL)(2)	223.9	4.5	147.0	3.1
Annually Managed Expenditure (AME)(2)	0.4	1.6	0.3	5.0
Non-budget adjustments(3)	(18.3)	18.3	8.4	(8.4)
Net operating cost (Accounts)	**206.0**	**24.4**	**155.7**	**(0.3)**
Captial expenditure (DEL)	1.4	0.3	1.5	0.2
Non-budget adjustments(3)	13.5	(13.5)	13.5	(13.5)
Total capital expenditure (Accounts)	**14.9**	**(13.2)**	**15.0**	**(13.3)**
Net cash requirement	**209.1**	**14.5**	**147.5**	**6.2**

More information on the use of our resources is contained in the Accounts.

(1) Figures are presented here to the nearest £0.1m. Note SOPS2.1 on page 102 provides figures to the nearest £1,000.

(2) See the Glossary on page 137 for definition of these terms.

(3) Non-budget adjustments reflect the different treatment of items between Departmental Expenditure Limits set by Parliament and the Accounts, which are prepared in accordance with International Financial Reporting Standards.

Savings achieved against the approved net resource requirement

The variance against the net resource requirement is mainly due to a combination of lower marketing costs and a lower than expected impairment of NS&I's property portfolio. The following table provides a more detailed breakdown of the variance.

Difference between resource outturn and Estimate[1]

	2014–15 £m	2014–15 £m
Lower marketing and customer communication costs	4.1	–
Lower professional fees	1.5	–
Lower income	(1.5)	–
Lower depreciation costs	0.2	–
Other differences	0.2	–
Total DEL underspend		**4.5**
Higher than expected requirement for provisions	(0.4)	
Lower than expected impairment charge for NS&I properties	2.0	
Total AME underspend		**1.6**
Total underspend against estimate		**6.1**

(1) Figures are presented here to the nearest £0.1m. Note SOPS2.1 on page 102 provides figures to the nearest £1,000.

Financial position

The Statement of financial position on page 74 shows that, as at 31 March 2015, total assets less total liabilities were £51.7 million, £3.9 million higher than as at 31 March 2014. Non-current assets increased by £13.7 million, reflecting the increased level of capital expenditure on new technology and software development under the new contract. Current assets, excluding client funds, fell by £2.1 million. Total liabilities, excluding client funds, increased by £7.7 million driven by an increase in trade creditors and accruals, partially offset by a fall in deferred income.

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. We endeavour 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 2014–15, NS&I paid 94.4% (2013–14: 96.5%) of bills within this standard. The Government made a commitment to speed up the payment process for small- and medium-size enterprises (SMEs). HM Treasury's *Managing Public Money* guidance states that 'Public sector organisations should aim to pay suppliers wherever possible within 10 days'. NS&I has met this commitment and implemented a process to pay SMEs within 10 days of acceptance of the relevant goods or services or receipt of a legitimate invoice if that is later. For 2014–15, the average time taken to pay all suppliers was 11 days. Details of all expenditure over £25,000 can be found on our website along with a list of all contracts with a value of over £75,000, in line with government guidelines.

Jane Platt

Jane Platt CBE
Chief Executive
National Savings and Investments

03 June 2015

Our customers

Our ‘think ahead’ strategy challenges us to achieve retail channel shift to digital channels (non-paper direct channels) of at least 75% by 2018–19 by delivering an appealing retail digital customer experience. During 2014–15, we made significant progress on both of these objectives, for example launching a mobile-optimised customer website, which saw our channel shift move to 64.5% across all sales and service interactions – while meeting all our customer service and satisfaction targets.

Our new website

Customers will only want to shift channels if the experience offered meets their expectations, so we are very pleased with the progress made this year. Our new website was extensively tested in our customer experience lab in Glasgow: customers were invited to come and test initial designs and offer feedback. This was backed by the use of ‘eye-tracking’ software, which provides a more objective analysis of how easy customers find the website to use. Designs were repeatedly refined in response to customer feedback before the full launch in December. That feedback also included a pleasing number of unsolicited positive comments about the site’s usability.

Driving channel shift

Channel shift was already accelerating before the new site was launched. One catalyst was raising the maximum amount of Premium Bonds that customers can hold from £30,000 to £40,000, the first time the maximum holding had increased since 2003. We supported the change with a focused communication programme on the benefits of using digital channels to interact with us. The change came into effect on 1 June 2014, and many customers who chose to increase their holding to the new maximum did so online. From 1 August, we also increased the prize-fund rate to 1.35% from 1.30% to accommodate a second monthly £1 million jackpot prize.

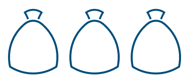
We took the decision to drive channel shift by making some of our products, including 65+ Bonds, ‘paperless by default’. This meant that, from November 2014, any new Direct Saver or Income Bonds customers would not receive paper notifications and statements unless they opted in to do so. As a result of this success, we plan to introduce the same process for more of our products in the future.

Responding faster to complaints

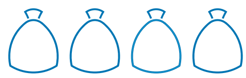
Overall complaint levels remained very low. In the latest data available from the Financial Ombudsman Service (FOS), for the six months from July to December 2014, less than 0.04% of our 23 million transactions resulted in a complaint. Less than 1% of those were referred to the FOS: a total of 65 complaints (compared with 92 in the corresponding period in 2013). As stated previously, this compares well with other financial services organisations, particularly those of a similar size to us. Our latest complaints data can be found at
http://nsandi-corporate.com/about-nsi/our-performance/complaints-data-2/.

We aim to reduce the time taken to resolve the complaints we receive even further, so this year we made some important changes to the way we respond to them. We have a rapid response unit in the customer interaction centre to handle telephone complaints, but this year we expanded it to cover complaints across all channels,

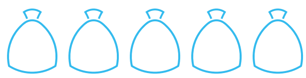
Increase in Premium Bonds maximum holdings limit



£30,000
before June 2014



£40,000
from June 2014



£50,000
from June 2015

with the aim of resolving as many as possible within two working days. Through this process, we increased the proportion of complaints resolved within two working days from 29% in the period July to December 2013 to over 50% in the same period for this year. During July to December 2014, a further 17% were resolved within five days.

Forthcoming changes

We have some important changes to our customer offer already planned for 2015–16. These include further developments on channels, in particular the secure part of our website, and greater use of social media. As announced in the 2015 Budget, we will also be raising the Premium Bonds investment limit – to £50,000 – in June 2015.

We will also complete a project started this year to review the way terms and conditions are explained across our products. We looked at this as part of our modernisation programme, and terms and conditions were aligned. Now, we are looking at further ways to simplify the actual wording – something that fits with our value of straightforwardness, and that reflects the Financial Conduct Authority's (FCA's) Conduct Rules as well as the spirit of Treating Customers Fairly. We are also reviewing the implications of the changes for savers announced in the 2015 Budget.

Unclaimed assets

We proactively encourage customers to find money and accounts they have lost track of. We do this in a number of ways, including regular media campaigns to find Premium Bonds prize winners and our continued support for the My Lost Account service we run in partnership with the British Bankers' Association and the Building Societies Association.

This year, we reunited customers with a further £35 million of lost assets – bringing the total to over £620 million through My Lost Account and our own tracing service since February 2008.

Working with advisers

This year we renewed our focus on working with financial advisers. Following the launch of our new adviser website in 2013, we have developed our approach from simply making information available to the adviser community to a more direct engagement with them. This means more advisers are aware of our full portfolio and what we offer for their clients. We had a presence at the Institute of Financial Planning conference and attended more than 20 Personal Finance Society regional conferences, presenting information about savings trends and answering questions about NS&I from advisers.

We also continue to provide regular email updates to over 12,000 advisers who have registered to receive them and have maintained relationships with unbiased.co.uk and the Assureweb adviser online portal. These are important channels to communicate messages cost-effectively to advisers. Our contract with unbiased.co.uk was ended at the end of 2014–15.

Progress of NS&I tracing service since February 2008

Total amount reunited

in 2008–14 | in 2014–15

Our product range

Our product range is designed to offer options that meet customers' different savings needs. Our full product range and the key benefits of each are shown below. Due to our requirement to balance the interests of our customers, taxpayers and the stability of the broader financial services sector, the full range is not currently on general sale.

NS&I products

	Status (at 31 March 2015)	Tax-free	Fixed rate	Monthly income	Manage online and by phone	Manage by post	Annual statement
Children's Bonds	On sale	●	●		●	●	●
Direct ISA	On sale	●			●		●
Direct Saver	On sale				●		●
Fixed Interest Savings Certificates*	Not currently on sale	●	●		●	●	●
65+ Guaranteed Growth Bonds	On sale until 15 May 2015		●		●	●	●
Guaranteed Growth Bonds	Not currently on sale		●		●	●	●
Guaranteed Income Bonds*	Not currently on sale		●	●	●	●	●
Income Bonds	On sale			●	●	●	●
Index-linked Savings Certificates*	Not currently on sale	●			●	●	●
Investment Account	On sale				○	●	●
Premium Bonds	On sale	●			●	●	

○ Holdings can be viewed online but no transactions can be carried out

*Renewals at maturity still permitted. Current issues of fixed-term products with start dates before 20 September 2012 are not visible online.

Unclaimed assets(1)

	Estimate: held at 1 January 2015 £m	Estimate: held at 1 January 2014 £m
Accounts	572	558
Certificates(2)	917	874
Bonds	5	3
Other products(3)	26	27
Unclaimed Premium Bond prizes	8	8
Total	**1,529**	**1,470**

(1) 'Unclaimed assets' are defined as holdings with no activity or customer contact for a period of 15 years of more.

(2) NS&I Savings Certificates are included here for completeness. However, these are used by many holders as long-term savings products. The majority of customers choose to renew their holdings at the end of their term and thus we would not expect these customers to be in regular contact with NS&I.

(3) 'Other products', e.g. SAYE, Yearly Plan, Deposit Bonds, Savings Stamps, Gift Tokens, British Savings Bonds.

Sales performance by principal channels[1]

NS&I phone sales

2010–11 £1.95bn

2011–12 £2.30bn

2012–13 £1.33bn

2013–14 £1.62bn

2014–15 **£4.17bn**

NS&I postal sales

2010–11 £1.78bn

2011–12 £1.75bn

2012–13 £1.05bn

2013–14 £4.23bn

2014–15 **£8.70bn**

NS&I sales via Post Office® branches

2010–11 £3.06bn

2011–12 £2.58bn

2012–13 £2.15bn

2013–14 £2.18bn

2014–15 **£3.90bn**

NS&I internet sales

2010–11 £3.12bn

2011–12 £5.11bn

2012–13 £2.30bn

2013–14 £4.38bn

2014–15 **£11.15bn**

NS&I electronic transfers[2]

2010–11 £0.78bn

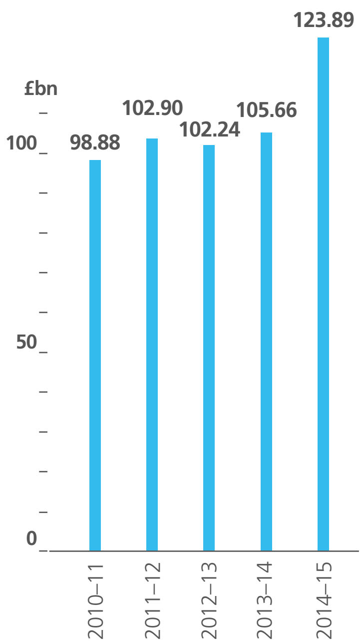
2011–12 £1.72bn

2012–13 £1.47bn

2013–14 £2.36bn

2014–15 **£3.20bn**

Total amount invested by customers at the end of the year



(1) Figures differ slightly from those in Product Accounts note 15, Related party transactions, due to timing differences (see page 129). Previously we reported separately sales where a customer picked up an application form at the Post Office® and then sent this by post to NS&I. Our brochures are no longer on display in post offices and we no longer pay the Post Office® for sales where a customer collects an application form over the counter and then posts it to NS&I. Therefore, for the 2013–14 data only (above), all sales by post are now recorded as one channel. The Post Office® is paid for sales transacted over the Post Office® counter, and these are reflected above.

(2) This is BACS, CHAPS and Faster Payments.

Business-to-business customers

Since 2011–12, we have been providing government partners with payment processing services using our banking systems – an approach which delivers operating efficiencies for them and helps us to fund our retail savings operations. Our aim is to become progressively more self-funding. We currently provide services to three partners who have all extended their agreements with us.

Court Funds Office

As announced in last year's Annual Report, in April 2014 we extended our relationship with the CFO for a further seven years. During this time, we will deliver like-for-like savings of £14 million on transaction processing and call handling compared with previous operating costs – in addition to the 25% cost saving delivered over the first three years. The savings will be achieved through driving further efficiencies in our processes.

Performance against all KPIs is at least 99%, and we are also supporting the CFO with continuing modernisation of the service.

Home Office Payment Processing

We have continued to provide streamlined processing of in-country immigration application payments for the Home Office. Over the past 12 months we have processed over 746,000 applications/payments, while delivering a consistent high performance exceeding agreed service levels and performance indicators.

In March 2015, the Home Office elected to extend the agreement by a further 18 months.

The Equitable Life Payment Scheme

NS&I GPS has continued to deliver the Equitable Life Payment Scheme ('the Scheme') and, as at 31 January 2015, the Scheme has now issued payments surpassing £1 billion to 896,367 policyholders, 86% of the overall population identified as being eligible for a payment.

The Scheme was originally scheduled to close in April 2014, but was extended by the Government to 2015 to make sure as many Equitable Life policyholders as possible receive the payment they are due.

Payments also continue to those who acquired their policy through a company pension scheme. As previously reported, Equitable Life did not hold the personal details for most of these policyholders, and so the Scheme is dependent on pension scheme trustees sending the data to the Scheme. As at 31 January 2015, a total of 446,158 payments with a value of £169.3 million have been paid to these company scheme members.

Court Funds Office processing

Over
99%
performance
against all KPIs

746,000
applications + payments processed for the Home Office

Equitable Life payments made so far

2015 JAN
£1bn

Developing our business-to-business offer

This year we have redeveloped our dedicated business-to-business website, www.nsandi-gps.com, and begun discussions with a number of government organisations to explore how our payment processing services could benefit them and their customers. We hope to accelerate these during 2015–16.

In March 2014, the Chancellor of the Exchequer announced a new national Tax-Free Childcare scheme, and stated the intention that NS&I would deliver it. However, this was challenged by a provider of childcare vouchers under the current scheme. It became a matter for the courts and in December 2014, and in March 2015, judges found in our favour. An appeal is now being heard and we expect a final judgment in the summer.

Our operational partnership

2014–15 was the first year of working with Atos under a new contract. As explained last year, though our partner remained the same, the new contract changed the relationship and in particular how we work together. Colleagues at both Atos and NS&I have embraced new ways of working, allowing NS&I to benefit from Atos innovation while delivering outstanding performance in core operational areas, despite very high transaction volumes. Our service delivery measures around customer service were all met.

The fundamental changes brought by the contract involved greater alignment of targets between our two organisations, but also an important change for NS&I in moving to an assurance model. In practice, this means giving Atos greater freedom to innovate and use its experience to help determine how it can best help us deliver the strategic outcomes we seek. In some areas, we are working particularly closely together, such as developing an improved customer experience, under the banner 'making NS&I easy to do business with'.

This is a major cultural shift, but already it is proving a positive one, something noted not only by colleagues at the two organisations but also by third parties, such as the CCA. We retained the CCA Global Standard© V5 accreditation – one of our service delivery measures. In its assessment, the CCA described 'the very positive engagement between Atos and NS&I to develop aligned strategies focused on the customer, process and people'.

Outstanding operational performance

The value of that engagement can be seen in our operational performance. The new contract set more challenging targets for customer service; not only did the Atos team meet these targets, but they exceeded them. Those include our SDMs for operational delivery (which replaced our previous measures of timeliness and accuracy) and online availability. See page 15 for more details on how these targets are measured.

This performance was achieved in a year of very high transaction volumes, with several major 'spikes' in demand. These included the increase in the maximum Premium Bonds holding to £40,000 and the re-introduction of a second £1 million monthly jackpot prize, and of course the unprecedented demand experienced in the first few days of sales of 65+ Bonds. The issues around the latter are discussed in the Chief Executive's report; all other changes and resulting surges in volumes were managed comfortably.

Delivering channel shift

One consequence of the increasing channel shift is that more transactions are now completed digitally. This means the level of basic data input which Atos staff are required to do is decreasing, allowing greater focus on innovation and improving the customer experience.

Similarly, we are seeing an ongoing evolution in the work of the call-centre. As well as being a direct sales channel, it is increasingly used as a way to help and guide our customers when they have questions about our products or their holdings with us.

£1m **£1m**

Premium Bonds now has two £1 million jackpot prizes every month

These changes in customer behaviour and expectations are being addressed through a broader change programme which lays the foundations for even lower running costs, faster channel shift and a more effective customer-focused operation.

Investing in change

With clear targets set for the duration of the contract, Atos has been able to invest in the technology that underpins our operation. Already, this has led to a reduction in processing times and increased business resilience. The foundations are now in place for a wide range of digital improvements that will span mobile engagement through to electronic money transfer.

Atos has also invested in a new unified communications solution to allow increased collaboration between NS&I and Atos colleagues working on the account. This offers instant messaging, ad hoc conferencing and video as well as traditional voice communications.

Strong partnership, strong platform

This smooth transition to the new contract underlines the strength of our partnership – and this was affirmed in the annual partnership survey conducted by Service Matters (an independent third party). The latest partnership score is 7.0. This is above industry average, and Service Matters has commented that the survey results show a strong partnership, with no major concerns identified. Service Matters notes that this is particularly encouraging, as it is in contrast to a regrettably common occurrence in other outsourced relationships where there is often a marked degradation in the relationship in the first year between a customer and supplier, after the initial excitement of a contract has subsided and implementation and business as usual commence.

As well as a strong partnership, this year has seen a strong platform put in place to achieve the target outcomes set in the contract.

Our people

NS&I directly employs a comparatively small team of around 170 people. This year has seen significant change within that team: we have recruited 36 new members of staff, and 15 people have changed role or been promoted internally.

This is a higher level of staff turnover than we have experienced for some years. In part, it is a consequence of the organisational redesign we undertook during 2013–14 in support of our new partnership contract with Atos, where new roles had been created but not yet filled. But it also reflects a resurgent recruitment market, with more opportunities available across the financial services sector, with which we compete directly for people with certain specialist skills.

In some ways, this turnover was anticipated in our 'think ahead' strategy, which elevated providing good careers and work/life balance to a strategic objective in recognition of our need to attract and retain talented people. Being able to offer so many internal promotions has clear advantages in terms of retention.

Nonetheless, this level of turnover has a number of consequences. New starters naturally do not have the same knowledge of NS&I's culture, history and values as those who have worked here for many years and the newly promoted colleagues need additional support. We are addressing these issues through a new People Strategy. We held an all-staff conference in October, which focused on the NS&I culture – and introduced our forthcoming FCA shadow compliance regime (discussed in more detail on page 31). We have also improved and relaunched our management training programme, with a particular emphasis on new managers.

More broadly, the strategy focuses on developing our employee proposition, strengthening our employer brand and ensuring we have the right talent management and succession plans in place. Together, these will help position us to retain and develop the people recruited this year and existing colleagues, and to support future recruitment requirements.

Our workforce

In total, we made 51 permanent and fixed-term appointments in the year. These are summarised in the table below. Full details of staff numbers can be found in Table 5 of the Departmental Report on page 136.

NS&I directors, senior managers and all employees as at 31 March 2015

	Male	Female
Number of persons of each sex who were directors of NS&I at year end	5	2
The number of persons of each sex who were senior managers at year end[(1)]	18	16
The total number of persons who were employed at year end[(1)]	78	95

(1) NS&I pay band 2 and 3 combined.

Permanent and fixed-term appointments in 2014–15

	Non-executive Directors	Senior Civil Servants	Pay band 1	Pay band 2	Pay band 3	Pay band 4	Pay band 5	Pay band 6	Pay band 7
Male	0	0	0	1	3	5	7	3	1
Female	1	0	0	0	2	12	8	6	2
White	0	0	0	1	4	13	7	4	3
Non-white	0	0	0	0	0	2	4	5	0
Non-declared	1	0	0	0	1	2	4	0	0
Disabled	0	0	0	0	0	0	0	0	0

Recruitment monitoring

We operate 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. There were 12 permitted exceptions to the recruitment principle of fair and open competition, which were short-term appointments to meet short-term business needs (maternity covers or roles to cover a short-term resource requirement).

We compare CVs against the selection criteria and review diversity breakdowns to ensure that the criteria were fair and robustly applied. We submit 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 two years to comply with these requirements.

Employee engagement and satisfaction

Staff engagement, as measured by the Civil Service People Survey each October, continued to reach the high-performance benchmark and was above the Civil Service average. There was a marginal dip from 66% to 64%.

We achieved excellent scores in several important areas, including leadership and managing change, team working, line management and inclusion and fair treatment. Areas for improvement included a desire for greater involvement in decisions that affect staff and concerns about the pace of work.

Pay and reward

The biggest area of dissatisfaction concerned pay and benefits, with satisfaction one percentage point below the Civil Service average, although the score was marginally increased on the year before. However, it is important to recognise that we successfully recruited new colleagues to the business, so our overall deal for staff is attractive.

We have an agreed salary budget from HM Treasury, called our delegated pay remit, which we allocate in line with our reward principles (available on request) and within Civil Service guidelines. This includes performance-related pay. As part of the Government's deficit reduction strategy, and in line with the approach being taken across the public sector, our pay remit increased by 1% during the year – the same as the last three years.

We have taken a new approach this year to communicating wider employee benefits, developing a new online benefits portal which gives staff access to more information about pensions and other benefits such as childcare vouchers. Through the portal, employees can view total reward statements and personalise elements of their overall benefits package.

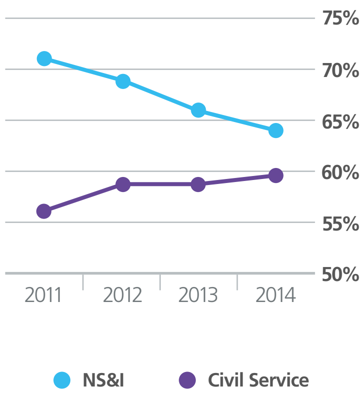
Details of executive pay and performance-related pay can be seen in the Remuneration report on page 41. Details of our board Directors' expenses can also be found online at www.nsandi.com/about-nsi-who-we-are-our-board-and-committees. Reward for individual senior staff members is approved by our Appointments and Remuneration Committee.

Pension liabilities

During 2014–15, the majority of our current and previous employees were covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The rate of employer's contribution to this is determined by the Government Actuary and advised by HM Treasury. For 2014–15, the rates were between 16.7% and 24.3% (2013–14: 16.7% and 24.3%) of pensionable pay, depending on salary.

From 1 April 2015, a new pension scheme known as Alpha was introduced across the Civil Service and the majority of staff moved to this scheme. However, most of those who were within 10 years of retirement stayed with the PCSPS. See the Remuneration report (pages 39 to 44) for further details.

Civil Service People Survey – engagement



Learning and development

Learning and development is an integral part of our people strategy. It helps us as an organisation to develop people with the right skills and capabilities to meet the needs of the business now and in the future. It demonstrates that people in the business have the right skills and capabilities and supports retention by enabling staff to develop their careers with us.

We aim to source effective, high-quality and value-for-money learning and development interventions for our people, and this year those included the planned refresh of our e-learning materials around compliance, and a new programme which shadows the FCA's training and competency regime. This focuses on both conduct with regard to customers – building on our established Treating Customers Fairly programme – and general conduct within the organisation, ranging from responding to issues, to whistle-blowing, to commitment to personal development.

While many of the behaviours and conduct rules specified by the FCA mirror the Civil Service Code, it is our intention to ensure that they are understood and embedded within our organisation.

As well as promoting our new manager training programme, we are continuing to encourage staff to seek professional qualifications, and this year a colleague graduated from the Civil Service Major Projects Leadership Academy.

Personal development plans are reviewed at senior levels as part of our talent identification and management strategy. The Appointments and Remuneration Committee takes an active role in succession planning for senior management roles, and individuals' plans, progress and objectives feed into this.

We see learning and development as essential to the delivery of the overall 'think ahead' people strategy. In particular, it will help us to achieve and maintain high levels of priority skills and competence such as leadership, programme and project management, digital, risk and assurance, and commercial skills and Partnership Ways of Working. It also helps build staff engagement and, above all, underpins the recruitment, development and retention of talented people.

Wellbeing at work

We ran our second Wellbeing at Work week in November which again featured a range of events on different aspects of health and wellbeing, including stress management and resilience. We have an Employee Assistance helpline available 24 hours a day.

Employee Assistance helpline available 24 hours a day

Speaking up

We have a well-established 'Speaking Up' policy, which includes published processes for whistle-blowing. As well as internal reporting, and the ability to report matters to HM Treasury, staff are able to use an independent external helpline, run by the whistle-blowing charity Public Concern at Work (www.pcaw.org.uk), whose details are published throughout our premises. This helpline is also available for staff working for our delivery partner.

Following the National Audit Office review of government whistle-blowing policies in 2013–14, we made some changes to our policy to adhere to best practice. We also carried out roadshows at each of our sites, giving clear guidance on how to raise concerns – and how managers should respond to any issues raised.

Working with our delivery partner

Though the majority of staff at our sites in Blackpool, Durham and Glasgow are employed by Atos, we recognise our role in supporting and engaging with them.

We held a joint staff conference in May 2014, shortly after the new Partnership Charter had been signed. The conference focused on exploring the new ways of working described in the charter, and provided opportunities to get to know colleagues working on business matters.

We completed the move to our new Glasgow site, and ensured colleagues were supported through this process. We have also consulted with Atos colleagues around the fit-out for our new Durham office, and supported the staff initiative to move the war memorial from the old building to the new one.

Equal opportunities

NS&I seeks to promote a culture that values difference and recognises that diversity enriches the economy and society and is an essential ingredient of change and progress.

As an employer, NS&I seeks to be open and inclusive in its management policies and processes and seeks to recruit and develop a diverse and talented workforce that is representative of the society it serves. Our Equality Information Statement provides full details of diversity among NS&I's employees. It is available here: http://nsandi-corporate.com/wp-content/uploads/2014/02/equality-information-statement.pdf.

Sick absence data

The average number of sick days per person in the 12 months ending 31 March 2015 was 5.13 days (2013–14: 4.99). This figure includes all absences including long-term absence. Short-term absences were 3.03 days (2013–14: 2.80).

Health and safety

We recognise and accept our responsibility as an employer for ensuring that, as far as is reasonably practical, every employee has a safe workplace that does not pose risks to their health. We comply with current health and safety legislation and approved codes of practice and are committed to continuous assessment and improvement of the health and safety culture of the organisation. NS&I has maintained the OHSAS1801 Health and Safety Management System Standard for the past five years. We had no material issues in 2014–15.

Table 1: For all off-payroll engagements as at 31 March 2015, for more than £220 per day and that last for longer than six months

Number of existing engagements as at 31 March 2015	**8**
of which:	
Number that have existed for less than one year at time of reporting	6
Number that have existed for between one and two years at time of reporting	1
Number that have existed for between two and three years at time of reporting	1
Number that have existed for between three and four years at time of reporting	0
Number that have existed for four or more years at time of reporting	0

Table 2: For all new off-payroll engagements between 1 April 2014 and 31 March 2015, for more than £220 per day and that last for longer than six months

Number of new engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015	**7**
Number of the above that include contractual clauses giving the Department the right to request assurance in relation to income tax and National Insurance obligations	7
Number for which assurance has been requested	7
of which:	
Number for which assurance has been received	7
Number for which assurance has not been received	0
Number that have been terminated as a result of assurance not being received	0

Table 3: For any off-payroll engagements of board members, and/or senior officials with significant financial responsibility, between 1 April 2014 and 31 March 2015

Number of off-payroll engagements of board members, and/or senior officials with significant financial responsibility, during the financial year	0
Number of individuals that have been deemed board members, and/or senior officials with significant financial responsibility, during the financial year. This figure should include both off-payroll and on-payroll engagements	0

Volunteering and staff charity

This year, our charity was Macmillan Cancer Support, and we raised over £16,000. As well as a range of office events, colleagues participated in the Chase Corporate Challenge. One colleague swam Coniston Water and another cycled from Land's End to John O'Groats, raising £15,000 in sponsorship between them. Several colleagues chose to use their 'giving something back days' within the benefits package to undertake collections for Macmillan.

Sustainability report

This year, we completed our medium-term carbon reduction plan – meeting or exceeding all the five-year targets we set in 2009–10. In particular, we have successfully cut our carbon emissions by over 9,000 tonnes a year against the 2009–10 baseline. Each year of the five-year carbon management plan has seen a reduction in emissions against the baseline and the cumulative reduction is some 19,097 tonnes. This is significantly ahead of both our own initial target and those set centrally by government.

The central factor in this sizeable reduction has been the move from older premises to more modern, energy-efficient ones that are a more appropriate size for our operations. Staff in Blackpool are now all based in the new Moorland building and colleagues began to move to new offices in Glasgow in October 2014.

The construction of our new premises in Durham – rated excellent under BREEAM (Building Research Establishment Environmental Assessment Methodology) – was completed on time and on budget, and we received the keys in early 2015. We will move operations there by summer 2015, which will lead to further reductions in carbon emissions and energy consumption.

Using renewable energy

The reductions in carbon emissions and energy consumption come not only through the use of more efficient lighting, heating and equipment but also because our new premises in Durham feature a renewable energy source: an Archimedes screw which is a form of hydro-electric turbine. It is projected to generate sufficient electricity to meet around 75% of the building's demand. Freeman's Reach is the first UK city centre development to incorporate a fully operational hydro-electric power generation scheme.

This is the second major renewable energy project on our estates. At Blackpool, we have installed 400 solar panels on the roof of the Moorland building. The installation was completed in August 2014 and thus far has generated 40,000 kilowatt-hours (kWh) of energy – in line with projections of 100,000 kWh a year. Both projects deliver operational cost savings through lower electricity bills and Feed-In Tariff revenues.

Since October 2014, Atos has used 100% renewable electricity at all our UK sites.

One hundred per cent

renewable electricity at all of our UK operational sites

Estate rationalisation

Our former premises are being sold for redevelopment and revenues returned to the public purse – worth an estimated total of over £12 million to the taxpayer. Milburngate House in Durham has been acquired as part of a city regeneration programme; in Blackpool, the site will be used for mixed development and at Glasgow the site is expected to be used for housing.

Water, waste and recycling

Our water consumption increased in 2014–15, due to a temporary increase in staff across our sites. We expect consumption to reduce in the coming year. After an increase in waste levels in 2013–14 as a result of site moves, we have returned to the long-term trend of waste reduction. With all site moves completed, we expect waste levels to drop considerably in 2015–16. We have also made good progress on recycling.

Our next carbon reduction plan

We are now in the process of developing our carbon reduction plan for the next five years, working with Atos and the Carbon Trust (who advised us on the previous plan). Having made substantial progress through our estates strategy, we recognise that it will be a challenge to make similar reductions in energy consumption and emissions over the next period. Our focus is likely to move towards working culture and habits – in particular reducing staff travel and making increased use of videoconferencing technology for meetings.

At NS&I head office we changed travel provider in 2013–14. We now have, for the first time, emissions data on our business travel. It is within our target levels, but we believe there is a real opportunity to reduce it. Colleagues now have Microsoft Lync unified communications software installed at the desktop; this allows ad hoc videoconferencing rather than requiring the use of dedicated facilities. Already, a larger number of meetings are taking place over Lync, including some training courses. This is an opportunity for further progress.

Reducing print

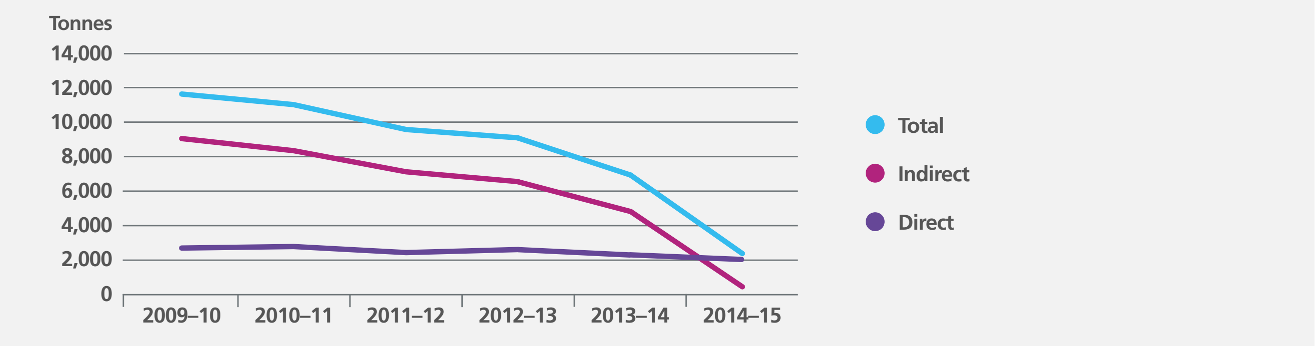
Just as we are working to reduce the amount of printed communications to our customers, through our 'paperless by default' approach described on page 20, we are also encouraging colleagues to reduce paper consumption. The impact of each individual change here is hard to measure; however, it is part of an ongoing channel and culture shift.

Clearly, mail remains an important part of our business and we have retained Sustainable Mail™ accreditation. Through Atos, we are also reducing the amount of printed waste and producing more documents only on demand.

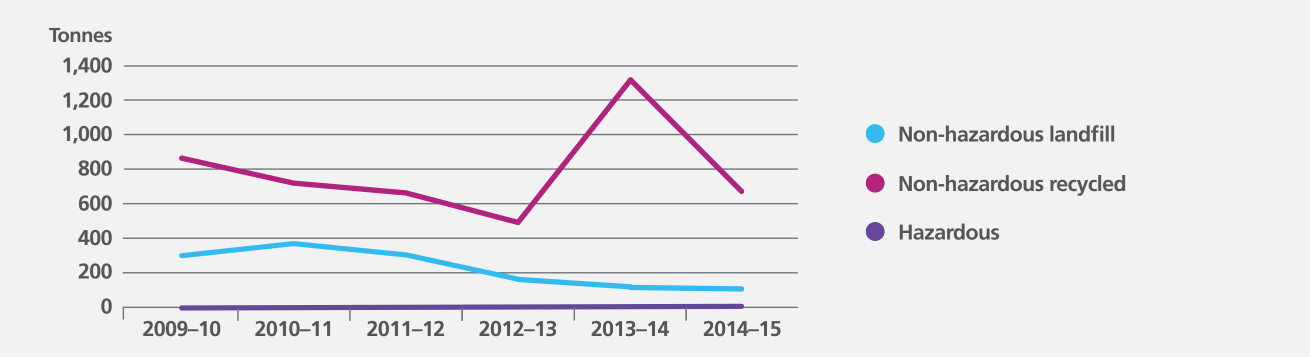
Adapting to climate change

We have assessed our policies and our premises against the risks of changing weather, extreme events and sea-level rise from climate change. Our new premises in Durham are, like our old office, located next to the River Wear. However, it is designed to be better protected against rising river levels.

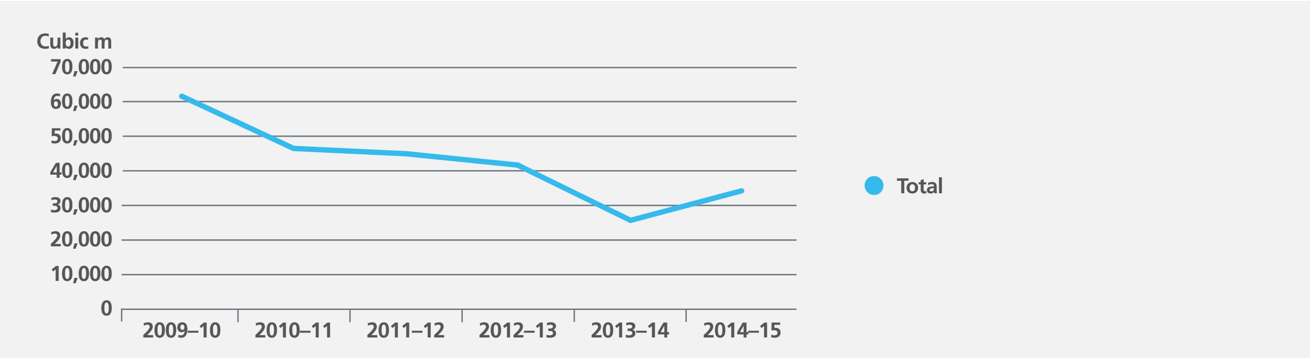
CO_2e emissions (four sites) tonnes



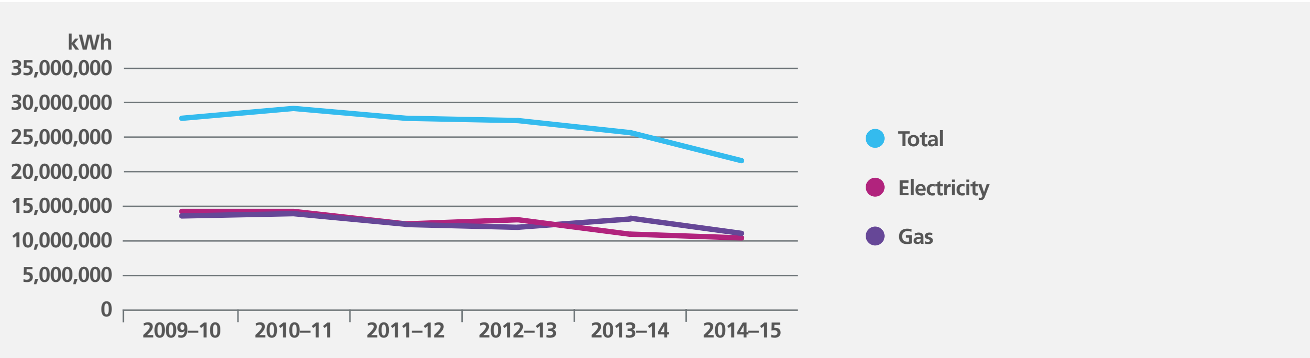
Waste (four sites) tonnes



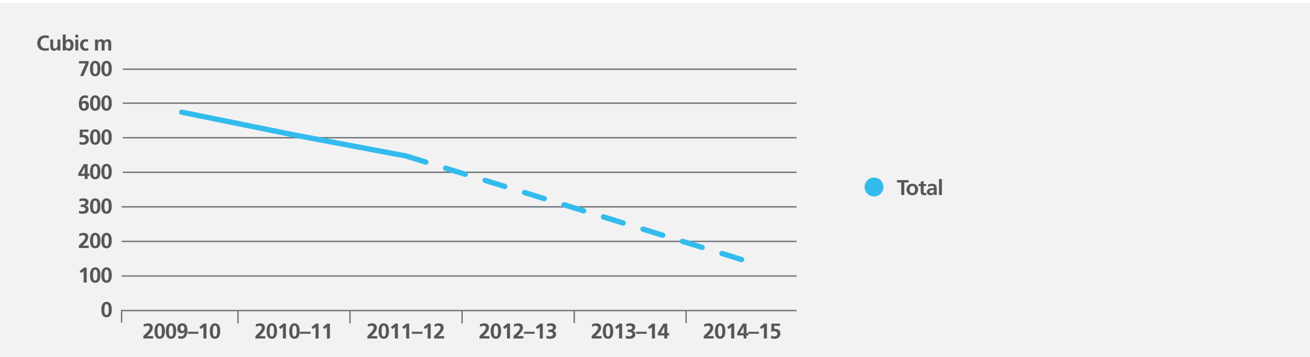
Water consumption (four sites) cubic metres[(1)]



Energy consumption (four sites) Kw/hour



Travel CO_2e emissions (tonnes)[(1)]



(1) No data available for travel CO_2e emmisions for 2012–13, and 2013–14. Data was available for 2014-15 where emissions were 143.39 tonnes

Note: Conversion factors for 2014–15 reporting year are taken from the following Government document
http://www.ukconversionfactorscarbonsmart.co.uk/

Direct CO_2 emissions relate to gas or diesel fuel for heating

Indirect CO_2 emissions relate to electricity, water, waste and transport

Waste (tonnes)

Location	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15 Tonnes
Blackpool	190.93	227.01	156.64	125	159	135
Durham	481.99	529.05	378.81	262	296	85
Glasgow	359.01	251.13	416.39	229	884	529
London	71.49	65.25	45.12	31	38	37
Total	**1139.42**	**1,072.44**	**996.96**	**647**	**1,377**	**786**

Water (cubic metres)

Location	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15 Cubic metres
Blackpool	30,197	21,376	16,318	17,641	9,350	8,924
Durham	12,346	13,459	19,576	13,360	10,772	15,230
Glasgow	14,308	10,958	9,162	8,877	5,092	7,003
London	3,784	1,076	59	1,220	1,301	1,965
Total	**60,635**	**46,869**	**45,115**	**41,098**	**26,515**	**33,122**

Note on water consumption: Figures for water consumption include some estimates, supplied by the water companies, for our consumption during periods in the year when our water meters failed.

Percentage of waste recycled

Location	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15 %
Blackpool	71.07	48.26	45.54	56.56	78.94	186.94
Durham	66.17	69.78	58.65	76.2	85.84	62.63
Glasgow	84.88	78.96	84.16	86.46	93.33	91.41
London	73	86.49	84.91	100	100	100
Total	**74**	**67.71**	**68.43**	**77.16**	**90.24**	**86.18**

Energy (CO_2e) (tonnes)

Location	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15 Tonnes
Blackpool	2,839	3,796	3,232	3,010	2,091	249
Durham	3,451	3,616	3,300	3,430	2,692	969
Glasgow	2,249	2,852	2,476	2,606	1,914	775
London	355	366	300	315	273	317
Total	**8,894**	**10,630**	**9,308**	**9,361**	**6,970**	**2,310**

Monitoring performance

We have retained ISO14001 accreditation for our environmental management system.

Sustainability performance data for 2014–15 was audited by KPMG. We monitor our performance closely, as part of our Corporate Social Responsibility risk policy. Our plans, policy and full sustainability report can be found at: http://nsandi-corporate.com/about-nsi/what-we-do/corporate-social-responsibility/.

Jane Platt

Jane Platt CBE
Chief Executive
National Savings and Investments

03 June 2015

Remuneration report

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprised Non-executive Directors James Furse (as Chairman) and Sir John de Trafford Bt. It also comprised two Executive Directors: the Chief Executive and the People and Strategy Director. Support to the committee in an independent advisory capacity is provided by KPMG.

The committee reviews and approves the Chief Executive's recommendations on pay and performance-related awards to confirm that they are consistent with government policy, HM Treasury pay guidance and the needs of the business. Agency performance measures are audited outcomes; individual performance objectives are assessed by the Chief Executive using appropriate measures of outcomes.

The committee also advises on the role and appointment of executive NS&I board members. The Committee reviews succession planning arrangements for senior staff within NS&I for the board.

Service contracts

The remuneration arrangements for senior staff are set out in their contracts and are subject to annual review in line with awards recommended by the Chief Executive. The Chief Executive is on a rolling three-year fixed-term contract (now extended until September 2018).

The notice period for senior staff at NS&I is three months. The arrangements for early termination of senior staff contracts are made in accordance with the service contract of the relevant individual. Compensation for early termination is determined by the Civil Service Compensation Scheme.

With the exception of the Chief Executive, whose remuneration is determined by HM Treasury, executive board members' pay awards and performance-related pay are determined by the NS&I Appointments and Remuneration Committee, based on 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 Senior Civil Service (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 award, 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 B.

Salary and pension entitlements

The salary and pension entitlements of the executive board members are shown in Tables A and C. There were no taxable benefits in kind paid.

Salary and performance-related pay

'Salary' includes gross salary and any other allowance to the extent that it is subject to UK taxation. Performance-related payments are made as part of NS&I's performance management system. The payments reported in 2014–15 relate to performance in 2013–14 and the comparative payments reported for 2013–14 relate to performance in 2012–13.

Pay multiples

Reporting bodies are required to disclose the relationship between the total remuneration of the highest-paid director in their organisation and the median total remuneration of the organisation's workforce.

'Total remuneration' includes salary and non-consolidated performance-related pay. It does not include employer pension contributions and the cash equivalent transfer value (CETV) of pensions. 'Workforce' includes agency/temporary workers covering staff vacancies.

The total remuneration of the highest-paid Director in NS&I in the financial year 2014–15 was £195,000–£200,000 (an increase in band from 2013–14) plus performance-related pay of £15,000–£20,000. This was 4.88 times (2013–14: 4.8 times) the median remuneration of the workforce, which was £43,795 (2013–14: £43,273).

Calculations for remuneration median for workforce and ratio of highest-paid Director to median salary of the workforce are based on salary and performance-related pay.

No employee received remuneration in excess of the highest-paid Director in either 2014–15 or 2013–14. Remuneration ranged from £15,000–£20,000 to £145,000–£150,000 in 2014–15 (2013–14: £15,000–£20,000 to £140,000–£145,000).

Table A: Salary and performance-related pay entitlements of the executive board members of NS&I[1]

Audited

	2014–15 Salary £000	2014–15 Performance-related pay £000	2014–15 Pension benefits £000[2]	2014–15 Total £000	2013–14 Salary £000	2013–14 Performance-related pay £000	2013–14 Pension benefits £000[2]	2013–14 Total £000
Jane Platt[3] Chief Executive	195–200	15–20[4]	50–55	265–270	190–195	15–20[4]	35–40	245–250
Peter Cornish Risk Director	110–115	15–20	25–30	160–165	110–115	15–20	15–20	145–150
Dax Harkins[5] Business-to-Business Director	100–105	10–15	55–60	170–175	20–25 (95–100 annualised equivalent)	–	0–5 (10–15 annualised equivalent)	25–30 (110–115 annualised equivalent)
Julian Hynd Retail Director	120–125	20–25	40–45	185–190	115–120	20–25	25–30	165–170
Sarah Tebbutt[6] People and Strategy Director	105–110	10–15	60–65	180–185	85–90 (100–105 annualised equivalent)	–	160–165 (190–195 annualised equivalent)	245–250 (295–300 annualised equivalent)
Steve Owen Partnership Director	120–125	20–25	30–35	175–180	120–125	20–25	10–15	155–160
Rodney Norman Finance Director	120–125	15–20	35–40	175–180	120–125	10–15	30–35	160–165
John Prout[7] Retail Customer Director	–	10–15	–	10–15	95–100 (115–120 annualised equivalent)	15–20	20–25 (25–30 annualised equivalent)	135–140 (160–165 annualised equivalent)
Band of highest-paid Director	**195–200**	**15–20**	**50–55**	**265–270**	**190–195**	**15–20**	**35-40**	**245-250**
Remuneration median for workforce[8]		**£43,795**				**£43,273**		
Ratio of highest-paid Director to median salary of the workforce[8]		**4.9**				**4.8**		

Table B: The remuneration of Non-executive Directors

Audited

	2014–15 £000	2013–14 £000
Sir John de Trafford Bt. (Chairman)	20–25	20–25
James Furse	15–20	15–20
David Hulf	15–20	15–20
Cheryl Millington[9]	10–15 (15–20 annualised equivalent)	–
Simon Ricketts[10]	0–5 (15–20 annualised equivalent)	15–20

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

Audited

	Accrued pension at pension age as at 31 March 2015 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2015 £000	CETV at 31 March 2014 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Jane Platt Chief Executive	25–30	2.5–5	524	432	50	–
Peter Cornish Risk Director	20–25 (plus lump sum of 65–70)	0–2.5 (plus lump sum of 2.5–5)	446	399	23	–
Dax Harkins(4) Business-to-Business Director	15–20	2.5–5	231	183	32	–
Julian Hynd Retail Director	25–30	2.5–5	323	280	21	–
Rodney Norman Finance Director	15–20	0–2.5	287	238	28	–
Steve Owen Partnership Director	50–55 (plus lump sum of 160–165)	0–2.5 (plus lump sum of 5–7.5)	1,075	992	27	–
Sarah Tebbutt(6) People and Strategy Director	25–30 (plus lump sum of 75–80)	2.5–5 (plus lump sum of 7.5–10)	407	345	40	–

(1) Performance-related payments are based on performance levels attained and are made as part of the appraisal process. Given the timing of the appraisal process, performance-related payments relating to 2014–15 are yet to be finalised. As a result, disclosure is based on the period in which payments are made rather than the performance year to which they relate. Performance-related payments in this report for 2014–15 are performance-related payments for the 2013–14 performance year, which were paid in August 2014. Performance-related payments for 2013–14 are performance-related payments for the 2012–13 performance year.

(2) The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

(3) Until 1 June 2013, the Chief Executive was a Non-executive Director of Royal London Group. The remuneration for this position was paid directly to NS&I and amounted to £9,778 for the year. Since 1 June, she has been a Non-executive Director of the Financial Conduct Authority (FCA). The remuneration for the FCA role was £35,000 and was paid directly to NS&I.

(4) In view of the economic background, the Chief Executive chose to limit her performance related pay for 2013-14 (paid in 2014–15 and previously for 2012–13, paid in 2013–14) to the maximum performance-related amount set for Senior Civil Servants, regardless of her contractual entitlement.

(5) Dax Harkins joined the executive board on 1 January 2014. On becoming a director the member had a salary increase. This meant that his pensionable pay increased. In order to meet the terms of his pension (final salary) an actuarial calculation was made in order to adequately adjust his pension benefit. This is reflected in increased pension benefit remuneration for 2013–14 and 2014–15 only.

(6) Sarah Tebbutt joined NS&I in June 2013. On joining the member had a salary increase. This meant that her pensionable pay increased. In order to meet the terms of her pension (final salary) an actuarial calculation was made in order to adequately adjust her pension benefit. This is reflected in increased pension benefit remuneration for 2013–14 and 2014–15 only.

(7) John Prout left NS&I in January 2014.

(8) Calculations for remuneration median for workforce and ratio of highest-paid Director to median salary of the workforce are based on salary and performance-related pay.

(9) Cheryl Millington joined NS&I on 1 July 2014.

(10) Simon Ricketts left NS&I in July 2014.

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 average 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 Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary related and range between 1.5% and 6.85% of pensionable earnings for Classic and between 3.5% and 8.85% 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' initial 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 for service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 worked out as in Premium. In Nuvos a member builds up a pension based on pensionable earnings during their 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 Pensions Increase legislation. 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% 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% 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). 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.

New Career Average pension arrangements have been introduced from 1 April 2015 and the majority of Classic, Premium, Classic Plus and Nuvos members have joined the new scheme.

Further details of this new scheme and Civil Service pension arrangements are available at http://www.civilservicepensionscheme.org.uk.

Cash equivalent transfer values

Table C on the previous page shows each member's CETV accrued at the beginning and the end of the reporting period. The table reflects the increase in CETV effectively funded by the employer.

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 their 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 which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational and Personal Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation or 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.

Compensation for loss of office

Details of compensation paid due to loss of office are included in note 2.1 on page 85.

Jane Platt

Jane Platt CBE
Chief Executive
National Savings and Investments

03 June 2015

Statement of Accounting Officer's responsibilities

Accounts

Under the Government Resources and Accounts Act 2000, HM Treasury has directed NS&I to prepare, for each financial year, 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 the Department's affairs as at 31 March 2015 and of its net cash requirement, net resource outturn, net operating cost, changes in taxpayers' equity and cash flows for the financial year.

Product Accounts

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 the 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 both the Accounts and the Product Accounts on the NS&I website.

Governance statement

The purpose of the governance statement

This Governance statement gives a clear understanding of the dynamics of NS&I and its control structure. It provides information on the stewardship of NS&I and how it has managed the risks it has faced during 2014–15.

Scope of responsibility

NS&I is both 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.

Nicky Morgan MP was the Minister responsible for NS&I. As part of the Ministerial reshuffle in July 2014, Andrea Leadsom MP took over this responsibility. Following the General Election on 7 May 2015, Harriett Baldwin, the new Economic Secretary to the Treasury, was confirmed as the Minister responsible for NS&I.

As an Executive Agency, NS&I has a clear focus on reducing the cost to the taxpayer of government borrowing now and in the future. With this in mind, its single, long-term strategic objective is to provide the Government with cost-effective retail finance compared with raising funds on the wholesale market.

The Chief Executive is appointed by the Chancellor of the Exchequer as Accounting Officer for NS&I. As Accounting Officer, the Chief Executive is accountable for the management of the Agency, for NS&I's Annual Report and Accounts and the proper, efficient and effective use of public funds, ensuring that the requirements of government accounting are met and that NS&I observes any general guidance issued by central departments.

Why have governance?

Sound governance principles are the foundations on which a good organisation is built. These principles are critical to the reputation and trust that NS&I has established and allow NS&I to manage risk to a reasonable level to ensure it achieves its policies, aims and objectives.

How is governance achieved?

Accounting Officer

As the Accounting Officer, the Chief Executive has responsibility for maintaining sound, internal governance arrangements which support the achievements of NS&I's policies, aims and objectives and are supported by the board.

Role of the NS&I board

NS&I's remit and policies are decided by Ministers, on advice from HM Treasury officials.

The board consists of four Non-executive Directors (including the Chairman), two representatives from HM Treasury and seven Executive Directors. All appointments to NS&I's board are made on merit, and political activity plays no part in the selection process.

The board does not decide policy or exercise the powers of the Minister. It provides collective strategic and operational leadership and advises on the operational implications and effectiveness of policy proposals, as well as scrutinising performance and challenging Executive Directors on how well NS&I is achieving its objectives.

NS&I is committed to achieving the highest standards of corporate governance, integrity and business ethics. Throughout 2014-15, NS&I complied with the Code for Corporate Governance in Central Government Departments except as detailed in this statement.

NS&I has adopted a Board Operating Framework consistent with the principles of the Corporate Governance in Central Government Departments: Code of GoodPractice, 2011 (the 'Code'), and it is reviewed every two years.

During this financial year, the Board Operating Framework has been fully reviewed to ensure that it was in line with the Code and the 2014 version of the UK Corporate Governance Code. NS&I's aim is also to comply with FCA requirements where applicable and appropriate on a voluntary basis and its Board Operating Framework also reflects the FCA requirements for corporate governance.

Further details of NS&I's board and its committees and their compliance with the Code are detailed below.

Role of HM Treasury and the Minister

The powers governing the way in which NS&I products are structured and managed are derived from specific NS&I legislation and all strategic decisions affecting our products require Ministerial consent. NS&I is regulated by HM Treasury and aims to comply with the FCA requirements where applicable and appropriate on a voluntary basis. As NS&I holds no capital, has no lending or dealing activities and offers primarily simple, deposit-based products, some of the rules which make up the FCA regulatory regime are not directly relevant.

The regulatory landscape continues to change and, as it does, NS&I adapts its processes and procedures as it continues to embed compliance with the relevant regulatory requirements. This has been discussed periodically with the FCA, including compliance with the remedies proposed in the final report of the FCA Cash Savings Market Study. Progress against the requirements is tracked through the Risk Management Committee with reports provided to the Audit and Risk Committee.

Partnership working

NS&I incorporates good governance arrangements in respect of partnerships, particularly with its main operational services partner, by:

- fostering effective delivery relationships
- establishing appropriate arrangements to engage with partners and other parts of government to ensure that they are able to interact with NS&I on matters of mutual interest.

The process of governance

NS&I's governance framework consists of the Board Operating Framework, the Risk Management Framework, financial management systems and supporting policies and procedures. The governance framework delivers the systems and processes by which NS&I is directed and managed. It sets out how NS&I monitors the achievement of its strategic objectives and considers whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to an acceptable 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 an ongoing process designed to identify and prioritise the risks to the achievement of NS&I's policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact and to manage them efficiently, effectively and economically. The system of internal control has been in place in NS&I throughout the year ended 31 March 2015 and up to the date of approval of the Accounts.

The governance framework

NS&I's governance framework is overseen by the board, which provides collective strategic and operational leadership. Responsibility for developing strategy and the day-to-day management of NS&I is delegated to the Chief Executive and the Executive Committee. More detail on the board and its committees can be found below. NS&I's governance framework is based on:

- a clear organisational structure, a strategic plan and accountability structures
- strong business planning processes, including appropriate evaluation and performance metrics
- financial management protocols, risk management and administrative procedures, including delegated authority levels
- strong financial governance and management
- rigorous appraisal of any new or changed projects prior to approval, project delivery monitoring and project evaluation
- proper management supervision, including receiving regular management information on business as usual, continuing projects, the transfer of projects and closing projects
- close monitoring of performance by the Chief Executive, the board and its committees including key performance indicators
- effective stakeholder and partner engagement and feedback mechanisms.

NS&I optimises its resources in accordance with its Corporate Plan by:

- having in place sound systems for providing management information for performance measurement purposes
- ensuring performance information is collected at appropriate intervals across all activities
- having comprehensive and understandable performance plans in place
- monitoring and reporting performance against agreed targets
- maximising its resources and allocating them according to priorities.

The Board Operating Framework defines and documents the roles and responsibilities of the board, committees and officers with clear delegation arrangements. The document, in addition, sets out the standards of conduct expected of the board and committee members, including: standards of individual behaviour; registration of financial and other interests, including offers of gifts and hospitality; disclosure of interests and participation in the decision-making process where a member has a conflict of interest. NS&I publishes declarations of interests, and a register of gifts, hospitalities and expenses of the board on its website.

The board, committees and how we operate

In particular, NS&I's board advises on five main areas:

- strategic clarity: setting the NS&I vision
- commercial sense: scrutinising the allocation of financial and human resources
- talented people: ensuring NS&I has the capability to meet current and future needs
- results focus: agreeing the Corporate Plan
- management information: ensuring clear, consistent, comparable performance information is used to drive improvements.

There is a formal schedule of matters reserved to the board, which is reviewed annually. Operating within instructions and guidance from HM Treasury, and in support of the Chief Executive in the achievement of the Agency's objectives, NS&I's board is responsible for:

- approving the annual planning criteria and timetable
- assisting in developing NS&I's vision, strategy and corporate policies
- reviewing annually the five-year strategic plan
- approving the annual business plan, ensuring consistency with the five-year strategic plan
- approving NS&I's risk appetite
- ensuring that we have robust systems in place for compliance with legal, regulatory and government security requirements
- adopting the Annual Report and Accounts and giving its support to their signature by the Accounting Officer, taking into account the recommendations and comments from the Audit and Risk Committee
- ensuring the existence of adequate succession plans for senior management.

Other specific responsibilities are delegated to the board's committees, which operate within clearly defined terms of reference. Details of the responsibilities delegated to the committees are given on pages 54 to 56.

Terms of reference for the board can be found on our website at www.nsandi-corporate.com/about-nsi. The terms of reference are reviewed annually.

Our board

NS&I's board consists of seven Executive Directors (including the Chief Executive), four Non-executive Directors, who are independent and appointed by the Chancellor of the Exchequer following an open recruitment process (including the Non-executive Chairman), and two HM Treasury representatives.

The Chairman's report is at the start of this document but the description of the activities of the board and its committees, along with details of changes to Non-executive Directors, are included within this section.

Members of the board during the year to 31 March 2015 were:

- Jane Platt CBE, Chief Executive
- Peter Cornish, Risk Director
- Dax Harkins, Business-to-Business Director
- Julian Hynd, Retail Director
- Steve Owen, Partnership Director
- Rodney Norman, Finance Director
- Sarah Tebbutt, People and Strategy Director
- Sir John de Trafford Bt. MBE, independent Non-executive Chairman and Lead Non-executive Director
- David Hulf, independent Non-executive Director and Chairman of the Audit and Risk Committee
- Simon Ricketts, independent Non-executive Director (until 30 June 2014)
- Cheryl Millington, independent Non-executive Director (from 1 July 2014)
- James Furse, independent Non-executive Director and Chairman of the Appointments and Remuneration Committee
- Chris Sharrock, HM Treasury representative
- James Richardson, HM Treasury representative.

All Directors uphold the seven principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Each Director brings a valuable range of experience and expertise to the board. The profiles of the board members can be found on pages 62 to 65.

No individual or group of individuals dominates the board's decision-making. In line with the Code, we reviewed the maximum number of Executive Directors and, given developments and the demands on NS&I, it was concluded that it was not appropriate to change the maximum number of Executive Directors.

In 2014–15 the mix and balance of skills and understanding held by board members was assessed by the Chief Executive and HM Treasury stakeholder representative against the business requirements to deliver the think ahead strategy. The results were reflected in the role profile for the recruitment of a new Non-executive Director and in the advice to the Economic Secretary to the Treasury about the subsequent Non-executive Director appointment and the renewal of the contracts of two existing Non-executive Directors, including the Chairman of the Board, and the reappointment of the Chief Executive for a further term of office.

In addition, at the level of the individual, each Executive and Non-executive Director has an annual appraisal and personal development or learning plan to acquire the skills and understanding to support their competence.

Chairman and Chief Executive

As Chairman, Sir John de Trafford Bt. is responsible for:

- ensuring the effectiveness and successful operation of the board, its agenda and processes
- reporting annually to the board on its performance and effectiveness
- providing input as part of the Chief Executive's annual performance assessment.

As Chief Executive, Jane Platt is responsible for:

- fulfilling NS&I's statutory objectives, general functions and duties and exercising its legal powers
- developing strategy proposals for recommendation to the board and the Minister, ensuring that agreed strategies are reflected in the business plan
- ensuring that the board receives regular financial management and performance reports that are accurate, timely and clear
- establishing a relationship of trust with the Chairman, informing and consulting him on key developments in a timely manner and seeking advice and support as appropriate.

The Chief Executive is also the Accounting Officer and the Director of Savings. The Statement of Accounting Officer's responsibilities is on page 45.

The independent Non-executive Directors

The four independent Non-executive Directors have no cross-directorships or significant links which could materially interfere with the exercise of independent judgement.

Lead Non-executive board member

The board has decided not to follow the Code in relation to the appointment of a Lead Non-executive board member other than the Chairman. 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 independent Non-executive Directors can meet the responsible Minister annually, means that there is no need for a Lead Non-executive board member other than the Chairman.

Board Secretary and independent advice

The Board Secretary is responsible for advising the board on all corporate governance matters and ensuring that all board procedures are followed. All board members have access to the advice and services of the Board Secretary.

Procedures are in place for the board and its committees to take independent professional advice, if necessary, at NS&I's expense.

Board meetings and attendance

Board meetings are held every two months and additional board workshops are held to discuss specific issues such as strategy and effectiveness. This year an additional special meeting was held to allow the board to consider the strategic planning process, including the Corporate Plan.

Board meetings are structured to allow open discussion of the strategy, financial performance and risk management of NS&I.

Senior executives below board level are invited to attend certain board meetings to present on the results and strategies of their directorate. Board members are given relevant documents in advance of each board meeting and each committee meeting as appropriate.

The attendance of the individual Directors at board and committee meetings of which they were members during 2014–15 was as follows:

	Board 7 meetings		Audit Committee 6 meetings		Appointments and Remuneration Committee 4 meetings	
Name	**Possible**	**Actual**	**Possible**	**Actual**	**Possible**	**Actual**
Sir John de Trafford Bt.	7	7	n/a	n/a	4	4
David Hulf	7	6	6	6	n/a	n/a
Simon Ricketts(1)	2	2	3	3	n/a	n/a
Cheryl Millington(2)	5	5	3	3	n/a	n/a
James Furse	7	7	n/a	n/a	4	4
James Richardson*	7	0	n/a	n/a	n/a	n/a
Chris Sharrock(3)*	7	7	5	3	n/a	n/a
Jane Platt	7	7	n/a	n/a	4	4
Peter Cornish	7	7	n/a	n/a	n/a	n/a
Dax Harkins	7	7	n/a	n/a	n/a	n/a
Julian Hynd	7	6	n/a	n/a	n/a	n/a
Sarah Tebbutt	7	7	n/a	n/a	4	3
Steve Owen	7	6	n/a	n/a	n/a	n/a
Rodney Norman	7	6	n/a	n/a	n/a	n/a
Elizabeth Dymond(4)	n/a	n/a	1	1	n/a	n/a

n/a means that, although the specified Director is not a member of that committee, he or she may attend meetings at the invitation of the chairman of the committee.

*Only one member of HM Treasury is expected to attend each board meeting.

(1) Simon Ricketts retired as a Non-executive Director on 30 June 2014.

(2) Cheryl Millington was appointed as a Non-executive Director on 1 July 2014.

(3) Chris Sharrock remains a member of the board but stood down from the Audit and Risk Committee in February 2015.

(4) Elizabeth Dymond replaced Chris Sharrock as the HM Treasury representative on the Audit and Risk Committee.

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.

The two HM Treasury members of the board are appointed by HM Treasury by virtue of their role there.

The independent Non-executive members of the board are appointed by the Chancellor of the Exchequer and contracted by the Director of Savings. Non-executive Directors have fixed-term appointments not exceeding three years. Usually, they serve for two terms of office, subject to satisfactory performance and business need.

During this financial year, Jane Platt's appointment was extended for a further three years, James Furse's appointment was extended for three years and Sir John de Trafford Bt.'s appointment as Chairman was extended until 1 January 2017.

Board induction

On joining the board, Directors are given background information describing NS&I and its activities. They receive an induction pack which includes information on all the governance processes of NS&I, the roles and responsibilities of the board, committees and officers and a range of other appropriate information about NS&I, its activities and relationship with HM Treasury. Meetings are arranged with a range of key people from across the entity on a structured basis to assist with induction.

During 2014–15, the board members were all engaged in a range of training and professional development activities. The Appointments and Remuneration Committee considers the training needs of the Executives. All board members are encouraged to attend relevant training courses at NS&I's expense.

Board evaluation

NS&I recognises the importance of a comprehensive evaluation of the effectiveness of the board, the board committees and officers. NS&I ensures that comments and recommendations are considered carefully and implemented, where appropriate, to enable its continued development.

The board has adopted the recommendation in the Code to hold an annual evaluation of the effectiveness of the board, the committees and officers. An external evaluation should take place at least once every three years.

In August 2013, the board reviewed the board effectiveness review carried out in 2012–13 and the key recommendations have all been implemented, e.g. the board now receives formal report on the conduct of NS&I on a six-monthly basis; it receives an annual report on benefits realisation, together with an update every six months, and receives a detailed report on transition and implementation at every meeting. It continues to prioritise on strategic planning.

An external review of board effectiveness, followed by a workshop, took place during 2014–15, the results of which were positive with no strong messages of concern arising. An action plan has been produced for completion during the next financial year.

Quality of data used by the board

As part of its effectiveness review and as a result of general discussions throughout the year, the board continually considers the quality of data it receives and actions have been taken to improve this.

At the beginning of each financial year, the board receives the proposed board scorecard reflecting NS&I's strategy for consideration and approval. This year the scorecard was extensively refreshed by the board to provide more detailed but relevant information in a succinct manner. These measures are updated and presented to each board meeting.

The Corporate Plan was also refreshed to provide the board with more detail in a manageable style.

There was also an internal audit review of board management information, the outcome of which was green.

The board considers that it receives adequate assurance from its committees via written and oral updates after each committee meeting, through the reports it receives at its meeting and a regular and detailed Chief Executive's overview.

Conflicts of interests

NS&I's Board Operating Framework includes provisions that reflect recommended practice concerning conflicts of interest. The board has procedures in place for Directors to report any potential or actual conflicts to the other members of the board for their authorisation where appropriate. Any such conflicts or potential conflicts considered by the board are recorded in the board minutes and in the register of directors' interests which is published on our website www.nsandi.com/about-nsi-who-we-are-our-board-and-committees.

The Product Dealing Policy and Code restricts the ability of Directors to transact in NS&I products when they have access to unpublished inside or price-sensitive information. The Board Secretary maintains a register of relevant holdings for Directors and persons connected or related to them.

Ministerial Directions

There have been no Ministerial Directions during this financial year.

Board Committees

The board has delegated authority to three permanent committees that deal with specific matters, in accordance with written terms of reference which can be found at www.nsandi.com/about-nsi-who-we-are-our-board-and-committees. The terms of reference for all committees are reviewed on a regular basis to ensure that they are still appropriate and reflect any changes in good practice and governance.

The board is responsible for corporate governance arrangements and is supported by the Audit and Risk Committee in terms of the provision of assurances.

Audit and Risk Committee

The Audit and Risk Committee consists solely of Non-executive Directors. It is chaired by David Hulf and comprises Cheryl Millington and an HM Treasury representative (this was Chris Sharrock who stood down in February 2015 and was replaced at that date by Elizabeth Dymond). As required by the Code, at least one of the Audit and Risk Committee members has recent and relevant financial experience. NS&I's Committee has two members who have relevant and financial experience – the Chairman, David Hulf and Elizabeth Dymond.

The main responsibilities of the Audit and Risk Committee are to assure the Accounting Officer and the board as to the adequacy of:

- the strategic processes for risk control, governance and security within NS&I, and also for NS&I work outsourced to our operational delivery partner, and during the year has advised on changes to top risks and the annual review of risk appetite
- the accounting policies, accounts and Annual Report of NS&I
- internal and external audit plans and the results of this work, along with management's responses to any issues identified
- the system of internal control within both NS&I and our delivery partner, including internal audit arrangements within NS&I and the NS&I account within the partner organisation
- processes in place to ensure appropriate compliance with regulation
- anti-fraud policies, whistle-blowing processes and arrangements for special investigations.

The Audit and Risk Committee met six times during the year. At the invitation of the committee, the Chief Executive, Finance Director and Risk Director also attend, as well as the Head of Internal Audit, the director from the National Audit Office and a representative from the external audit partner (under the National Audit Office's framework agreement). All Directors have access to the minutes of the Audit and Risk Committee meetings and both the Chairman and James Furse have attended a meeting as an observer during the year.

During 2014–15, the Audit and Risk Committee discharged fully its responsibilities listed above and, in doing so, considered the following:

- the Annual Report and Accounts and the Governance statement
- the internal and external audit plans and progress against these plans, as well as the adequacy of management's responses to any issues identified
- reports on compliance, risk and fraud strategies, including developments to the Risk Management Framework
- business continuity, disaster recovery
- cyber security
- Red Project risks associated with the implementation plan
- review of the Audit and Risk Committee and the achievement of its terms of reference.

As well as producing an annual report for the board on its activities, the Chairman of the Audit and Risk Committee provides a Chairman's report and minutes after each meeting to the next board meeting. In 2014–15 this included regular risk reports, the committee's recommendations on the risk appetite report for approval by the board, revisions to its terms of reference, update on the anti-money laundering strategy and a review of the new financial crime report. The board also received updates on the deep dives undertaken by the Audit and Risk Committee, for example, IT Assurance Framework.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprises Non-executive Directors James Furse (as Chairman) and Sir John de Trafford Bt., and two Executive Directors: the Chief Executive and the People and Strategy Director. Independent support, where required, is provided by KPMG as part of its internal audit function.

The Appointments and Remuneration Committee reviews and approves the Chief Executive's recommendations on pay and performance-related awards to confirm that they are consistent with government policy, HM Treasury pay guidance and the needs of the business. Performance-related awards are judged on two elements: NS&I's performance against its service delivery measures, which are audited, and individual performance objectives which are assessed by the Chief Executive using appropriate measures of outcomes.

The Chair of the Appointments and Remuneration Committee provides a report back on its meetings to the board, taking into account the confidential nature of the committee's business. Key areas covered by the Appointments and Remuneration Committee and reported to the board included work on talent management, succession planning and the pay business case.

The committee reviews succession planning arrangements for senior staff within NS&I.

Details of Directors' remuneration and emoluments are set out in the Remuneration report on pages 39 to 44.

Executive Committee

The Executive Committee consists of all Executive Directors and is chaired by the Chief Executive. The Account Director for our delivery partner (Atos) is also a member.

The Executive Committee met 17 times in 2014–15 to discuss issues relating to strategy, people, risk and financial results. Representatives from across NS&I and our operating delivery partner are invited to the meetings, as appropriate, to discuss aspects of their business or to give presentations on specific topics.

Risk Management

NS&I employs the following structure and approach to the risk management process.

Responsibilities and culture

The Executive Committee has responsibility for the management of NS&I's Risk Management Framework including NS&I's risk appetite, which is agreed by the board. The board oversees NS&I's compliance with the Risk Management Framework protocols by annually reviewing NS&I's risk appetite and biannually reviewing NS&I's key operational and strategic risks as well as NS&I's compliance with best corporate governance practice. In April 2015, the board agreed to retain NS&I's risk appetite as 'open'/ '*Willing to consider all options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward*'.

The Audit and Risk Committee is responsible for assuring the Accounting Officer and the board on the adequacy of the processes adopted for risk control, governance, security and accounting policies. In addition, the Audit and Risk Committee assures the adequacy of internal audit arrangements, including resourcing, to provide an adequate level of independent assurances.

NS&I encourages a positive risk culture whereby risk management is embedded in day-to-day operations. The 'tone at the top', clear ownership, training, performance measurement through individual contribution agreements and knowledge sharing are regarded as essential elements of NS&I's risk management culture and the foundation for sound decision-making. In addition, NS&I's corporate governance structure facilitates delegation of responsibilities to ensure that there are appropriate flows of information in relation to the business, the use of resources, responses to risks and the extent to which year-end budgets and targets are met. This includes ensuring that all risks identified across NS&I are reviewed, understood and actioned at an appropriate level.

Approach

NS&I's approach to risk management is guided by the provisions set out in the FCA handbook and Management of Risk – Principles and Concepts (the Orange Book) issued by HM Treasury. NS&I has established a risk appetite that addresses the risks NS&I will tolerate and manage and those that should be transferred or eliminated. This forms the basis for decision-making and is central to NS&I's Risk Management Framework.

The objectives of NS&I's Risk Management Framework are to:

- identify and prioritise risks to the achievement of NS&I's aims, objectives and business priorities that reflect the interests of all stakeholders

- manage and reduce risk as far as reasonably practicable or achievable rather than to eliminate all risk of failure
- identify new risks as they arise and remove those risks that are no longer relevant.

Updates on the operation of the Risk Management Framework are provided on a monthly basis to the Risk Management Committee, a formal sub-committee of the Executive Committee, according to an agreed set of priorities and strategy assured by the Audit and Risk Committee on a biannual basis. This is also reviewed by the Executive Committee and the board.

NS&I's risk strategy is complemented by a set of operational risk management policies, which include a definition of the risk appetite specific to the policy, attaching roles and responsibilities, the risk management process and procedures for escalation where control failings have been identified.

Risk identification

The primary purpose of risk identification is to identify risks to NS&I that will reduce or remove the likelihood of NS&I meeting its objectives. NS&I's risk environment encompasses both internal and external risks. Internal risks include significant business, operational, financial or other risks. Externally, NS&I is subject to political, economic, social and technological changes. Both these dimensions are brought together in a top-down and bottom-up approach which links strategic to operational levels.

Risk assessment

The potential effect of each identified risk on the achievement of our business priorities and the wider stakeholders is assessed according to the likelihood of something happening and the impact which arises should it happen (the 'inherent risk') and responding to this in line with the risk profile based on NS&I's risk appetite for that area of policy.

Risk planning and control

Each identified and assessed risk is assigned to a risk owner, who is responsible for controlling, managing and developing a robust and effective plan to reduce the likelihood of it materialising or mitigating the impact should it occur. The risk is then reassessed against NS&I's risk appetite in the light of risk planning and control activity (the 'residual risk').

Risk monitoring

NS&I's risk register sets out the results of the risk identification, assessment and control process arising from the use of the risk appetite criteria and is the subject of a monthly review of risk by the Executive Committee and its sub-committees. The risk register is tracked by indicators allowing management to prioritise the allocation of resources to the areas showing the highest level of threat. In doing so, decisions can be reached on the grounds of cost-effectiveness, reputational impact and business value.

Managing and mitigating risk

Some of our key management controls are set out below:

- Our delegations manual and committee governance structure reflect the principles of clear delegation of authority and segregation of duties.

- Our governance committees ensure that we have a monthly, systematic review of risks and controls across NS&I's operations, including those areas of significant expenditure, and that these risks are reviewed, understood and actioned at an appropriate level. In addition, NS&I conducts independent and objective reviews of all activities relating to budget management, cost improvements and financial performance of projects.
- The management of information risk is a key priority for NS&I based on a set of related IT and information management policies and procedures, covering corporate and personal data. Controls are in place to mitigate the risks of incorrect disclosure, loss or misuse or lack of access to customer data and destruction in line with our obligations under the Data Protection Act 1998 and Cabinet Office guidance.
- Selective and open recruitment, succession planning and other human resource policies and practices ensure that staff skills are aligned with NS&I's current and future needs.
- Robust project management and change implementation disciplines are applied to all major projects, including new technology applications, change programmes and other major initiatives.
- In terms of procurement, NS&I is subject to the EU Public Contracts Directive, which sets out detailed procedures for the award of contracts above a specific threshold. Below the £90,000 threshold, either a formal or informal tender process is employed. Details of NS&I tender opportunities and contracts awarded with a value of £10,000 (ex. VAT) or more are published on Contracts Finder in accordance with The Public Contracts Regulations 2015. Contracts Finder is accessible via the GOV.UK website www.gov.uk/contracts-finder.
- Staff can and are actively encouraged to report illegal, dishonest or unethical activities to senior management using internal arrangements or to a confidential reporting service.
- We employ a range of internal controls to mitigate our fraud risk, and these are reviewed and updated regularly.
- Business continuity and disaster recovery plans are in place to manage incidents or crisis events, and these are reviewed regularly.

Central to the integrity of NS&I's risk management arrangements is a three lines of defence arrangement, ensuring that risks are managed at the most appropriate place and that robust assurance is achieved.

The first line of defence is represented by line management which is responsible for complying and managing compliance. The second line of defence consists of risk policy owners, NS&I's oversight committees and functions, including responsibility for control and assurance. The third line comprises the internal audit function which is independent of day-to-day business and which reports to the Audit and Risk Committee on the effectiveness of the overall risk framework.

To gain assurance that risk management is effective and to identify when further action is necessary, the Risk Management Framework is subject to regular review, including for example arrangements to assess:

- *ownership and oversight:* the clarity in the apportionment and delegation of roles and responsibilities for operational management and the effectiveness of NS&I's committees in responding to the risk profile as reported by policy owners

- *clarity of strategy and policies:* NS&I's strategy for developing and implementing an operational risk framework and the comprehensiveness of its policy documentation and its communication within NS&I
- *risk profile:* the effectiveness of the risk management process, encompassing the extent of understanding of the types of operational risks faced by NS&I, its exposure to them and the adequacy of the control environment.

Significant governance issues

Effective governance arrangements and senior officer oversight are maintained to ensure appropriate and timely responses to such issues that arise.

The Audit and Risk Committee has provided assurance that there have been no major breakdowns in internal controls that have led to a material loss and that there is no major weakness in the governance systems, including the delivery of 65+ Bonds, that has exposed, or continues to expose, NS&I to an unacceptable risk.

As part of NS&I's routine cyber monitoring, a phishing attack was identified targeting our customers. There were no actual losses.

Atos use temporary workers to help manage peaks and troughs cost-effectively. During the year, we discovered a significant number of staff had been allowed to work before security checks had been completed. In parallel with completing the vetting process, interim checks were carried out and staff who had not been cleared were removed from working in areas with access to sensitive customer information. A full review of the vetting process has been undertaken and the process strengthened.

Principal risks and uncertainties

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 on pages 66 to 69 along with a summary of how we managed or mitigated these risks in 2014–15.

Assurances

NS&I's governance framework is subject to an annual review by independent internal auditors who report to the Audit and Risk Committee on its effectiveness. This annual audit enables the Audit and Risk Committee to gain assurance that NS&I's risk profile is being monitored and provides independent verification on the appropriateness of the risk management and assurance processes in place.

In addition, the Audit and Risk Committee is provided with an independent evaluation of the governance framework through:

- the quarterly integrated assurance report which brings together the results of 2014–15 assurance activity from NS&I's 'three lines of defence' arrangement; this includes assessment of the first line assurance completed by line management, the risk-based second line assurance programme incorporating operations, compliance, IT and project assurance and the risk-based internal audit programme
- the risk-based internal audit plan agreed by the Audit and Risk Committee and delivered during 2014–15 by KPMG, NS&I's internal audit provider; from this programme, internal audit reports including management responses to the recommendations were generated, summarised and submitted for consideration by the Audit and Risk Committee; a comprehensive tracker system is used to monitor delivery of the control improvements

- internal audit's annual report opinion for the year ended 31 March 2015
- discussion, where appropriate, with the responsible NS&I and operational partner's executives on any key control issues
- external third party evidence through, for example, NS&I measuring progress against external standards/requirements and regular discussion with the FCA on the compliance agenda
- provision of International Standard on Assurance Engagements (ISAE) 3402 operational controls assurance for government payment services' clients
- the external auditors' annual audit with recommendations for improvements to the internal control environment identified during the annual audit and inspection.

As part of the review of effectiveness of the governance framework, each Executive Director and risk policy manager provides an annual assurance statement in relation to their responsibilities for supporting the effectiveness of the internal control and governance environment.

The Audit and Risk Committee, in addition, receives from the external auditors an audit completion report and management letter, which includes observations and recommendations on internal control arising from the annual audit of the financial statements.

KPMG's annual opinion and unqualified report for the year ended 31 March 2015 stated: '*Based on the work completed NS&I has adequate and effective risk management, control and governance process to manage the achievement of its objectives*'.

The board remains fully committed to effective governance and financial control in line with the governance framework and ensuring that it is properly and fully applied.

Quality assurance

In October 2012, the Cabinet Secretary and the Head of the Civil Service commissioned a review of the quality assurance of analytical models that inform government policy. NS&I operates models to calculate its Net Financing and Value Indicator metrics. Robust quality assurance processes are in place around these models.

Auditors

The Comptroller and Auditor General is responsible for the audit of the Accounts and Product Accounts, in accordance with section 7 of the Government Resources and Accounts Act 2000. The notional external audit fees include fees for the Product Accounts statutory audit of £649,000 (2013–14: £719,000) and the Accounts statutory audit of £97,000 (2013–14: £94,000). 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 makes recommendations based on the appraisal of each system reviewed. An annual assurance report is provided to the Accounting Officer and considered by the Audit and Risk Committee. The report confirms that NS&I has adequate and effective risk management, control and governance processes to manage the achievement of its objectives.

To ensure wholly independent and fully professional analysis and recommendations, NS&I chooses to outsource the provision of internal audit. The service is currently provided by KPMG. Work has been undertaken in accordance with Public Sector Internal Audit Standards ('PSAIS').

Following a competitive retender exercise this year, NS&I's new internal auditors for 2015–16 will be Deloitte.

Board members' biographies

Sir John de Trafford Bt. MBE

Independent Non-executive Chairman

John became a Non-executive Director in January 2010 and was appointed Chairman on 1 January 2012. His early career was spent at Unilever and Guinness before he moved into financial services, as Head of Consumer Marketing in the UK for American Express. After a spell overseas, he was appointed Country Head for the UK and Ireland, before becoming Regional President for Northern Europe and Chair of the company's European, Middle East and Africa Executive. He is now retired from American Express and currently has a portfolio of not-for-profit and commercial activities.

David Hulf

Independent Non-executive Director, Chairman of the Audit and Risk Committee

David was appointed a Non-executive Director in January 2010. Previously, he held senior financial positions at BP, including responsibilities for finance, strategy and business development, on a regional and global basis. He retired from BP as the Refining and Marketing deputy global Chief Financial Officer. David is a Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Audit Committee Institute. He is a Non-executive and Senior Independent Director of the NHS Business Service Authority and is Chair of its Audit and Risk Committee. He holds an Economics degree from Manchester University and a Masters in Management from MIT.

Simon Ricketts

Independent Non-executive Director (to 30 June 2014)

Simon was appointed Non-executive Director in July 2007. He is the Chief Information Officer for Rolls-Royce plc. Prior to this he was Transformation Director at Logica plc. He was the Chief Information Officer for Scottish and Newcastle plc for four years, and 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. He also sits on the board of UKCeB, the UK Council for Electronic Business.

James Furse

Independent Non-executive Director and Chairman of the Appointments and Remuneration Committee

James was appointed as Non-executive Director in January 2012. He enjoyed a long career with the John Lewis Partnership, progressing through a series of roles to become a managing director within the retail operation and subsequently Director of Credit Card Services. His final role with the John Lewis Partnership was as Managing Director of Greenbee.com, now John Lewis Financial Services. In 2010, James was appointed Executive Director of The Prince's Social Enterprises Ltd. In 2013, he became a Non-executive Director at the South Devon Healthcare NHS Foundation Trust, and in 2014 joined the board of Ageas UK as a Non-executive Director and Non-executive Chairman of Ageas Retail Insurance.

Cheryl Millington

Independent Non-executive Director (from 1 July 2014)

Cheryl was appointed a Non-executive Director in July 2014. She has held a number of high-profile roles across the retail and financial services sectors. She is currently Director of IT and member of the Waitrose board and was previously Chief Information Officer at Asda. She has also held the post of Director of Group Programmes at HBOS and before that was Managing Director of the HBOS retail branch network and its Head of Retail Savings.

Chris Sharrock

HM Treasury representative

Chris Sharrock has been Deputy Director, Debt and Reserves Management at HM Treasury since December 2013. He is responsible for advising on the debt financing remit (both wholesale, working with the Debt Management Office, and retail, working with NS&I), and for management of the UK's foreign currency reserves and coinage policy. He also oversees HM Treasury analysis and policy on credit conditions, markets and interventions. Chris joined the board in December 2013 and also sits on the Themes group of the Royal Mint Advisory Committee on the design of coins.

James Richardson

HM Treasury representative

James is Director, Fiscal and Deputy Chief Economic Adviser at HM Treasury. He joined HM Treasury in 1998 and has worked predominantly on public spending issues: he was Director of Public Spending from 2008 and ran the Spending Review 2010. He is currently responsible for advising on the fiscal judgement and framework. He is also responsible for the Exchequer funds and accounts and is the Treasury's Chief Scientific Adviser. James joined the NS&I board in July 2012.

Jane Platt CBE

Chief Executive

Jane Platt CBE has been Chief Executive of NS&I since September 2006 and joined the FCA board in April 2013 as a Non-executive Director.

Trained as an investment manager, Jane managed pension funds with Mercury Asset Management before moving to BZW where she held a number of senior management positions in the asset management division and became Chief Operating Officer at the time of the creation of Barclays Global Investors. Jane was Chief Executive of Barclays Stockbrokers and Barclays Bank Trust Company before moving to Reuters as President of the global division, Services for Asset Managers.

She has acted as a Non-executive Director of Royal London Group and has experience of being a pension fund trustee. She is a Chartered Fellow of the Institute for Securities and Investments.

Peter Cornish

Risk Director

Peter joined NS&I in December 1998 from Lloyds Banking Group, having managed savings and investment products, including wealth management services, stockbroking services and tax-free investments.

From 2006, he was responsible for developing and managing NS&I products and the customer offer, initially as Marketing Director and then as Director of Customer Offer. During this time, he also took responsibility for the implementation of regulatory compliance projects.

Peter was appointed Director of Risk and Assurance in April 2011. He is responsible for advising, overseeing and managing legal, regulatory, compliance and risk issues for NS&I as both a financial services organisation and a government body in a way which is consistent and compliant with the requirements of regulators, auditors and central government; he ensures that NS&I continues to provide a secure environment in which customers can invest.

Peter holds a Law degree from Manchester University and an MBA from Warwick University.

Dax Harkins

Business-to-Business Director

Dax joined NS&I in 2003 and moved from marketing in 2011 to lead the retender of the NS&I outsourcing contract. Dax was appointed to the board as Business-to-Business Director in January 2014.

Dax is responsible for the development and delivery of the business-to-business strategy. His accountabilities include the management of existing clients, winning and transitioning new clients and the development of value added services for NS&I retail customers.

A joint honours degree graduate of the University of Manchester Institute of Science and Technology, Dax has worked in financial services for 20 years. Starting his career in sales, he quickly progressed into various marketing roles, with a focus on product development, customer management and customer experience.

Julian Hynd

Retail Director

Julian is the Director responsible for leading the development, management and growth of the retail business on behalf of NS&I. This includes customer offer, marketing and sales, brand, product management, customer experience and complaints. Julian has been an Executive Director and board member for NS&I since 2007. He has also held the role of Director of Strategy and Change and Director of Business-to-Business and Change.

Julian joined NS&I in 2002 from Siemens Southern Africa where he was responsible for Group Strategy across the 14 countries in the Southern Africa Development Community. Prior to that, he worked in retail financial services for First National Bank in South Africa.

Julian holds a business degree and an MBA from De Montfort University and is an advisory board member for the University of East Anglia's Business School.

Rodney Norman

Finance Director

Rodney was previously the Treasury Accountant, Head of Exchequer Funds and Accounts at HM Treasury. His team was responsible for public sector funding and oversaw a balance sheet of more than £1 trillion. He was also a Non-executive board member of the Government Banking Service.

Before joining HM Treasury in 2007, Rodney was Finance Director of the banking arm of Close Brothers, having worked in the City for most of his career after qualifying as a chartered accountant with PricewaterhouseCoopers.

Rodney has a degree in Economics and Econometrics from the University of Nottingham.

Steve Owen

Partnership Director

Steve is responsible for managing NS&I's key partnership with Atos.

A graduate of Warwick University, where he gained a degree in management sciences, Steve commenced his career working in an engineering/manufacturing environment. After joining NS&I in 1993 and carrying out a range of procurement roles, he went on to design and deliver a sourcing strategy to support NS&I's broader business aims, resulting in the outsourcing contract awarded to Siemens in 1999.

In 2010, Steve led the second generation outsourcing that ultimately resulted in NS&I's operational partnership with Atos.

Sarah Tebbutt

People and Strategy Director

Sarah joined NS&I in June 2013 after a 20-year career at HM Treasury, where most recently she has been responsible for Corporate Change, and Debt and Reserves Management, working closely with NS&I, the Bank of England, the Debt Management Office and the Royal Mint.

In 2009, Sarah co-designed the quantitative easing programme. Prior to those roles she was a negotiator at the Cabinet Office, European Council and World Trade Organization. Sarah originally studied genetics at Cambridge and has an MBA from Imperial College, London.

Audit Committee members' biography

Elizabeth Dymond (from 12 February 2015)

Elizabeth is a Deputy Director in the Fiscal Group in HM Treasury where she is the Treasury Accountant and Head of the Exchequer Funds and Accounts team. She is a qualified accountant and worked in management accounting in the private sector before joining the public sector, first at the Office of Fair Trading and then as Chief Financial and Accounting Adviser at the Competition Commission. She joined the Treasury in 2009 and initially worked in the Financial Stability Group.

Principal risks facing NS&I

Net Financing risk

Principal risk factor

Net Financing risk is the failure to meet the annual Net Financing target agreed annually with HM Treasury.

Key factors

Our ability to remain within the agreed Net Financing remit depends on a number of factors, including:

- any potential impact of a changing deposit market or competition for retail deposits which may distort usual pricing patterns
- market shocks that may impact on consumer confidence
- material changes to (and awareness of) depositor insurance arrangements.

Key specific risk and mitigation

- Inability to meet Net Financing target

Mitigating actions include pricing, taking products on or off sale and managing retention rates and marketing activity.

Change programme risk

Principal risk factor

Change programme risk is the failure to deliver NS&I's change programme within agreed cost, time and quality parameters.

Key factors

As part of the new outsourcing contract with Atos, and in line with NS&I's 'think ahead' strategy, we continued to upgrade and modernise our infrastructure to support channel shift and enhanced customer experience.

Key specific risk and mitigation

- Failure to meet the change programme objectives

To manage the risks associated with this, we have put the requisite programme and project management disciplines in place, including enhanced joint working with Atos, project and programme tracking processes, and associated joint governance of the end-to-end project lifecycle.

Brand risk

Principal risk factor

Brand risk is the failure to manage the gap between what we want to communicate about NS&I (e.g. our brand values, product range and pricing policy) and what others (e.g. customers, industry competitors, consumer groups) think and understand about us.

Key factors

The risks of any negative trends for an organisation, for whatever reason, are significant. NS&I, like any national brand, needs to actively monitor its 'brand health'; however, it has additional responsibilities given its unique role as a savings organisation in ensuring public confidence across the financial sector and delivering for its business-to-business partners.

Key specific risk and mitigation

- Impact on NS&I brand

In line with our overall risk management process, NS&I actively monitors a variety of indicators (e.g. through customer and media monitoring), and also places great importance on the anticipation, avoidance and management of risk events.

Outsourcing risk

Principal risk factor

Outsourcing risk is the failure to manage the provision of key functions to a third party supplier.

Key factors

NS&I's business model relies on Atos for operational delivery and on the Post Office® as a sales channel for a proportion of our sales. NS&I will always retain ultimate accountability and responsibility for service provision.

The transition to the new contract arrangements and the successful delivery of the new capability required under the new outsourcing contract was a significant part of our outsourcing and operations planning over the year.

Our ability to manage and oversee the new contract with Atos is key over the next five years, while retaining ultimate accountability and responsibility for service provision.

Key specific risk and mitigation

- Failure of outsourcing partnerships

In order to manage the risks associated with these partners and the transition activities under the new contract, 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. We have also established new performance indicators that have been implemented throughout the year.

Business-to-business risk

Principal risk factor

Business-to-business risk is the failure to achieve the revenue targets set as part of the NS&I strategy.

Key factors

The NS&I 'think ahead' strategy brings with it uncertainties inherent in the sourcing of business-to-business income while maintaining NS&I's core business and conducting the transition and implementation programme.

Key specific risk and mitigation

- Delivering business-to-business revenue

Over the past year we have developed our business-to-business capability (e.g. business development team, channels, target operating model) to mitigate this risk. We will continue to monitor the strategy and revised capability to ensure that we remain on track.

Operations risk

Principal risk factor

Operations risk is the failure to process customer transactions to meet the requirements of NS&I's customers and stakeholders to agreed standards, regulations and quality measures.

Key factors

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 and failure to comply with legislation or regulations.

Key specific risk and mitigation

- Operations risks in the normal course of business

Some of our key management controls used to manage these risks are highlighted earlier in this statement on pages 57 to 59.

Information risk

Principal risk factor

Information risk is the failure to control, protect, deliver and enhance the value of NS&I's data and information assets.

Key factors

We hold personal information relating to our customers and readily acknowledge our responsibility to ensure that this information is accurate and up to date, and our duty to ensure that the personal information entrusted to us is properly used and safeguarded from loss, damage and unauthorised access.

Risk can materialise from personnel, physical attack, failure of IT security or through our delivery partners.

Key specific risk and mitigation

- Data and information loss

The overall accountability for information risk lies with the Senior Information Risk Owner (SIRO), a board and Executive Committee member, supported by a network of information asset owners. The SIRO reports quarterly to the board and the Audit Committee.

Information risk mitigations are provided through a robust security and business continuity programme that aligns with the requirements set out in the HM Government Security Policy Framework covering physical, personnel and information security. Outcomes are reported annually to the Cabinet Office through the Security Risk Management Overview. No serious or untoward incidents were reported during the year.

Jane Platt

Jane Platt CBE
Chief Executive
National Savings and Investments

03 June 2015

Section 2

Accounts 2014–15

The certificate and report of the Comptroller and Auditor General to the House of Commons	71
Statement of comprehensive net expenditure	73
Statement of financial position	74
Statement of cash flows	75
Statement of changes in taxpayers' equity	76
Notes to the Departmental Resource Accounts	77
Statement of Parliamentary Supply	100

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 the National Savings and Investments for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply 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

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to National Savings and Investment's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2015 and shows that those totals have not been exceeded; and

- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

the financial statements give a true and fair view of the state of National Savings and Investments' affairs as at 31 March 2015 and of its net operating cost for the year then ended; and

the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Management commentary, Directors' report and Strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Date: 09 June 2015

Statement of comprehensive net expenditure
for the year ended 31 March

	Note	2014–15 £000	2013–14 £000
Administration costs			
Staff costs	2	12,298	11,778
Other administration costs	3	225,805	174,670
Operating income	5.1	(14,283)	(39,535)
Net administration costs		**223,820**	**146,913**
Programme costs			
Programme costs	4	(12,232)	13,694
Operating income	5.1	(5,625)	(4,902)
Net programme costs		**(17,857)**	**8,792**
Net operating costs		**205,963**	**155,705**
Total expenditure		225,871	200,142
Total income		(19,908)	(44,437)
Net operating costs		**205,963**	**155,705**
Other comprehensive net expenditure			
Items that will not be reclassified to net operating costs			
Net (gain)/loss on revaluation of non-current assets	14	(22)	633
Items that may be reclassified subsequently to operating costs		–	–
Total comprehensive net expenditure		**205,941**	**156,338**

All income and expenditure are derived from continuing operations.

The notes on pages 77 to 99 form part of these accounts.

Statement of financial position
as at 31 March

	Note	2015 £000	2015 £000	2014 £000	2014 £000
Non-current assets					
Property, plant and equipment	6	23,047		20,281	
Intangible assets	7	61,615		50,645	
Total non-current assets			84,662		70,926
Current assets					
Trade and other receivables	9	1,589		3,598	
Cash and cash equivalents	10	13		115	
Client funds	11	2,156		19,605	
Total current assets			3,758		23,318
Total assets			88,420		94,244
Current liabilities					
Trade and other payables	12	(36,061)		(41,830)	
Provisions	13	(16)		(56)	
Total current liabilities			(36,077)		(41,886)
Non-current assets less net current liabilities			52,343		52,358
Non-current liabilities					
Trade and other payables	12	–		(4,601)	
Provisions	13	(677)		–	
Total non-current liabilities			(677)		(4,601)
Total assets less liabilities			**51,666**		**47,757**
Taxpayers' equity					
General Fund			42,146		38,028
Revaluation reserve			9,520		9,729
Total equity			**51,666**		**47,757**

The notes on pages 77 to 99 form part of these accounts.

Jane Platt

Jane Platt CBE
Chief Executive
National Savings and Investments

03 June 2015

Statement of cash flows
for the year ended 31 March

	Note	2014–15 £000	2013–14 £000
Cash flows from operating activities			
Net operating cost		(205,963)	(155,705)
Adjustment for non-cash transactions	3,4	35,633	33,192
Decrease in trade and other receivables	9	2,010	7,060
Increase/(decrease) in trade and other payables	12	8,157	(16,472)
Use of provision – product fraud losses	13	(45)	(61)
Use of provision – Glasgow sports ground	13	–	(16)
Net cash outflow from operating activities		**(160,208)**	**(132,002)**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(5,598)	(2,475)
Purchase of intangible assets	7	(42,321)	(12,527)
Decrease in trade and other payables	12	(977)	(483)
Net cash flows from investing activities		**(48,896)**	**(15,485)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		209,115	147,602
From the Consolidated Fund (Supply) – prior year		(115)	(102)
Net financing		**209,000**	**147,500**
Net (decrease)/increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(104)**	**13**
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		175	28
Payments of amounts due to the Consolidated Fund		(173)	(31)
Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	10	(102)	10
Cash and cash equivalents at the beginning of the period	10	**115**	**105**
Cash and cash equivalents at the end of the period	10	**13**	**115**

Cash flows regarding client funds are not included as those monies are not accounted through the Consolidated Fund.

The notes on pages 77 to 99 form part of these accounts.

Statement of changes in taxpayers' equity
as at 31 March

This statement shows the movement in the year on the different reserves held by National Savings and Investments (NS&I), analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). Financing and the balance from the provision of services are recorded here. The revaluation reserve reflects the change in asset values that have not been recognised as income or expenditure.

	Note	General Fund £000	Revaluation reserve £000	Taxpayers' equity £000
Balance at 1 April 2013		**45,326**	**10,469**	**55,795**
Changes in taxpayers' equity 2013–14				
Net Parliamentary Funding – drawn down		147,500	–	147,500
Net Parliamentary Funding – deemed		102	–	102
Supply payable adjustment		(115)	–	(115)
		147,487	**–**	**147,487**
Net operating costs		(155,705)	–	(155,705)
Non-cash adjustments				
Auditor's remuneration	3	813	–	813
Net loss on revaluation of non-current assets	14	–	(633)	(633)
		(154,892)	(633)	(155,525)
Movements in reserves				
Transfer between reserves		107	(107)	–
Balance at 31 March 2014		**38,028**	**9,729**	**47,757**
Changes in taxpayers' equity 2014–15				
Net Parliamentary Funding – drawn down		209,000	–	209,000
Net Parliamentary Funding – deemed		115	–	115
Supply payable adjustment		(11)	–	(11)
		209,104	**–**	**209,104**
Net operating costs		(205,963)	–	(205,963)
Non-cash adjustments				
Auditor's remuneration	3	746	–	746
Net gain on revaluation of non-current assets	14	–	22	22
		(205,217)	22	(205,195)
Movements in reserves				
Transfer between reserves		231	(231)	–
Balance at 31 March 2015		**42,146**	**9,520**	**51,666**

The notes on pages 77 to 99 form part of these accounts.

Notes to the Departmental Resource Accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2014–15 Government *Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NS&I for the purpose of giving a true and fair view has been selected. The particular policies adopted by NS&I for the accounts are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the Department to prepare one additional primary statement. The Statement of Parliamentary Supply and supporting notes show outturn against the Estimate in terms of the net resource requirement and the net cash requirement.

Accounts direction for these departmental accounts is given by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000. NS&I also prepares the Product Accounts covering transactions and balances on all NS&I products, which are prepared under a separate direction issued by HM Treasury (disclosed in Annex 1).

1.1 Standards in issue but not in force

Certain standards, amendments and interpretations to existing standards have been published that may be mandatory for NS&I's accounting periods beginning on or after 1 April 2015 or later periods. NS&I has not early-adopted the standards, amendments or interpretations described below.

1.1.1 IFRS 13 – Fair value measurement (consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS except where IFRS 13 explicitly states otherwise, effective for annual periods beginning on or after 1 April 2015)

The standard defines fair value and provides guidance on fair value measurement techniques and sets out disclosure requirements. The standard has established a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3). NS&I will be required to maximise the use of relevant observable inputs when determining fair value. The inference is that the more observable the inputs, the higher the quality of the reported value. The 2014–15 FReM states that IFRS 13 applies prospectively to entities covered by the manual from 1 April 2015. Early adoption is not permitted.

1.1.2 Other amendments to the FReM

Other amendments to the FReM due to come into effect on or after 1 April 2015 are considered to have no impact on NS&I.

1.2 Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets.

1.3 Accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based on amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the Estimate is revised and in any future periods affected.

The accounting policies set out areas involving a higher degree of judgement, complexity, assumptions and estimation techniques, such as note 1.4 (Service concession arrangements), note 1.6 (Depreciation and amortisation), note 1.7 (Impairments of non-current assets) and note 1.13 (Provisions). In the application of NS&I's accounting policies, management has made a number of judgements that have a significant effect on the amounts recognised in the financial statements. The most significant of these are:

- Intangible assets – substantial amounts of software development costs have been capitalised since International Financial Reporting Interpretations Committee (IFRIC) 12 was implemented. Capitalisation of these costs requires considerable judgement. Development work is being carried out to modernise NS&I's infrastructure, simplify its products and develop its business-to-business capability. NS&I capitalises the implementation costs of developments where future benefits will accrue. Management judgement has been applied in quantifying the benefit expected to accrue to NS&I over the useful life of the relevant assets. The benefits relate to the fact that such software allows NS&I to carry out its functions more efficiently and to leverage its capability. Where the software does not produce the expected benefits in terms of NS&I achieving its objectives then the carrying value would require adjustment.
- Property, plant and equipment – under IFRIC 12, IT, plant and machinery and furniture and fittings costs were capitalised during the year. NS&I obtains information regarding movements of assets (either additions or disposals) directly from its outsourced provider.
- Impairments – NS&I carries out a comprehensive review of the value of its assets at the end of the reporting period. Asset values are assessed as to whether the carrying value on the Statement of financial position is overstated in comparison to market value. Also, an assessment is carried out to ensure that the assets are performing to the levels determined in business cases, and also on the organisation as a whole. NS&I management ensures as far as possible that asset carrying values reflect current values.
- Depreciation and amortisation – under IFRIC 12, depreciation costs have risen substantially since NS&I has included these assets on its Statement of financial position. Depreciation is dependent on the carrying values and useful economic lives that NS&I uses for its assets. NS&I management ensures as far as is possible that the values used reasonably reflect NS&I's position.

1.4 Service concession arrangements (Public Private Partnership)

NS&I follows the principles provided in IFRIC 12: Service Concession Arrangements, as interpreted and adapted by HM Treasury.

Service concession arrangements fall within the scope of IFRIC 12 where the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and the price; and the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement.

Following a review of IFRIC 12, it was determined that NS&I's Public Private Partnership (PPP) contract with Atos falls within the scope of the FReM interpretation of this standard. Accordingly, the assets created or acquired under the contract are treated as assets of NS&I and recorded as non-current assets in the accounts.

NS&I capitalises all assets that are used by Atos for carrying out NS&I work. The main source of asset information is provided by Atos through their asset register. NS&I reviews all additions and disposals on a monthly basis and also ensures that carrying values of the assets brought onto the Statement of financial position are not in excess of their recoverable value. NS&I also brings onto its Statement of financial position project implementation work that is carried out by Atos which provides future economic benefits to NS&I.

Assets are recognised at an amount equal to the value of work performed by Atos where:

a. it is probable that future economic benefits associated with the asset will flow to NS&I; and
b. the cost of the asset can be measured reliably.

Further information regarding NS&I's service concession arrangements with Atos is provided in note 17.

1.5 Non-current assets

Property, plant and equipment and intangible assets are initially recognised at cost. The threshold for capitalising non-current assets is £500. Where a significant purchase of individual assets, which are individually below the prescribed capitalisation limit, arises then these assets are grouped together for capitalisation purposes.

Assets under construction are valued at historical cost within non-current assets and are not depreciated or amortised. An asset ceases to be classified as an asset under construction when it is ready for use. Its carrying value is then removed from assets under construction and transferred to the respective asset category. Depreciation or amortisation is then charged on the asset in accordance with the stated accounting policy.

Land and buildings are subsequently measured at fair value, as interpreted by the FReM, on the basis of professional valuations. A full valuation is carried out each year by DTZ Debenham Tie Leung Limited in accordance with the RICS Valuation Standards.

Information technology software assets are subsequently measured at fair value. As no active market exists for this asset category, information technology software is revalued at each reporting date using the Computer Service Producer Price Index produced by the Office for National Statistics.

Other non-current assets are carried at historical cost less accumulated depreciation. This is a suitable proxy for fair value and is allowable as per the FReM for those assets with short useful economic lives or low values. This includes assets held as fixtures and fittings, plant and machinery, IT equipment and intangible assets other than information technology software.

Any surplus arising on revaluation is credited to the revaluation reserve and any loss arising is debited to the revaluation reserve to the extent of the gains that have been recorded previously, with any balance being charged to the Statement of comprehensive net expenditure, within other comprehensive net expenditure.

Components of an asset are separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset.

1.6 Depreciation and amortisation

The charge for depreciation or amortisation is calculated to write down the cost or valuation of property, plant and equipment and intangible assets to their estimated residual values by equal instalments over their estimated useful lives. The useful lives of buildings are reviewed annually. Where a change in asset life is determined, the asset is depreciated on a straight-line basis over its remaining assessed life.

Property, plant and equipment

Freehold buildings	20 to 50 years
Information technology	3 to 10 years
Plant and machinery	5 to 15 years
Furniture and fittings	Shorter of remaining lease term or 5 to 20 years

Intangible assets

Information technology software	3 to 10 years
Software licences	3 to 10 years
Website	3 to 5 years
Assets under construction	Not depreciated
Assets available for sale	Not depreciated

The range of useful economic lives is reviewed each year to reflect actual usage more accurately.

1.7 Impairment of non-current assets

Impairments are permanent diminutions in the service potential of non-current assets. All assets are assessed annually for indications of impairment. If an indication of impairment exists, the assets in question are tested for impairment by comparing the carrying value of those assets with their recoverable amounts. Where the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount.

The recoverable amount of an asset is the higher of its 'fair value less costs to sell' and 'value in use'. Within the public sector, the FReM defines 'value in use' of a non-cash generating asset as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.

An impairment loss is recognised in the Statement of comprehensive net expenditure to the extent that it cannot be offset against the revaluation reserve. Any reversal of an impairment charge is recognised in the Statement of comprehensive net expenditure to the extent that the original charge, adjusted for subsequent depreciation, was previously recognised in the Statement of comprehensive net expenditure. The remaining amount is recognised in the revaluation reserve.

1.8 Non-current assets held for sale

Non-current assets are classified as 'held for sale' when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Assets held for sale are stated at the lower of their carrying amount prior to classification as 'held for sale' or their fair value less the costs of selling the asset. Any subsequent impairment or reversal is recognised in the Statement of comprehensive net expenditure. Assets classified as held for sale are not depreciated.

1.9 Leases

Leases are accounted for as operating leases, as a significant portion of the risks and rewards of ownership is retained by the lessor.

The total payments made under operating leases are charged to the Statement of comprehensive net expenditure on a straight-line basis over the period of the lease. When discounts are provided, the discount is treated as deferred income and is used to offset costs over the operating lease term.

1.10 Employee benefits

Short-term employee benefits (those payable within 12 months after service is rendered in a period, such as wages, bonuses, paid vacation and sick leave) are recognised in the period service is rendered. In the case of accumulating absences, such as paid annual leave, any days not taken are accrued into the relevant period.

1.11 Early departure costs

NS&I 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. 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 the Statement of financial position. In accordance with the requirements of IAS 37, this provision has been discounted. NS&I may, in certain circumstances, settle some or all of its liability in advance by making a payment for the credit of the Civil Superannuation Vote.

1.12 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. NS&I recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, NS&I recognises the contributions payable for the year.

1.13 Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is likely that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Statement of financial position date, taking into consideration the risks and uncertainties surrounding the obligation. Where a provision is measured using cash flows over a number of accounting periods to settle the present obligation, its carrying amount is the present value of those cash flows, where the effect of the time value of money is material.

1.14 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

In addition to contingent liabilities disclosed in accordance with IAS 37, NS&I discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.15 Financial instruments

All financial instruments are recognised at fair value. The fair value of financial instruments is determined by using the discounted future cash flow method. Financial assets and financial liabilities, including derivative financial instruments if any, are recognised in the Statement of financial position when NS&I becomes a party to the contractual provisions of the instrument. Gains and losses are dealt with through the Statement of comprehensive net expenditure.

1.16 Administration costs

The Statement of comprehensive net expenditure is analysed between administration costs and programme costs. The classification of expenditure as administration costs or as programme costs follows the definition of administration costs set out in the FReM by HM Treasury.

NS&I's administration costs in the Statement of comprehensive net expenditure are broadly consistent with the amount shown as Departmental Expenditure Limit (DEL) expenditure in the Statement of Parliamentary Supply. The one item that causes a difference is the inclusion of cash payments that are made to cover liabilities on provisions. These amounts are not included in the Statement of comprehensive net expenditure.

1.17 Programme costs

NS&I recognises the majority of its costs as administration costs. NS&I also accounts for certain costs as programme costs. These include costs covered in Annually Managed Expenditure (AME), such as property revaluation, increases to provisions which are included in the Statement of Parliamentary Supply totals and also IFRIC 12 impacts which no longer form part of a control total following the implementation of HM Treasury's Clear Line of Sight requirements. These include depreciation, amortisation and impairment of assets covered by IFRIC 12. Programme costs are reduced by Atos project costs capitalised under IFRIC 12. The transfer of costs to capital reduces NS&I's operating costs and increases the level of assets held in the Statement of financial position.

NS&I accounts for all its business-to-business activity costs in resource DEL in the first instance. Such costs include feasibility costs which are expensed within resource DEL. Programme costs are reduced by business-to-business activity development costs capitalised under IFRIC 12.

1.18 Operating income

All operating income received is recognised in full in net administration costs initially. In net administration costs operating income is income which relates directly to the operating activities of NS&I. It comprises rent from external tenants including Atos, loss recoveries due from Atos for external fraud, income from business-to-business feasibility, development activities and delivery. Adjustments are made through programme income to transfer income received for development work to deferred income. The result of the adjustment is to reduce the level of operating income in the Statement of comprehensive net expenditure. These amounts are released back to operating income over the useful life of the development asset as programme income.

1.19 Value added tax

NS&I's retail activities are exempted under the terms of the value added tax (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 non-current assets. Most of NS&I's business-to-business activities are also exempted from VAT under the same terms of the VAT legislation. However, one business-to-business contract that NS&I operates is not exempt from VAT and in this case VAT is recovered on the costs of the activity and paid on income received. In this case the net cost and income are charged to the relevant expenditure categories and VAT is charged to the Statement of financial position.

1.20 Operating segments

Within the definitions of IFRS 8 Segmental Reporting, NS&I is an entity with a single reportable segment since NS&I's financial planning and reporting are based on NS&I being a single entity. The chief operating decision-maker as defined by IFRS 8 is NS&I's management board, and financial information that is required regularly by the management board to make decisions about planning and resource allocation and performance assessment is reported on an NS&I entity basis. Accordingly, NS&I does not report separately for the costs of its business-to-business activities and as such does not segment business-to-business from its overall activities.

NS&I's Product Accounts are reported separately in this Annual Report but are deemed not to be a separate operating segment as they relate to NS&I's core activity, with all head office functions being incidental to delivering this.

1.21 Client funds

NS&I is holding funds on behalf of HM Treasury for the payment of amounts to former Equitable Life savers. These amounts are held in a separate bank account and segregated from NS&I's voted monies. Client funds held are recognised as current assets in the Statement of financial position, with the corresponding liability in trade and other payables.

2 Staff numbers and related costs

Staff costs comprise:

	2014–15 Permanently employed UK staff £000	2014–15 Others £000	2014–15 Total £000	2013–14 Total £000
Wages and salaries	8,471	1,487	9,958	9,390
Social security costs	817	–	817	875
Other pension costs	1,523	–	1,523	1,513
Total net costs	**10,811**	**1,487**	**12,298**	**11,778**

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 2012. You can find details in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2014–15, employers' contributions of £1,404,184 were payable to the PCSPS (2013–14: £1,401,866) at one of four rates in the range 16.7% to 24.3% (2013–14: 16.7% to 24.3%) of pensionable pay, based on salary bands. The scheme actuary usually reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014–15 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, which is a stakeholder pension with an employer contribution. Employers' contributions of £111,694 (2013–14: £104,063) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0% to 12.5% (2013–14: 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 £7,309, 0.8% (2013–14: £6,610, 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 Statement of financial position date were Nil (2013–14: Nil). Contributions prepaid at that date were Nil.

Average number of persons employed

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

	2014–15 Permanently employed UK staff	2014–15 Others	2014–15 Total	2013–14 Total
Administration of NS&I	166	13	179	190
Total	**166**	**13**	**179**	**190**

All NS&I staff costs are charged to administration costs. There are no staff costs charged to programme costs.

2.1 Reporting of Civil Service and other compensation schemes – exit packages

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
	2014–15	2014–15	2014–15	2013–14	2013–14	2013–14
<£10,000	–	–	–	–	1	1
£10,000–£25,000	–	–	–	–	1	1
£25,000–£50,000	–	1	1	–	5	5
£50,000–£100,000	–	–	–	–	1	1
£100,000–£150,000	–	–	–	–	–	–
£150,000–£200,000	–	–	–	–	1	1
Total number of exit packages by type(1)	**–**	**1**	**1**	**–**	**9**	**9**
Total resource cost (£)(1)	**–**	**–**	**–**	**–**	**–**	**480**

(1) Under the Data Protection Act, to protect the anonymity of individuals who have left NS&I, the actual cost of exit packages is not being disclosed in the current year.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where NS&I has agreed early retirements, the additional costs are met by NS&I and not by the PCSPS. Ill-health retirement costs are met by the PCSPS and are not included in the table.

3 Other administration costs

	Note	2014–15 £000	2014–15 £000	2013–14 £000	2013–14 £000
Public Private Partnership provider costs[(1)]		194,449		143,672	
Selling agents[(2)]		12,032		7,000	
Banking charges		670		723	
			207,151		151,395
Marketing and customer communications					
Marketing and customer communications		8,783		5,315	
Research[(3)]		1,186		1,737	
			9,969		7,052
Other expenditure					
Consultancy, internal audit contract and personnel costs		2,976		3,944	
Professional services		2,149		6,222	
Other costs		1,348		2,225	
Losses and special payments	20	16		295	
Rentals under operating leases		867		852	
			7,356		13,538
Non-cash items					
Depreciation	6	512		1,805	
Amortisation	7	66		55	
Loss on disposal	6, 7	5		12	
Notional external audit fees[(4)]		746		813	
			1,329		2,685
			225,805		**174,670**

(1) The increase in costs reflects the considerable investment and operational change planned in the first year of our new partnership contract with Atos.

(2) Selling agents include our distribution partner, the Post Office®.

(3) Research costs include costs related to customer research, customer satisfaction surveys, data clean-up work, media relations research, data modelling activity and other analysis activity.

(4) The notional external audit fees include fees for the Product Accounts statutory audit of £649,000 (£719,000 in 2013–14) and fees for the Resource Accounts statutory audit of £97,000 (£94,000 in 2013–14).

4 Programme costs[3]

	Note	2014–15 £000	2014–15 £000	2013–14 £000	2013–14 £000
Transfer of Public Private Partnership provider costs to capital[1]		(46,536)		(16,813)	
			(46,536)		(16,813)
Non-cash items					
Depreciation	6	2,657		2,197	
Amortisation	7	30,577		27,485	
Impairment: land and buildings	6	–		642	
Impairment: other	7	43		368	
Revaluation losses	6,7	140		–	
Reversal of previous downward revaluation	6	(222)		(218)	
Increase in fraud losses provision provided in year[2]	13	2		55	
Increase in Glasgow sports ground provision	13	693		–	
Reversal of fraud losses provision[2]	13	(12)		(55)	
Loss on disposal	6, 7	426		33	
			34,304		30,507
			(12,232)		**13,694**

(1) Capitalisation of Atos costs for infrastructure purchase and development work. These costs are negative as they are a transfer of service costs to capital. This transfer is carried out through non-budget which forms part of programme costs.

The overall impact of the transfer is to reduce NS&I's operating costs but increase NS&I's assets on its Statement of financial position. The treatment is outlined in note 1.17.

(2) Reversal of provisions and provision increases are carried out in AME and form part of programme costs.

(3) NS&I recognises all costs in note 4 as programme costs because they are either AME costs or non-budget. If they are not administration costs they should be programme costs. Non-budget costs are not subject to a control total.

5 Income

5.1 Operating income

	Note	2014–15 £000	2013–14 £000
Operating income comprises:			
Contracted fraud loss recovery from Atos	20	84	240
Rent from external tenants		1,433	6,673
Business-to-business(2)		12,649	25,577
Other receipts(1)		117	7,045
Total income (net administration costs)		**14,283**	**39,535**
Transfer to deferred income		–	(620)
Transfer from business-to-business deferred income to operating income		5,625	5,522
Total income (net programme expenditure)		**5,625**	**4,902**
Total operating income		**19,908**	**44,437**

Total income is accounted for within net administration costs and the transfer of income to deferred income is accounted for in non-budget and forms a part of programme expenditure. The treatment is outlined in note 1.18.

(1) NS&I received income of £7 million during 2013–14 from the Department for Business, Innovation and Skills to enable access to NS&I services that are provided through Post Office branches. In 2014–15 the costs were funded through DEL resources voted to NS&I by Parliament.

(2) Business-to-business income reduced as a service agreement began to scale down as it approached completion.

5.2 Fees and charges

NS&I is required in accordance with HM Treasury's *Managing Public Money* to disclose results for the areas of its activities where fees and charges are levied. The analysis provided below is for fees and charges purposes and is not intended to meet the requirements of IFRS 8 Operating Segments. Business-to-business activities are not managed as a separate division but as a series of independent projects.

	2014–15			2013–14		
	Gross income £000	Full cost £000	Surplus £000	Gross income £000	Full cost £000	Surplus £000
Business-to-business	18,274	16,385	1,889	30,479	29,300	1,179

The financial objective of business-to-business is to recover the costs of providing payment services and make a contribution towards financing other costs. Investments that have been made in NS&I's capabilities have enabled NS&I to offset some of its costs by offering government and third parties payment processing services within agreed spending limits. From 2010–11, NS&I started developing its business-to-businesss activities with HM Treasury with regard to the Equitable Life Payment Scheme and the Ministry of Justice (Office of Accountant General) with regard to the Court Funds Service. NS&I acquired a further client for its business-to-business activities, Home Office Payment Processing, during 2013–14.

6 Property, plant and equipment

6(a) Current year

	Land[2]	Buildings[2]	Information technology	Plant and machinery	Furniture and fittings	Assets under construction[3]	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2014	10,916	19,252	15,013	915	4,757	746	51,599
Additions	–	–	4,333	136	146	983	5,598
Transfer from 'assets under construction'	–	–	–	178	–	(178)	–
Disposals	–	–	(18)	(65)	(1)	–	(84)
Upward revaluation[1]	120	242	–	–	–	–	362
Reclassification	–	–	(9)	–	–	–	(9)
At 31 March 2015	**11,036**	**19,494**	**19,319**	**1,164**	**4,902**	**1,551**	**57,466**
Depreciation							
At 1 April 2014	–	(18,209)	(10,351)	(701)	(2,057)	–	(31,318)
Charged in year	–	(22)	(2,612)	(60)	(475)	–	(3,169)
Disposals	–	–	16	65	–	–	81
Revaluation[1]	–	(20)	–	–	–	–	(20)
Reclassification	–	–	7	–	–	–	7
At 31 March 2015	**–**	**(18,251)**	**(12,940)**	**(696)**	**(2,532)**	**–**	**(34,419)**
Carrying amount							
At 31 March 2015	**11,036**	**1,243**	**6,379**	**468**	**2,370**	**1,551**	**23,047**
Owned assets	**11,036**	**1,243**	**434**	**324**	**1,044**	**1,495**	**15,576**
IFRIC 12 assets	**–**	**–**	**5,945**	**144**	**1,326**	**56**	**7,471**
Total	**11,036**	**1,243**	**6,379**	**468**	**2,370**	**1,551**	**23,047**

(1) The freehold land and buildings at Blackpool, Durham and Glasgow were revalued as at 31 March 2015 by professional valuers on a market value basis. Chartered surveyors DTZ Debenham Tie Leung Limited carried out the valuations in accordance with the RICS Valuation Standards. Out of the total upward revaluation of £0.342 million, £0.222 million was reported in programme costs. The residual land net increase of £0.120 million increased the amount held for land in the revaluation reserve.

(2) The land and buildings are owned by NS&I but leased to Atos under an operating lease. Plans have been made to vacate and sell the Glasgow and Durham sites and part of the Blackpool site. However, given that the properties are not available for immediate sale and they are still in use they continue to be reported as non-current assets.

(3) The assets under construction are mainly for leasehold improvements at a property at Freeman's Reach in Durham. Work to install solar panels at Blackpool Moorlands was completed and the asset has been transferred to plant and machinery.

6(b) Prior year

	Land £000	Buildings £000	Information technology £000	Plant and machinery £000	Furniture and fittings £000	Assets under construction[2] £000	Total £000
Cost or valuation							
At 1 April 2013	11,276	20,296	15,068	2,279	3,651	–	52,570
Additions	–	–	364	211	1,154	746	2,475
Disposals	–	–	(470)	(1,572)	(46)	–	(2,088)
Upward revaluation[1]	720	218	45	–	–	–	983
Downward revaluation[1]	(1,080)	(1,262)	–	(3)	(2)	–	(2,347)
Reclassification	–	–	6	–	–	–	6
At 31 March 2014	**10,916**	**19,252**	**15,013**	**915**	**4,757**	**746**	**51,599**
Depreciation							
At 1 April 2013	–	(16,929)	(8,430)	(2,253)	(1,727)	–	(29,339)
Charged in year	–	(1,280)	(2,332)	(15)	(375)	–	(4,002)
Disposals	–	–	452	1,566	45	–	2,063
Revaluation	–	–	(42)	1	–	–	(41)
Reclassification	–	–	1	–	–	–	1
At 31 March 2014	**–**	**(18,209)**	**(10,351)**	**(701)**	**(2,057)**	**–**	**(31,318)**
Carrying amount							
At 31 March 2014	**10,916**	**1,043**	**4,662**	**214**	**2,700**	**746**	**20,281**
Owned assets	**10,916**	**1,043**	**725**	**159**	**1,365**	**746**	**14,954**
IFRIC 12 assets	**–**	**–**	**3,937**	**55**	**1,335**	**–**	**5,327**
Total	**10,916**	**1,043**	**4,662**	**214**	**2,700**	**746**	**20,281**

(1) The freehold land and buildings at Blackpool, Durham and Glasgow were revalued as at 31 March 2014 by professional valuers on a market value basis. Chartered surveyors DTZ Debenham Tie Leung Limited carried out the valuations in accordance with the RICS Valuation Standards. Out of the total upward revaluation of £0.938 million on land and buildings only £0.218 million was used to offset costs in programme costs (note 4). The £0.218 million offset represented a reversal of a previous downward revaluation at Blackpool Moorlands. The other increases were for land at Glasgow and Blackpool. The remainder increased the amount held in the revaluation reserve. From the total downward revaluation of £2.342 million only £0.642 million was charged to programme costs (note 4). This was because a substantial amount was available in the revaluation reserve to absorb the charge. Downward revaluation covered Durham land and buildings and the main Blackpool building.

(2) The assets under construction are mainly for leasehold improvements at a property at Freeman's Reach in Durham. Work also commenced to install solar panels at Blackpool Moorlands.

7 Intangible assets

7(a) Current year

	Information technology software £000	Software licences £000	Website £000	Assets under construction(1) £000	Total £000
Cost of valuation					
At 1 April 2014	102,940	8,677	886	4,225	116,728
Additions	98	8,767	–	33,456	42,321
Transfer from 'assets under construction'	5,977	67	–	(6,044)	–
Downward revaluation(2)	(1,250)	–	(9)	–	(1,259)
Disposals	(511)	(1,538)	–	–	(2,049)
Reclassifications	23	(14)	–	–	9
At 31 March 2015	**107,277**	**15,959**	**877**	**31,637**	**155,750**
Amortisation					
At 1 April 2014	(59,294)	(6,017)	(772)	–	(66,083)
Charged in year	(28,726)	(1,806)	(111)	–	(30,643)
Impairments(3)	(43)	–	–	–	(43)
Revaluation(2)	1,009	–	11	–	1,020
Disposals	435	1,186	–	–	1,621
Reclassifications	(16)	9	–	–	(7)
At 31 March 2015	**(86,635)**	**(6,628)**	**(872)**	**–**	**(94,135)**
Carrying amount					
At 31 March 2015	**20,642**	**9,331**	**5**	**31,637**	**61,615**
Owned assets	**719**	**73**	**–**	**–**	**792**
IFRIC 12 assets	**19,923**	**9,258**	**5**	**31,637**	**60,823**
Total	**20,642**	**9,331**	**5**	**31,637**	**61,615**

(1) Assets under construction increased substantially during 2014–15, resulting from a number of transformation and implementation projects planned in the first year of our new partnership contract with Atos.

(2) Information technology software was revalued using the Computer Service Producer Price Index, produced by the Office for National Statistics. The net reduction in value of the assets was £0.241 million.

(3) Two information technology software assets were impaired (net book value £0.043 million) due to the assets no longer being used for the purposes they were developed for.

7 Intangible assets

7(b) Prior year

	Information technology software £000	Software licences £000	Website £000	Assets under construction[1] £000	Total £000
Cost of valuation					
At 1 April 2013	86,678	7,117	886	10,334	105,015
Additions	81	671	–	11,775	12,527
Transfer from 'assets under construction'	17,621	–	–	(17,621)	–
Upward revaluation	339	141	–	–	480
Downward revaluation	(10)	–	–	–	(10)
Disposals	(49)	(706)	–	–	(755)
Reclassifications[2]	(1,473)	1,454	–	13	(6)
Impairment[3]	(247)	–	–	(276)	(523)
At 31 March 2014	**102,940**	**8,677**	**886**	**4,225**	**116,728**
Amortisation					
At 1 April 2013	(33,896)	(4,832)	(583)	–	(39,311)
Charged in year	(26,211)	(1,140)	(189)	–	(27,540)
Disposals	37	698	–	–	735
Revaluation	–	(131)	–	–	(131)
Reclassifications[2]	611	(612)	–	–	(1)
Impairment[3]	165	–	–	–	165
At 31 March 2014	**(59,294)**	**(6,017)**	**(772)**	**–**	**(66,083)**
Carrying amount					
At 1 April 2013	52,782	2,285	303	10,334	65,704
At 31 March 2014	**43,646**	**2,660**	**114**	**4,225**	**50,645**
Owned assets	**63**	**117**	**–**	**238**	**418**
IFRIC 12 assets	**43,583**	**2,543**	**114**	**3,987**	**50,227**
Total	**43,646**	**2,660**	**114**	**4,225**	**50,645**

(1) Assets under construction during 2013–14 mainly included development work in connection with the modernisation programme.

(2) A number of software licences incorrectly categorised as intangible software technology assets were transferred into the appropriate category. The cost of these was £1.454 million. There were also a small number of other small adjustments.

(3) The impaired assets under construction (£0.276 million) were for a development that had not been used. The asset as a result was impaired to its full value. The impairment under information technology software (net book value £0.082 million) was for an asset that is not currently being used for the purpose it was developed for.

8 Financial instruments

As the cash requirements of NS&I are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The financial instruments that NS&I has are cash, trade receivables and trade payables. They are in line with NS&I expectations in terms of purchase and usage requirements. NS&I is therefore exposed to little credit, liquidity or market risk.

NS&I's net revenue resource requirements, including capital expenditure, are financed by resources voted annually by Parliament; this includes income and expenditure on its business-to-business activities. NS&I's Resource Accounts are not, therefore, exposed to significant liquidity risks.

There are no differences between the book value of receivables, payables or cash held and their fair value.

NS&I is not exposed to any credit or liquidity risk in its performance of business-to-business services. Customers are central government departments.

9 Trade receivables, financial and other current assets

9(a) Trade and other receivables

as at 31 March

	2015 £000	2014 £000
Amounts falling due within one year:		
Trade receivables	–	559
Deposits and advances	77	69
Prepayments	278	109
Accrued income	1,234	2,861
Total trade and other receivables	**1,589**	**3,598**

9(b) Intra-government balances – trade receivables, financial and other assets

as at 31 March

	2015 £000	2014 £000
Amounts falling due within one year:		
Balance with other central government bodies	1,234	3,421
Subtotal: intra-government balances	1,234	3,421
Balance with bodies external to government	355	177
Total trade and other receivables	**1,589**	**3,598**

10 Cash and cash equivalents

	2015 £000	2014 £000
Balance at 1 April	115	105
Net change in cash and cash equivalent balances	(102)	10
Closing cash and cash equivalent balance	**13**	**115**
The following balances are held at:		
Government Banking Service	13	115
Balance at 31 March	**13**	**115**

11 Client funds

	2015 £000	2014 £000
Balance at 1 April	19,605	173,552
Net change in cash and cash equivalent balances	(17,449)	(153,947)
Closing cash and cash equivalent balance	**2,156**	**19,605**
The following balances are held at:		
Government Banking Service	2,156	19,605
Balance at 31 March	**2,156**	**19,605**

Client funds are being held on behalf of HM Treasury for the payment of sums through NS&I to Equitable Life savers as part of business-to-business activities under the Equitable Life Payment Scheme. The net change in balance represents the payment of amounts to Equitable Life Payment Scheme holders less amounts received from HM Treasury.

12 Trade payables and other current liabilities

12(a) Trade and other liabilities

as at 31 March

	2015 £000	2014 £000
Amounts falling due within one year:		
VAT	105	–
Taxation and social security	251	241
Trade payables	15,423	12,293
Other payables	182	163
Accruals	13,330	3,789
Deferred income	4,601	5,624
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	2	–
Amounts issued from the Consolidated Fund for supply but not spent at year end	11	115
Payments to be made on behalf of HM Treasury	2,156	19,605
Subtotal	**36,061**	**41,830**
Amounts falling due after more than one year:		
Deferred income	–	4,601
Subtotal	**–**	**4,601**
Total trade and other payables	**36,061**	**46,431**

Amounts falling due after more than one year refer to income due from other government departments.

12(b) Intra-government balances – trade and other payables

as at 31 March

	2015 £000	2014 £000
Amounts falling due within one year:		
Balance with other central government bodies	7,744	25,744
Balance with local authorities	204	–
Balance with public corporations and trading funds	5,756	33
Subtotal: intra-government balances	13,704	25,777
Balance with bodies external to government	22,357	16,053
Subtotal	**36,061**	**41,830**
Amounts falling due after more than one year:		
Balance with other central government bodies	–	4,601
	–	**4,601**
Total trade and other payables	**36,061**	**46,431**

13 Provisions for liabilities and charges

13(a) Movements in provisions

	Provision for fraud losses(1) £000	Provision for Glasgow sports ground(2) £000	Total £000
Balance at 1 April 2014	56	–	**56**
Provided in the year	2	693	**695**
Provision written back	(13)	–	**(13)**
Provisions utilised in the year	(45)	–	**(45)**
Balance at 31 March 2015	**–**	**693**	**693**
Balance at 1 April 2013	117	15	**132**
Provided in the year	55	1	**56**
Provision written back	(55)	–	**(55)**
Provisions utilised in the year	(61)	(16)	**(77)**
Balance at 31 March 2014	**56**	**–**	**56**

13(b) Analysis of expected timing of discounted cash flows

	Provision for fraud losses(1) £000	Provision for Glasgow sports ground(2) £000	Total £000
Not later than one year	–	16	**16**
Later than one year and not later than five years	–	68	**68**
Later than five years	–	609	**609**
Balance at 31 March 2015	**–**	**693**	**693**
Not later than one year	56	–	**56**
Balance at 31 March 2014	**56**	**–**	**56**

(1) NS&I provided for fraud losses that were identified during the year and it was probable that a liability would result. However, following the retender of the outsourced operational services contract all fraud losses are covered by the provider.

(2) An explanation of this provision is given in note 16(b).

14 Net loss on revaluation of non-current assets

as at 31 March

	Note	2015 £000	2014 £000
Revaluation reserve changes:			
Total downward revaluation		238	2,714
Charged to programme costs	4	82	(792)
Upward revaluation		(342)	(1,289)
Movement in revaluation reserve		**(22)**	**633**

15 Capital commitments

as at 31 March

	2015 £000	2014 £000
Contracted for but not provided	–	1,428
Total	**–**	**1,428**

16 Commitments under leases

16(a) Operating leases with tenants

NS&I leased all of its buildings to Atos under operating lease agreements. The initial leases ended on 31 March 2014. The renewed leases are all at peppercorn rents and no rent from Atos is receivable. However, NS&I receives rents via Atos from third parties where sub-tenancies are granted; this is reflected in the amounts shown.

	2015 £000	2014 £000
Buildings		
Not later than one year	400	1,400
Total	**400**	**1,400**
Land[1]		
Not later than one year	–	18
Later than one year and not later than five years	–	76
Later than five years	–	247
Total	**–**	**341**

(1) NS&I holds a lease on land in Glasgow with Pollok and Corrour Ltd. The lease commenced in 1974. The original lease term was for 99 years. NS&I pays £16,300 rent to the landlord annually. The lease was subleased to another party from July 2011. NS&I paid the lease costs to March 2014. The sub-lessee failed to pay rent for 2014–15. As a result NS&I has serious doubts as to whether the sub-lessee can meet the terms of the lease and a full provision against the head lease has been made.

16(b) Commitments under operating leases

The future minimum lease payments under operating leases are given in the table below, discounted to present value and analysed between future years.

	2015 £000	2014 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	865	872
Later than one year and not later than five years	1,594	2,479
Total	**2,459**	**3,351**
Land(1)		
Not later than one year	–	18
Later than one year and not later than five years	–	77
Later than five years	–	524
Total	**–**	**619**

(1) NS&I holds a lease on land in Glasgow with Pollok and Corrour Ltd. The lease commenced in 1974. The original lease term was for 99 years. NS&I pays £16,300 rent to the landlord annually. The lease was subleased to another party from July 2011. NS&I paid the lease costs to March 2014. The sub-lessee failed to pay rent for 2014–15. As a result NS&I has serious doubts as to whether the sub-lessee can meet the terms of the lease and a full provision against the head lease has been made.

17 Commitments under the Public Private Partnership contract

In May 2013, following a competitive tender, NS&I entered into a new seven-year PPP contract with Atos for the provision of operational services, which came into effect on 1 April 2014. The contract is to design, develop, procure, finance and operate, including maintaining, certain assets over the period of the contract to enable the provision of a back office function and customer interaction centre. The contract value is over £600 million for the seven-year operational term in nominal terms; however, this will vary depending on the level of stock and business-to-business activity.

If Atos meets the performance standards in the contract the service charge payable under the contract at constant price levels would be:

	£000
Amounts falling due within one year	113,850
Net present value of amounts falling due within two to five years	274,984
Net present value of amounts falling beyond five years	57,576
	446,410

	£000
Comparable figures at 31 March 2014 were:	
Amounts falling due within one year	171,913
Net present value of amounts falling due within two to five years	320,933
Net present value of amounts falling beyond five years	118,450
	611,296

The total amount payable to Atos will vary depending on the levels of stock and business-to-business activity. These amounts cannot be predicted with any certainty.

18 Other financial commitments

There were no other financial commitments at 31 March 2015 (Nil 31 March 2014).

19 Contingent liabilities disclosed under IAS 37

There were no material contingent liabilities at 31 March 2015 (Nil 31 March 2014).

20 Losses and special payments

as at 31 March

	2014–15 Number of cases	2014–15 £000	2013–14 Number of cases	2013–14 £000
Compensation	1	3	28	55
Fraud loss	1	(3)	67	240
Bad debts	1	16	–	–
Fruitless payments	–	–	–	–
Special payments	–	–	–	–
Total	**3**	**16**	**95**	**295**

		2014–15 £000		2013–14 £000
Fraud (recoveries)/losses		(3)		240
Reversal of fraud losses in provisions		(12)		(55)
Increase in provisions for fraud losses		2		55
		(13)		240
Contracted fraud loss recovery		(84)		(240)
Total net fraud credited to Statement of financial net expenditure		**(97)**		**–**

Following the commencement of the new contract on 1 April 2014, Atos, NS&I's operational services provider, is liable for any fraud losses that are incurred under the new contract.

Following the commencement of the new contract on 1 April 2014, Atos, NS&I's operational services provider, is liable for any fraud losses that are incurred under the new contract. Previously the liability was shared equally once the amount of fraud exceeded £300,000.

21 Related party transactions

NS&I is an Executive Agency of the Chancellor of the Exchequer and a government department. The Chancellor of the Exchequer is regarded as a related party. NS&I has not undertaken any material transaction with the Chancellor of the Exchequer during the year.

The Post Office® is a distributor of Premium Bonds and, as a public body, the Post Office® is a related party. NS&I's Post Office® costs during 2014–15 were £11,640,997 (2013–14: £7,000,000) for contract services.

In addition, NS&I has carried out a number of significant transactions with the Government Banking Service, the Ministry of Justice Office of Accountant General, the Office for National Statistics, the Home Office and HM Treasury, and a small number of various immaterial transactions with other government departments: the Treasury Solicitor's Department, HM Revenue and Customs, the Cabinet Office, the National Archives, the Department for Work and Pensions and the Financial Ombudsman Service. All related party transactions undertaken were at arm's length.

Neither the Financial Secretary to HM Treasury nor the Economic Secretary to HM Treasury (from April 2014), nor any board member, nor any key manager or other related party has undertaken any material transactions with NS&I during the year. Investments in NS&I products are not considered to be related party transactions and are therefore excluded from this declaration. Ministers, board members and key managers are judged to be related parties as they have authority and responsibility for planning, directing and controlling the activities of the entity.

The following table relates to deposits (excluding Premium Bond holdings) held by key management personnel and persons connected to them in NS&I.

	2014–15 £000	2013–14 £000
Executive Directors and Non-executive Directors	2,088	2,035

In relation to holdings in Premium Bonds, the Premium Bond Regulations 1972 (Statutory Instrument 1972 No. 765) prohibit the disclosure of the number of bonds purchased or held by any person. The Accounting Officer and persons connected with her are prohibited under NS&I's policies from holding Premium Bonds.

22 Events after the reporting period date

There are no reportable events between the Statement of financial position date and 09 June 2015, the date of authorisation of these accounts. The financial statements do not reflect events after that date.

Statement of Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government *Financial Reporting Manual* (FReM) requires NS&I to prepare a Statement of Parliamentary Supply (SOPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

Summary of resource and capital outturn

								2014–15	2013–14
		Estimate			Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn
	SOPS note	Voted	Non-voted	Total	Voted	Non-voted	Total		Total
		£000	£000	£000	£000	£000	£000	£000	£000
Departmental Expenditure Limit (DEL)									
– Resource	2.1	228,350	–	228,350	223,865	–	223,865	4,485	146,990
– Capital	2.2	1,673	–	1,673	1,383	–	1,383	290	1,517
Annually Managed Expenditure (AME)									
– Resource	2.1	2,000	–	2,000	420	–	420	1,580	347
– Capital		–	–	–	–	–	–	–	–
Total budget		**232,023**	**–**	**232,023**	**225,668**	**–**	**225,668**	**6,355**	**148,854**
Total		**232,023**	**–**	**232,023**	**225,668**	**–**	**225,668**	**6,355**	**148,854**
Total resource	2.1	230,350	–	230,350	224,285	–	224,285	6,065	147,337
Total capital	2.2	1,673	–	1,673	1,383	–	1,383	290	1,517
Total		**232,023**	–	**232,023**	**225,668**	–	**225,668**	**6,355**	**148,854**

Net cash requirement

		2014–15	2014–15		2013–14
		Estimate	Outturn	Outturn compared with Estimate: saving	Outturn
	SOPS note	£000	£000	£000	£000
	4	**223,603**	**209,104**	**14,499**	**147,487**

Administration costs

	2014–15	2014–15	2013–14
	Estimate	Outturn	Outturn
	£000	£000	£000
	228,350	**223,865**	**146,990**

Figures in the areas outlined in **bold** are voted totals or other totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the Administration Budget will also result in an excess vote.

Explanations of variances between Estimate and outturn are given in SOPS note 2 and in the Management Commentary.

The notes on pages 101 to 105 form part of these accounts.

Notes to the Departmental Resource Accounts (Statement of Parliamentary Supply)

SOPS1 Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2014–15 Government *Financial Reporting Manual* (FReM) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2014–15 *Consolidated Budgeting Guidance* and *Supply Estimates Guidance Manual*.

SOPS1.1 Accounting conventions

The Statement of Parliamentary Supply and related notes are presented consistently with HM Treasury budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework European System of Accounts (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes have different objectives from IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high-quality public services that offer value for money to the taxpayer.

The Government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

SOPS1.2 Comparison with IFRS-based accounts

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but there are a number of differences as detailed below.

SOPS1.2a Public Private Partnership service concession arrangements

The National Accounts basis for recognising service concession arrangements is broadly similar to UK-GAAP, applying a risk-based test to determine financial reporting. IFRS-based recognition of service concession arrangements (IFRIC 12) is determined using control tests, which can result in different treatments of assets and liabilities, income and expenditure in the National Accounts and IFRS Accounts. Where income is received from business-to-business activities for development assets in relation to a Public Private Partnership or other service concession arrangement, the treatment of the income matches the treatment of the related asset. As above, this can result in different treatments in National Accounts and IFRS Accounts.

SOPS1.2b Provisions – administration and programme expenditure

Provisions recognised in IFRS-based accounts are not recognised as expenditure for National Accounts purposes until the actual payment of cash (or accrual liability) is recognised. To meet the requirements of both resource accounting and National Accounts, additional data entries are made in the Statement of Parliamentary Supply across AME and DEL control totals, which do not affect the Statement of comprehensive net expenditure. As the administration control total is a sub-category of DEL, administration and programme expenditure reported in the Statement of Parliamentary Supply differ from that reported in the IFRS-based accounts. A reconciliation is provided in SOPS note 3.2.

SOPS2 Net outturn

SOPS2.1 Analysis of net resource outturn by section

	2014–15									2013–14
	Outturn							Estimate		Outturn
	Administration			Programme						
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000	Total £000	Net total £000	Net total compared with Estimate £000	£000
Spending in Departmental Expenditure Limit (DEL)										
Voted										
Administration	238,148	(14,283)	223,865	–	–	–	223,865	228,350	4,485	146,990
Spending in Annually Managed Expenditure (AME)										
Voted										
Administration	–	–	–	420	–	420	420	2,000	1,580	347
Total	**238,148**	**(14,283)**	**223,865**	**420**	**–**	**420**	**224,285**	**230,350**	**6,065**	**147,337**

		2014–15
Difference between resource outturn and Estimate	**£000**	**£000**
Lower marketing and customer communication costs	4,128	
Lower than expected professional fees	1,494	
Lower depreciation costs	222	
Lower income	(1,514)	
Other differences	155	
		4,485
Total DEL underspend		
Higher than expected requirement for provisions	(393)	
Lower than expected impairment charge for NS&I properties	1,973	
Total AME underspend		**1,580**
Total underspend against Estimate		**6,065**

SOPS2.2 Analysis of net capital outturn by section

	2014–15					2013–14
	Outturn			Estimate		Outturn
	Gross £000	Income £000	Net £000	Net £000	Net total compared with Estimate £000	Net £000
Spending in Departmental Expenditure Limit (DEL)						
Voted						
Administration	1,383	–	1,383	1,673	290	1,517
Total	**1,383**	**–**	**1,383**	**1,673**	**290**	**1,517**

The capital outturn disclosed above excludes capitalised PPP provider assets that are brought onto NS&I's Statement of financial position through the application of IFRIC 12.

SOPS3 Reconciliation of outturn to net operating cost and against Administration Budget

SOPS3.1 Reconciliation of net resource outturn to net operating cost

	Note	2014–15 Outturn £000	2013–14 Outturn £000
Total resource outturn in Statement of Parliamentary Supply		224,285	147,337
	SOPS2.1	**224,285**	**147,337**
Add			
Income recognised in budget but transferred to deferred income	5.1	–	620
Income transferred from deferred income to operating income	5.1	(5,625)	(5,522)
PPP asset depreciation	4	2,657	2,197
PPP asset amortisation	4	30,577	27,485
PPP asset revaluation loss		136	–
PPP asset impairment	4	43	368
PPP asset loss on disposal	4	426	33
		28,214	**25,181**
Less			
Transfer of PPP costs to capital	4	(46,536)	(16,813)
		(46,536)	**(16,813)**
Net operating cost in Statement of comprehensive net expenditure		**205,963**	**155,705**

SOPS3.2 Outturn against final Administration Budget and administration net operating cost

	Note	2014–15 Outturn £000	2013–14 Outturn £000
Estimate – administration costs limit		**228,350**	**150,115**
Gross outturn – administration costs		238,148	186,525
Gross outturn – income relating to administration costs	5.1	(14,283)	(39,535)
Outturn – net administration costs		**223,865**	**146,990**
Reconciliation to operating costs			
Provisions utilised	13	**(45)**	**(77)**
Administration net operating costs in Statement of comprehensive net expenditure		**223,820**	**146,913**

SOPS4 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	2014–15 Outturn £000	Net total outturn compared with Estimate: saving/ (excess) £000	2013–14 Outturn £000
Resource outturn	SOPS2.1	230,350	224,285	6,065	147,337
Capital outturn					
– Addition of property, plant and equipment	SOPS2.2	1,673	937	736	1,162
– Addition of intangible assets	SOPS2.2	–	446	(446)	355
Accruals to cash adjustments					
Adjustments to remove non-cash items:					
– Depreciation		(2,500)	(365)	(2,135)	(2,296)
– New provisions and adjustments to previous provisions		(300)	(683)	383	–
– Other non-cash items		(840)	(746)	(94)	(813)
Adjustments to reflect movements in working balances:					
– Decrease in receivables		(1,300)	(2,010)	710	(7,060)
– (Increase)/Decrease in payables		(3,480)	(12,805)	9,325	8,725
– Use of provisions	13	–	45	(45)	77
Net cash requirement		**223,603**	**209,104**	**14,499**	**147,487**

SOPS5 Income payable to the Consolidated Fund

SOPS5.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by the Department, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in *italics*).

	Outturn 2014–15		Outturn 2013–14	
	Income £000	*Receipts £000*	Income £000	*Receipts £000*
Operating income outside the ambit of the Estimate	175	*175*	28	*28*
Excess cash surrenderable to the Consolidated Fund	–	–	–	–
Total income payable to the Consolidated Fund	**175**	***175***	**28**	***28***

Section 3

Product Accounts 2014–15

The certificate and report of the Comptroller and Auditor General to the House of Commons	107
Product Accounts background	109
Statement of comprehensive income	111
Statement of financial position	112
Statement of cash flows	113
Notes to the accounts	114
Annex 1: Product Accounts direction	130

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

I certify that I have audited the financial statements which constitute the Product Accounts of National Savings and Investments for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Income, Financial Position, Cash Flows; 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

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive and Director of Savings, as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to National Savings and Investments' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by National Savings and Investments'; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the affairs of the Product Accounts of National Savings and Investments' affairs as at 31 March 2015 and of the net operating results for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion the information given in the Management commentary, Directors' report and Strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse **Date: 09 June 2015**

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Product Accounts background

Accounts

These 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 at Annex 1 to these accounts.

Scope of the Product Accounts

These accounts record transactions for the year ended 31 March 2015 on retail savings and investment products administered by NS&I and balances in respect of these 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 the National Loans Fund (NLF) to fund public sector activity.
- *NS&I's administration costs*. These are funded by Parliamentary Vote and accounted for separately in the Accounts section of the Annual Report. However, the interest and prizes 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 both 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 Indicator measure when computing how cost-effective NS&I has been at financing the national debt.

The National Loans Fund

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 ends each 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.

HM Treasury is responsible for the operation of the NLF and guarantees to honour NS&I's products' terms and conditions. In legal terms, section 120 of the Finance Act 1980 (in respect of investment deposits) and section 12 of the National Loans Act 1968 (for other NS&I payments) both make provision for such repayments to be issued from the NLF with recourse to the Consolidated Fund. Should the NLF prove insufficient, payment (customer liability) will be a charge on the Consolidated Fund and against the tax revenue being raised.

NS&I's Product 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

Children's Bonds (previously known as Children's Bonus Bonds)	Savings Certificates (Children's Bonus Bonds) Regulations 1991
65+ Guaranteed Growth 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
Guaranteed Equity Bonds	National Savings Stock Register Regulations 1976
Income Bonds	National Savings Stock Register Regulations 1976
Premium Bonds	Premium Savings Bonds Regulations 1972
Savings Certificates	Savings Certificates Regulations 1991

Products governed by the National Savings Bank Act 1971

Direct Saver Account	National Savings Bank Regulations 1972
Individual Savings Account	National Savings Bank Regulations 1972
Investment Account	National Savings Bank Regulations 1972
Residual Account	National Savings Bank Regulations 1972

As part of NS&I's dormancy strategy, matured funds that remain unclaimed after 30 days are transferred to the Residual Account in order to continue earning interest for customers.

Savings Certificates, Children's Bonds, Guaranteed Income Bonds and Guaranteed Growth Bonds have had unclaimed matured funds transferred to the Residual Account in order to continue earning interest for customers.

Changes to the product range

There were two significant changes to NS&I's product range during the year ended 31 March 2015. All remaining Guaranteed Equity Bonds (GEBs) matured during the financial year. The final issue of this product matured and was repaid in December 2014. In January 2015, NS&I added 65+ Guaranteed Growth Bonds to the product range.

Audit

These accounts have been audited by the Comptroller and Auditor General, whose Certificate and Report appears on pages 107 to 108.

Statement of comprehensive income
for the year ended 31 March

	Note	2014–15 £000	2013–14 £000
Income			
Interest and prizes financed by the NLF (excluding revaluation of embedded derivatives)		1,670,617	2,010,601
(Loss) on revaluation of embedded derivatives		(23,972)	(15,651)
Interest and prizes financed by the NLF		1,646,645	1,994,950
Cost			
Interest and prizes earned by investors (excluding revaluation of embedded derivatives)		(1,670,617)	(2,010,601)
Gain on revaluation of embedded derivatives		23,972	15,651
Interest and prizes earned by investors	2	(1,646,645)	(1,994,950)
Income less cost		–	–

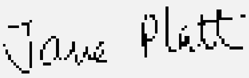
The notes on pages 114 to 129 form part of these accounts.

An analysis of interest and prizes by product is disclosed in note 2.

Statement of financial position
as at 31 March

	Note	2015 £000	2014 £000
Current assets			
Held by the NLF	4	122,564,773	105,060,830
Other receivables	5	395,770	152,908
Cash and cash equivalents	9	929,790	452,882
Total current assets	10	123,890,333	105,666,620
Current liabilities			
Liability to investors	6	(123,888,533)	(105,662,675)
Other payables	7	(1,800)	(3,945)
Total current liabilities		(123,890,333)	(105,666,620)
Net current assets		–	–
Assets less liabilities		–	–

The notes on pages 114 to 129 form part of these accounts.



Jane Platt CBE
Chief Executive
National Savings and Investments

03 June 2015

Statement of cash flows
for the year ended 31 March

	Note	2014–15 £000	2013–14 £000
Cash flows from operating activities			
Income less cost		–	–
Increase in net funds held by the NLF	8	(17,503,278)	(3,471,366)
Decrease in amortisation of Guaranteed Equity Bonds' principal liabilities	4	(665)	(3,474)
(Increase)/decrease in other receivables	5	(242,862)	5,582
Increase in total funds invested	2	18,225,858	3,424,869
Decrease in other payables	7	(2,145)	(3,549)
Net cash flow from operating activities		476,908	(47,938)
Net increase/(decrease) in cash and cash equivalents in the period	9	476,908	(47,938)
Cash and cash equivalents at the beginning of the period	9	452,882	500,820
Cash and cash equivalents at the end of the period	9	929,790	452,882

The notes on pages 114 to 129 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

These accounts are prepared in accordance with the Government 2014–15 *Financial Reporting Manual* (FReM) issued by HM Treasury subject to exemptions outlined in clause 3 of the Product Accounts direction issued by HM Treasury, which is disclosed at Annex 1. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NS&I for the purpose of giving a true and fair view has been selected. The particular policies adopted by NS&I for the Product Accounts are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of embedded derivatives in Guaranteed Equity Bonds (GEBs).

1.2 Standards in issue but not in force

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for NS&I's accounting periods beginning on or after 1 April 2015. NS&I has not early-adopted the standards, amendments and interpretations described below.

1.2.1 IFRS 9 – Financial instruments (effective from annual periods beginning on or after 1 January 2018)

IFRS 9 will replace IAS 39 – Financial instruments: recognition and measurement. IFRS 9 will address classification and measurement issues and impairments, in particular how impairments of financial assets should be calculated and recorded. The standard will address hedge accounting with more detailed guidance and principles on hedge accounting. In February 2014, the International Accounting Standards Board amended the effective date and tentatively decided that the mandatory application of IFRS 9 would be no earlier than 1 January 2018.

1.2.2 IFRS 13 – Fair value measurement (consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS except where IFRS 13 explicitly states otherwise, effective for annual periods beginning on or after 1 April 2015)

The standard defines fair value, provides guidance on fair value measurement techniques and sets out disclosure requirements. The standard establishes a hierarchy for input quality: Level 1 inputs (highest quality) to Level 3 (lowest quality). NS&I will be required to use the most appropriate inputs available to them in determining fair value. The inference is that the higher the quality, the more appropriate the input. The 2014–15 FReM states that IFRS 13 applies prospectively to entities covered by the manual from 1 April 2015. Early adoption is not permitted. The new standard is not expected to have a significant impact on the Product Accounts as the disclosure requirements in IFRS 13 extend to other types of asset those disclosures that already apply to financial instruments under IFRS 7, with which the Product Accounts comply.

1.2.3 Other amendments to the FReM

Other amendments to the FReM due to come into effect on or after 1 April 2015 are considered to have no impact on NS&I.

1.3 Interest and prizes recognition

Interest and prizes are earned by investors in accordance with the terms and conditions applicable to each product. Interest is recognised using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of a financial instrument.

Capitalised and accrued interest is included in interest and prizes payable to investors in the Statement of comprehensive income, and liability to investors in the Statement of financial position. Capitalised interest is 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. Accrued interest is interest which has been earned but not yet capitalised. Interest, where applicable, is accrued from the date of funds received 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.

Interest has been recognised and disclosed in accordance with IAS 18 and IAS 1 in these accounts.

1.4 Financed by the NLF

The interest and prizes payable to investors are funded by the NLF. The accounting policy for the NLF interest and prizes is as outlined in note 1.3.

1.5 Cash and cash equivalents

Cash and cash equivalents include cash at bank and amounts due from banks with an original maturity of less than three months.

1.6 Financial liabilities

Financial liabilities primarily comprise the deposits and investments made by customers in NS&I's products. All financial liabilities are measured at amortised cost using the effective interest method, with the exception of GEB embedded derivatives which are measured at fair value, with the movements recognised through the Statement of comprehensive income. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest income over the relevant period up to the date of maturity. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial liability or, where appropriate, a shorter period. Financial liabilities include other payables. 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. Repayments to investors 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.

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. The undiscounted maturity profiles for the total liability for all products are disclosed in note 12.

1.7 Relationship with the NLF

NS&I is the Government's retail savings agency. All funds from investors are payable to the NLF, and all liabilities to investors are discharged from funds payable by the NLF, on a statutory basis. Risks relating to liabilities to investors are met wholly by the NLF. Further, the Product Accounts present only a part of the Government's overall financing requirement managed by HM Treasury through the NLF, and which is financed ultimately from the Government's tax revenues or borrowings.

Due to the nature of these arrangements, some of the risk management and capital disclosure requirements of IFRS 7 are not applicable to these accounts. The risk management disclosure requirements of IFRS 7 comprise qualitative and quantitative disclosures that show the extent of risks arising from financial instruments and how that risk is managed by an entity during the period and at the reporting date. The capital disclosures of IFRS 7 are disclosures that enable users of financial statements to evaluate the significance of financial instruments for an entity's financial position and performance.

The analysis of the total funds held or financed by the NLF (note 4) does not equal the total funds invested by product (note 6), i.e. liability to investors. This is due to timing differences in the flow of funding and defunding movements between NS&I, its agents, the Government Banking Service and the NLF (via HM Treasury's bank account at the Bank of England). This difference is represented by net cash plus receivables minus other payables.

1.8 Financial assets

Financial assets comprise the loan with the NLF and other receivables, based on deposits and investments made by customers. On initial recognition, financial assets are classified as 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. Due to the agency nature of the business, the loan with the NLF is derived from the value of the financial liabilities upon which it is based (see note 1.6).

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 of the risks and rewards of ownership.

1.9 Derivative financial instruments

A derivative embedded in a product is accounted for as a standalone derivative if it is not 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 Statement of comprehensive income.

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. The equity index exposure is hedged by the DMO and these risks do not fall on NS&I as they are underwritten by HM Treasury.

The GEB 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. Note 14 details the fair value hierarchy disclosures.

The gains and losses on revaluation of GEB embedded derivatives are equal and opposite on the Statement of comprehensive income due to the agency nature of the business. The gains or losses are passed on to both the NLF and the investors.

2 Transactions with investors by product
2(a) Current year

	Received from investors £000	Interest and prizes earned by investors £000	Paid to investors including tax deducted at source £000	Transfer to Residual Account £000	Increase/ (decrease) in investors' funds £000	Invested 31 March 2015 £000
Children's Bonds	12,357	17,295	(121,798)	(41,875)	(134,021)	653,689
Direct Saver	3,421,485	55,163	(2,523,994)	–	952,654	5,566,975
65+ Guaranteed Growth Bonds	11,025,836	61,293	(2,074)	–	11,085,055	11,085,055
Guaranteed Equity Bonds	–	964	(97,470)	–	(96,506)	–
Guaranteed Bonds	184,398	130,974	(894,313)	(98)	(579,039)	4,594,495
Income Bonds	4,079,594	130,305	(2,627,836)	–	1,582,063	11,253,551
Individual Savings Account	834,695	52,423	(433,393)	–	453,725	3,814,433
Investment Account	220,174	21,244	(428,452)	–	(187,034)	2,764,280
Premium Bonds	12,303,652	679,520	(6,686,936)	–	6,296,236	54,602,943
Residual Account	27,175	585	(64,181)	44,400	7,979	616,054
Savings Certificates	162,318	496,879	(1,812,024)	(2,427)	(1,155,254)	28,937,058
Total	**32,271,684**	**1,646,645**	**(15,692,471)**	**–**	**18,225,858**	**123,888,533**

Amounts received from investors include cash received in the period plus reinvestments into the same or another product due to an investor instruction. They exclude automatic or default rollovers within the same product that require no action from an investor.

Amounts paid to investors include both capital and interest payments.

Guaranteed Bonds comprise Guaranteed Income Bonds and Guaranteed Growth Bonds.

Guaranteed Bonds and 65+ Guaranteed Growth Bonds are the only products that have tax deducted at source. The total tax deducted in 2014–15 was £27,819,000 (2013–14: £33,860,000).

The GEB interest earned figure includes a revaluation loss arising from a decrease in fair value of the embedded derivative in 2014–15 of £23,972,000 (2013–14: decrease £15,651,000) and equity linked payments to customers in 2014–15 of £24,936,000 (2013–14: £21,338,000). GEB closed during the year and ceased to exist as a product. The final GEB issue matured and was repaid in December 2014.

2(b) Prior year

	Received from investors £000	Interest and prizes earned by investors £000	Paid to investors including tax deducted at source £000	Transfer to Residual Account £000	Increase/ (decrease) in investors' funds £000	Invested 31 March 2014 £000
Capital Bonds	–	–	–	(698)	(698)	–
Children's Bonds	15,913	21,912	(156,619)	(37,399)	(156,193)	787,710
Direct Saver	2,886,408	52,959	(2,015,084)	–	924,283	4,614,321
First Option Bonds	–	–	–	(192)	(192)	–
Guaranteed Equity Bonds	–	5,687	(116,870)	–	(111,183)	96,506
Guaranteed Bonds	181,898	161,709	(792,346)	(1,334)	(450,073)	5,173,534
Income Bonds	3,805,050	133,595	(2,222,720)	–	1,715,925	9,671,488
Individual Savings Account	842,043	64,427	(803,097)	–	103,373	3,360,708
Investment Account	203,171	22,825	(482,241)	–	(256,245)	2,951,314
Pensioners' Guaranteed Income Bonds	(7)	–	–	(2,777)	(2,784)	–
Premium Bonds	8,042,286	626,196	(6,120,796)	–	2,547,686	48,306,707
Residual Account	36,665	532	(101,255)	44,754	(19,304)	608,075
Savings Certificates	350,162	905,108	(2,122,642)	(2,354)	(869,726)	30,092,312
Total	**16,363,589**	**1,994,950**	**(14,933,670)**	**–**	**3,424,869**	**105,662,675**

The (£7,000) in Pensioners' Guaranteed Income Bonds, received from investors, relates to a payment returned to a customer.

During 2013–14, any unclaimed funds were transferred to the Residual Account from the following closed products: Capital Bonds, First Option Bonds and Pensioners' Guaranteed Income Bonds.

3 Interest and prizes

	Note	2014–15 £000	2013–14 £000
Total interest and prizes earned in year	2	(1,646,645)	(1,994,950)
Add accrued interest and prizes opening balance		(670,185)	(928,417)
Less interest capitalised in year		1,195,267	1,611,337
Less interest and prizes paid in year		670,861	656,175
Add movements in out-of-date warrants/outstanding prizes in year		(3,233)	(14,330)
Accrued interest and prizes at 31 March	6	**(453,935)**	**(670,185)**

This table reconciles the interest and prizes earned in note 2 with those accrued in note 6.

4 Amounts held by the NLF

	Note	2014–15 £000	2013–14 £000
As at 1 April		105,060,830	101,585,990
Interest and prizes financed by the NLF		1,646,645	1,994,950
Received from the NLF	8	(15,308,570)	(14,290,727)
Paid to the NLF	8	31,165,203	15,767,143
Net funds held by the NLF		122,564,108	105,057,356
Amortisation movements of GEB principal liabilities		665	3,474
As at 31 March		**122,564,773**	**105,060,830**

The amount held by the NLF includes interest and prizes accrued in 2014–15 of £380,438,000 (2013–14: £599,921,000).

The difference in the amounts held by the NLF and the total amount invested (note 2) is explained in note 1.7.

5 Other receivables

	Note	2015 £000	2014 £000
Agents		326,604	109,320
Post Office®		68,049	43,562
Other receivables		1,117	26
Total		**395,770**	**152,908**

As part of our direct channels strategy, the only product available for purchase at the Post Office® is Premium Bonds.

NS&I also uses agents, such as Barclays Merchant Acquirer, to process debit card transactions.

6 Liability to investors
6(a) Current year

	Principal liability £000	Accrued interest and prizes £000	Liability 31 March 2015 £000
Current liabilities			
Children's Bonds	637,861	15,828	653,689
Direct Saver	5,566,975	–	5,566,975
65+ Guaranteed Growth Bonds	11,023,770	61,285	11,085,055
Guaranteed Bonds	4,566,179	28,316	4,594,495
Income Bonds	11,230,385	23,166	11,253,551
Individual Savings Account	3,763,906	50,527	3,814,433
Investment Account	2,759,212	5,068	2,764,280
Premium Bonds	54,484,085	118,858	54,602,943
Residual Account	613,331	2,723	616,054
Savings Certificates	28,788,894	148,164	28,937,058
Total liability to investors	**123,434,598**	**453,935**	**123,888,533**

Principal liability comprises initial investment plus capitalised interest that has been added to the holding where applicable. Accrued interest and prizes comprise only interest and prizes earned that have not been paid out or capitalised and added to the holding. The accrued interest disclosed above (£453,935,000) is accrued interest in respect of the principal liability to investors. Note 4 discloses accrued interest (£380,438,000) in respect of balances held by the NLF. The difference between these amounts is due to outstanding interest liabilities (£73,497,000) which have been drawn down from the NLF and are pending settlement, such as prizes and interest warrants.

All products are payable on demand and therefore are classified as current liabilities. There is no GEB liability reported as all remaining GEB issues matured and were repaid during 2014–15.

6(b) Prior year

	Principal liability £000	Accrued interest and prizes £000	Liability 31 March 2014 £000
Current liabilities			
Children's Bonds	768,002	19,708	787,710
Direct Saver	4,614,321	–	4,614,321
Guaranteed Equity Bonds	72,534	23,972	96,506
Guaranteed Bonds	5,137,277	36,257	5,173,534
Income Bonds	9,650,056	21,432	9,671,488
Individual Savings Account	3,299,324	61,384	3,360,708
Investment Account	2,945,891	5,423	2,951,314
Premium Bonds	48,199,445	107,262	48,306,707
Residual Account	605,511	2,564	608,075
Savings Certificates	29,700,129	392,183	30,092,312
Total liability to investors	**104,992,490**	**670,185**	**105,662,675**

All products are payable on demand and therefore are classified as current liabilities. GEBs had a five-year term and were repaid at maturity. All remaining GEB issues in 2013–14 were current liabilities as they were repayable within one year.

The GEB accrued interest figure of £23,972,000 represents the fair value of the embedded derivative contained within the GEB products. The GEB principal liability is amortised using the effective interest method as described in note 1.6.

As described in note 2(b), any unclaimed funds from the following closed products were transferred during 2013–14 to the Residual Account: Capital Bonds, First Option Bonds and Pensioners' Guaranteed Income Bonds.

7 Other payables

	2015 £000	2014 £000
NLF	118	137
HM Revenue and Customs	45	118
Agents	1	–
Other payables including sales repayments and evidence of identity repayments	1,636	3,690
Total	**1,800**	**3,945**

8 Movement in net funds held by the NLF

	2014–15 £000	2013–14 £000
Received from the NLF	15,308,570	14,290,727
Paid to the NLF	(31,165,203)	(15,767,143)
Net (inflow) to the NLF	(15,856,633)	(1,476,416)
Interest and prizes payable to investors	(1,646,645)	(1,994,950)
Increase in net funds held by the NLF	**(17,503,278)**	**(3,471,366)**

Cash received from investors is not invested by NS&I but is passed daily to the NLF for all products. Cash is drawn from the NLF for payments to investors as and when required.

9 Cash and cash equivalents

	2015 £000	2014 £000
Balance at 1 April	452,882	500,820
Net change in cash and cash equivalent balances	476,908	(47,938)
Balance at 31 March	**929,790**	**452,882**

All balances were held by the Exchequer. No cash balances were held with commercial banks.

10 Categorisation of financial assets and liabilities

	Note	2015 £000	2014 £000
Assets			
Financial assets measured at fair value through the Statement of comprehensive income	14	–	23,972
Loans and receivables		122,960,543	105,189,766
Cash and cash equivalents		929,790	452,882
Total		**123,890,333**	**105,666,620**
Liabilities			
Financial liabilities measured at fair value through the Statement of comprehensive income	14	–	(23,972)
Financial liabilities measured at amortised cost		(123,890,333)	(105,642,648)
Total		**(123,890,333)**	**(105,666,620)**

11 Market, liquidity and credit risk

NS&I is an Executive Agency of the Chancellor of the Exchequer. NS&I's principal activity is to finance a part of the Government's borrowing by selling savings and investment products to retail savers and investors. Monies received by NS&I are passed to the NLF, which guarantees to honour the product terms and conditions in the form of a 100% HM Treasury guarantee.

NS&I's banking services provider is the Government Banking Service (GBS). GBS has contracted the Royal Bank of Scotland Group (RBSG) and Citigroup to provide transaction processing services for NS&I. Monies held at RBSG and Citigroup are transferred to the Government's accounts at the Bank of England during, and/or at the end of, each day to mitigate credit risks to both NS&I and HM Treasury. In the event that either of the banks were unable to meet their obligations, HM Treasury would step in to provide NS&I with the necessary funds to meet its liabilities to investors as part of the HM Treasury underwritten guarantees. Therefore, NS&I does not face any material credit risk. Credit risk relating to the agents and other debtors is not material and is mitigated by the short settlement periods, which are typically less than seven days.

NS&I has no liquidity risk in respect of customer sales and repayments, as liquidity risk is managed through a main bank account held at the Bank of England and linked to the Ways and Means account at the NLF to ensure a smooth flow of funds between the NLF and NS&I. Interest rate risk belongs to the UK Government and is managed by the NLF in conjunction with the DMO. There is no currency exposure, as all assets and liabilities are denominated in sterling.

12 Product maturity profile

12(a) Current year

All products are repayable on demand. As required by IFRS 7, the undiscounted maturity profile for the total liability for all products is as follows:

	2015 Variable rate, prize-based and index-linked products £000	2015 Fixed rate products £000	2015 Non-interest bearing products £000	2015 Total £000
Maturing in one year or less or repayable on demand	103,551,989	20,277,328	59,216	123,888,533
Total	**103,551,989**	**20,277,328**	**59,216**	**123,888,533**

There are no products maturing in more than one year.

Variable rate products include Direct Saver, Income Bonds, Investment Account and Residual Account. Other products are prize-based Premium Bonds and Index-linked Savings Certificates.

Fixed rate products include Children's Bonds, 65+ Guaranteed Growth Bonds, Guaranteed Bonds and Fixed Interest Savings Certificates.

Non-interest bearing products are historical balances on products which have been closed and maturities which are temporarily awaiting customer instruction.

12(b) Prior year

	2014 Variable rate, prize-based and index-linked products £000	2014 Fixed rate products £000	2014 Non-interest bearing products £000	2014 Total £000
Maturing in one year or less or repayable on demand	95,381,556	10,214,153	67,613	105,663,322
Total	**95,381,556**	**10,214,153**	**67,613**	**105,663,322**

There are no products maturing in more than one year.

Variable rate products include Guaranteed Equity Bonds, Direct Saver, Income Bonds, Investment Account and Residual Account. Other products are prize-based Premium Bonds and Index-linked Savings Certificates.

Fixed rate products include Children's Bonds, Guaranteed Bonds and Fixed Interest Savings Certificates.

Non-interest bearing products are historical balances on products which have been closed and maturities which are temporarily awaiting customer instruction.

13 Fair values of assets and liabilities
13(a) Current year

	2015 Total per accounts £000	2015 Fair value £000
Assets		
Held by the NLF	122,564,773	123,602,571
Cash and cash equivalents	929,790	929,790
Other receivables	395,770	395,770
Total	**123,890,333**	**124,928,131**
Liabilities		
Fixed rate products	(20,277,328)	(21,315,126)
Variable rate products	(103,551,989)	(103,551,989)
Non-interest bearing products	(59,216)	(59,216)
Other payables	(1,800)	(1,800)
Total	**(123,890,333)**	**(124,928,131)**

13(b) Prior year

	2014 Total per accounts £000	2014 Fair value £000
Assets		
Held by the NLF – all products apart from GEB	104,964,574	105,231,799
Held by the NLF – GEB	96,256	96,820
Cash and cash equivalents	452,882	452,882
Other receivables	152,908	152,908
Total	**105,666,620**	**105,934,409**
Liabilities		
Fixed rate products	(10,214,153)	(10,481,378)
GEB	(96,506)	(97,070)
Variable rate products – apart from GEB	(95,284,403)	(95,284,403)
Non-interest bearing products	(67,613)	(67,613)
Other payables	(3,945)	(3,945)
Total	**(105,666,620)**	**(105,934,409)**

Note 12 states which products are in each of the above categories.

There is no material difference between the carrying value and the fair value of the variable rate products, non-interest bearing products, other payables and receivables. The variable rate products in the fair value table include all variable rate, prize-based and index-linked products. The rates for variable rate products are determined by our operating framework and are closely linked to current retail savings rates; therefore they are deemed to be at fair value. The fixed rate products are products with rates being fixed for the duration of the products' term. The fair value of the fixed rate products is derived by discounting future expected cash flows using relevant gilt rates. Any impact of early repayments is ignored, as their impact is immaterial. Subject to timing differences, the fair value of the assets held by the NLF is a mirror of the related liabilities which it guarantees.

There is no GEB disclosure for 2015, because the product closed during this period. Its fair value was previously disclosed separately. The fair value of the GEB product was 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 was calculated by an independent specialist company and provided to NS&I by the DMO. The fair value of the host contract was derived by discounting future expected cash flows at an appropriate zero coupon bond rate. The impact of early repayments on the GEB product had proved to be immaterial, and therefore did not impact on the fair values shown. For each GEB issue, a matched hedge was taken out by the DMO to hedge HM Government's overall exposure.

14 Fair value hierarchy disclosures

IFRS 7 requires financial instruments measured at fair value to be classified into hierarchy levels, which are based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy levels are as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents financial assets and liabilities measured at fair value in the Statement of financial position in accordance with the fair value hierarchy.

	Level 2 2015 £000	Total 2015 £000	Level 2 2014 £000	Total 2014 £000
Assets				
GEB embedded derivative(1)	–	–	23,972	23,972
	–	**–**	**23,972**	**23,972**
Liabilities				
GEB embedded derivative(1)	–	–	(23,972)	(23,972)
	–	**–**	**(23,972)**	**(23,972)**

(1) GEB embedded derivative: When active market prices are not available (for example, for the equity leg of equity index/interest rate swaps), fair values are determined by using valuation techniques that refer to observable market data. Such instruments are classified as Level 2 in the fair value hierarchy defined by IFRS 7. Note 1.9 contains further details of how the fair value of the GEB embedded derivative is calculated.

15 Related party transactions

NS&I is an Executive Agency of the Chancellor of the Exchequer. The Chancellor of the Exchequer is regarded as a related party. NS&I has not undertaken any material transactions with the Chancellor of the Exchequer during the year.

The DMO, NLF and HM Treasury are related parties. NS&I's relationships with these parties are mentioned in the Product Accounts background section, pages 109 to 110, and the Governance statement, pages 46 to 69. In addition, note 4 contains details of the NLF transactions. The Post Office® distributed Premium Bonds during the year and, as a public body, the Post Office® is a related party. Repayments are no longer made to investors through Post Office® channels. The total amount received from the Post Office® during 2014–15 was £3.88 billion (2013–14: £2.18 billion). The outstanding amount due from the Post Office® at 31 March 2015 was £68.05 million (2014: £43.56 million).

NS&I has carried out transactions with HM Revenue and Customs (HMRC) on behalf of investors, in respect of tax deducted at source (2014–15: £27.89 million; 2013–14: £33.88 million) on interest earned on 65+ Guaranteed Growth Bonds and Guaranteed Bonds. The outstanding tax due to HMRC at 31 March 2015 is £0.04 million (2014: £0.12 million). In this regard as a public body, HMRC is a related party.

Neither the Financial Secretary to HM Treasury nor the Economic Secretary to HM Treasury (from April 2014), nor any board member, nor any key manager or other related party has undertaken any material transactions with NS&I during the year. Investments in NS&I products by members of staff are not considered to be related party transactions and are therefore excluded from this declaration. Ministers, board members and key managers are judged to be related parties as they have authority and responsibility for planning, directing and controlling the activities of the entity.

The deposits of Executive and Non-executive Directors, with the exception of Premium Bonds, are disclosed on page 99 of this Annual Report and Accounts and Product Accounts.

16 Events after the reporting period date

There are no reportable events between the Statement of financial position date and 09 June 2015, the date on which these accounts are authorised. The financial statements do not reflect events after that date.

Annex 1: Product Accounts direction

ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 7(2) OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000

1. This direction applies to the Department of National Savings and Investments.

2. The Department of National Savings and Investments shall prepare accounts for its Product Accounts for the year ending 31 March 2014 (and each subsequent financial year) that give a true and fair view of the state of affairs of the Product Accounts at the reporting date and of their income and expenditure and cash flows for the year then ended.

3. The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government *Financial Reporting Manual* (FReM) except to the extent set out below:

   a. a Statement of Comprehensive Income shall be prepared instead of a Statement of Comprehensive Net Expenditure; and
   b. the Statement of Parliamentary Supply and the Statement of Changes in Taxpayers' Equity are not relevant to the Product Accounts.

4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.

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

6. This Accounts Direction supersedes all previous directions.

Ross Campbell
Deputy Director, Government Financial Reporting
HM Treasury
12 February 2014

Section 4

Other Information

Departmental Report information	132
Glossary	137
Contacts and more information	141

Departmental Report information

The 2014–15 Departmental Report information shown in the tables below is not consistent with the information shown in the 2014–15 Accounts. As a result there is no direct link to the Statement of comprehensive net expenditure found in the Accounts.

The differences in the information below and the Accounts are as a result of HM Treasury guidance on Departmental Report content leading to a divergence of treatment of a number of items in departmental budgets, Supply Estimates and the Accounts.

The main difference is that departmental budgets are not adjusted for IFRS and hence they do not reflect the assets brought onto the Statement of financial position following the application of the HM Treasury adaptation of IFRIC 12 – Service concession arrangements. The Departmental Report tables provide information on NS&I's expenditure within resource and capital DEL and resource AME limits. Table 1: Total departmental spending does not include any spending that is classified as non-budget.

There are also further differences brought about by treatments in HM Treasury's required budgetary framework which are not used in the IFRS accounts. The main items of this type are shown below:

- Creation and increases in provisions are within the resource AME limit and also in programme costs.
- Cash payments related to paying off the obligation recognised by a provision are transferred from resource AME to resource DEL. These payments are not recognised as costs in the Accounts.
- Revaluations to properties owned by NS&I are accounted for in resource AME and also in programme costs.
- IFRIC 12 adjustments for depreciation, impairment of assets and transfers to IFRIC 12 capital are accounted for under non-budget and programme costs. They do not feature in the Departmental Report tables.

The above treatments have been used for the figures shown in each year of the Departmental Report and also for plans for 2015–16. As a result, the data shown in this Departmental Report does not directly reconcile to the Accounts.

Table 1: Total departmental spending

	Outturn 2010–11 £000	Outturn 2011–12 £000	Outturn 2012–13 £000	Outturn 2013–14 £000	Outturn 2014–15 £000	Plans 2015–16 £000
Resource DEL						
Section A: Administration	169,103	172,465	167,203	146,990	223,865	148,420
Total resource DEL	**169,103**	**172,465**	**167,203**	**146,990**	**223,865**	**148,420**
of which:						
Pay	9,770	9,695	10,350	11,327	10,811	11,600
Net current procurement(1)	157,545	160,348	154,231	132,978	211,725	133,300
Current grants and subsidies to the private sector and abroad	–	–	–	–	–	–
Current grants to local government	–	–	–	–	–	–
Depreciation(2)	1,026	1,563	1,809	1,872	583	2,700
Other	762	859	813	813	746	820
Resource AME						
Section B: Administration	3,747	639	1,181	347	420	5,300
Total resource AME	**3,747**	**639**	**1,181**	**347**	**420**	**5,300**
of which:						
Pay	–	–	–	–	–	–
Net current procurement(1)	–	–	–	–	–	–
Current grants and subsidies to the private sector and abroad	–	–	–	–	–	–
Current grants to local government	–	–	–	–	–	–
Net public service pensions(3)	–	–	–	–	–	–
Take-up of provisions	480	(107)	6	–	683	300
Release of provisions	(392)	(198)	(16)	(77)	(45)	–
Depreciation(2)	3,659	944	1,191	424	(218)	5,000
Other	–	–	–	–	–	–
Total resource budget	**172,850**	**173,104**	**168,384**	**147,337**	**224,285**	**153,720**
of which:						
Depreciation	4,685	2,507	3,000	2,296	365	7,700

Table 1: Total departmental spending (continued)

	Outturn 2010–11 £000	Outturn 2011–12 £000	Outturn 2012–13 £000	Outturn 2013–14 £000	Outturn 2014–15 £000	Plans 2015–16 £000
Capital DEL						
Section A: Administration	1,415	191	34	1,517	1,383	273
Total capital DEL	**1,415**	**191**	**34**	**1,517**	**1,383**	**273**
of which:						
Net capital procurement[4]	1,415	191	34	1,517	1,383	273
Current grants to the private sector and abroad	–	–	–	–	–	–
Capital support for local government	–	–	–	–	–	–
Capital support for public corporations	–	–	–	–	–	–
Other	–	–	–	–	–	–
Capital AME						
Total capital AME	**–**	**–**	**–**	**–**	**–**	**–**
of which:						
Pay	–	–	–	–	–	–
Current grants to the private sector and abroad	–	–	–	–	–	–
Net lending to the private sector	–	–	–	–	–	–
Capital support for public corporations	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total capital budget	**1,415**	**191**	**34**	**1,517**	**1,383**	**273**
Total departmental spending[5]	**169,580**	**170,788**	**165,418**	**146,558**	**225,303**	**146,293**
of which:						
Total DEL	165,833	170,149	164,237	146,211	224,883	140,993
Total AME	3,747	639	1,181	347	420	5,300

(1) Net of income from sales of goods and services.

(2) Includes impairments.

(3) Pension schemes report under IAS 19 accounting requirements. The figures therefore include cash payments made and contributions received, as well as certain non-cash items.

(4) Expenditure on tangible and intangible fixed assets net of sales.

(5) 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 AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

Table 2: Public spending control

					Supply estimate		Winter supplementary		Final provision	Final outturn	Differences
Resources	Admin £000	Other current £000	Gross total £000	A in A £000	Net total £000	Change in gross provision £000	Change in A in A £000	Change in net provision £000	£000	£000	£000
Spending in DEL	228,067	–	228,067	(32,697)	195,370	26,980	6,000	32,980	228,350	223,865	4,485
Spending in AME	–	5,300	5,300	–	5,300	(3,300)	–	(3,300)	2,000	420	1,580
Total	**228,067**	**5,300**	**233,367**	**(32,697)**	**200,670**	**23,680**	**6,000**	**29,680**	**230,350**	**224,285**	**6,065**

	Supply estimate		Winter supplementary		Final provision	Final outturn	Differences
Capital	Capital £000	Change in gross provision £000	Change in A in A £000	Change in net provision £000	£000	£000	£000
Spending in DEL	273	1,400	–	1,400	1,673	1,383	290

Table 3: NS&I capital employed

	Outturn 2010–11 £000	Outturn 2011–12 £000	Outturn 2012–13 £000	Outturn 2013–14 £000	Outturn 2014–15 £000	Plans 2015–16 £000
Assets on balance sheet at end of year						
Non-current assets						
Intangible	55,726	66,915	65,704	50,645	61,615	60,000
Property, plant and equipment	38,877	28,677	23,231	20,281	23,047	14,000
of which:						
Land and buildings	23,819	18,210	14,643	11,959	12,279	1,500
Information technology	12,383	8,281	6,638	4,662	6,379	8,800
Plant and machinery	435	39	26	214	468	400
Furniture and fittings	2,240	2,147	1,924	2,700	2,370	3,300
Assets under construction	–	–	–	746	1,551	–
Other receivables	–	5,245	4,371	–	–	–
Current assets	4,525	340,297	179,944	23,318	3,758	4,000
Creditors <1 year	(31,330)	(378,201)	(201,837)	(41,830)	(36,061)	(10,350)
Provisions <1 year	(424)	(126)	(132)	(56)	(16)	(16)
Creditors >1 year	(7,616)	(20,832)	(15,486)	(4,601)	–	–
Provisions >1 year	(23)	(16)	–	–	(677)	(661)
Capital employed within main department	**59,735**	**41,959**	**55,795**	**47,757**	**51,666**	**66,973**

Table 4: Administration Budget

	Outturn 2010–11 £000	Outturn 2011–12 £000	Outturn 2012–13 £000	Outturn 2013–14 £000	Outturn 2014–15 £000	Plans 2015–16 £000
Section A: Administration	169,103	172,465	167,203	146,990	223,865	148,420
Total Administration Budget	**169,103**	**172,465**	**167,203**	**146,990**	**223,865**	**148,420**
of which:						
Pay	9,770	9,695	10,350	11,327	10,811	11,600
Expenditure	171,089	194,025	188,738	175,198	227,337	180,120
Income	(11,756)	(31,255)	(31,885)	(39,535)	(14,283)	(43,300)

Table 5: NS&I staff numbers

Staff numbers at:	1 April 2010	1 April 2011	1 April 2012	1 April 2013	1 April 2014	1 April 2015(1)
Permanent	143	140	140	170	164	173
Others	13	17	15	25	14	12
Total	**156**	**157**	**155**	**195**	**178**	**185**

(1) The staff numbers shown in the table above for 1 April 2015 do not agree with the table in note 2 of the Accounts. The figures in the Accounts are calculated by averaging the staff numbers over the year while the numbers above are shown on spot dates.

Table 6: NS&I consultancy and professional services

	Outturn 2010–11 £000	Outturn 2011–12 £000	Outturn 2012–13 £000	Outturn 2013–14 £000	Outturn 2014–15 £000
Consultancy services	1,435	1,776	1,742	789	80
Professional services	5,687	7,846	7,516	6,222	2,149
Contract staff	491	1,795	1,143	451	1,487
Other services	1,656	1,476	1,544	1,920	1,704
Total	**9,269**	**12,893**	**11,945**	**9,382**	**5,420**

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.

Accrued interest
Interest earned by the customer that has not yet been paid out or capitalised.

Annually Managed Expenditure (AME)
Spending which does not fall within Departmental Expenditure Limits (DEL). Expenditure in AME is generally less predictable and controllable than expenditure in DEL.

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 accounts.

Basis point
This is one-hundredth of a percentage point (0.01%).

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

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.

Consolidated Fund
The Consolidated Fund is the Government's general bank account for revenue and expenditure. It is held at the Bank of England.

Contact Centre Association (CCA)
The Contact Centre Association is the leading independent authority on customer contact strategies and operations. It offers accreditation under the CCA Global Standard© – a set of key contact centre operations and customer service principles, which have been defined and agreed by industry experts and stakeholders. Retaining accreditation under CCA Global Standard© V5 is one of NS&I's service delivery measures.

Court Funds Office (CFO)
The Court Funds Office provides a banking and administration service for some 170,000 customers with a total of £2.6 billion cash and £0.1 billion securities held under the control of the civil courts in England and Wales, including the Court of Protection.

Departmental Expenditure Limit (DEL)
Expenditure limit within which a government department has responsibility for resource allocation.

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 1972 and the National Savings Bank Act 1971. Since we became an Executive Agency, the Director of Savings has also been the Chief Executive and the Accounting Officer.

Equitable Life Payment Scheme
Established by the Government to 'implement the Parliamentary and Health Ombudsman's recommendation to make fair and transparent payments to Equitable Life policy holders, through an independent payment scheme, for their relative loss as a consequence of regulatory failure'. (*The coalition: our programme for government,* Cabinet Office, 2010).

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

Financial Conduct Authority (FCA)
The FCA is the UK's independent body responsible for regulation of conduct in retail and wholesale financial markets and some prudential regulation.

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

Fixed term
The period of time for which the interest rate is fixed.

Gilts (or gilt-edged stock)
Gilts are UK Government securities issued by HM Treasury and listed on the London Stock Exchange.

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

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 through this process.)

Index-linked
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 measure of inflation.

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

Issue
Our fixed rate products are sold in Issues, each with its own guaranteed interest rate. We periodically bring out a new Issue and always do so when the fixed rate on offer changes.

Main Estimate
The means through which departments seek Parliamentary approval for their spending plans for the year ahead. Presented to Parliament within five weeks of the Budget Statement.

National Loans Fund (NLF)
The National Loans Fund is the Government's main account for borrowing and lending. It is administered by HM Treasury with the bank account maintained at the Bank of England.

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.

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

Reserve Claim
As part of the spending plans announced in Spending Reviews, the Government allocates a Reserve for genuinely unforeseen contingencies that departments cannot absorb within their Departmental Expenditure Limit (DEL).

Where a department makes a reserve claim it is subject to an assessment of need, realism and affordability at the time at which the funds are released and requires approval by the Chief Secretary to the Treasury. Support from the Reserve to departments' resource or capital DELs is non-recurrent, i.e. it will not affect departments' Spending Review baselines.

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

Spending Review
Spending Reviews set budgets for government departments. They outline the improvements that the public can expect from government spending.

Supplementary Estimate
The means by which departments seek to amend Parliamentary authority provided through Main Estimates by altering the limits on resources, capital and/or cash or varying the way in which provision is allocated. Normally presented in January of each year.

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 the Value Indicator.

Tax-free
When used in the context of NS&I products, this means that interest earned or prizes won are exempt from UK Income Tax and Capital Gains Tax.

Treasury Bills
Treasury Bills are ultra short-term government bonds. They do not earn interest. Instead, they are sold at a discount to their face value.

UK Debt Management Office (DMO)
Part of the Treasury group 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.

Unclaimed assets
Savings or investments belonging to a customer with whom we have lost contact. Customers who think they have unclaimed assets can contact us to trace them through www.mylostaccount.org.uk.

Value Indicator
An indication of our cost-effectiveness in raising finance for the Government. It compares the total cost of delivering Net Financing and servicing existing customers' deposits with how much it would cost the Government to raise funds through the wholesale market via equivalent maturity gilts.

Calculating the Value Indicator
First we calculate the cost of delivering Net Financing and servicing existing customers' deposits by adding together:

- the cost of interest and, for Premium Bonds, prizes earned by investors in NS&I's products
- management costs to deliver NS&I products (less the equivalent management costs of running the Debt Management Office which issues government gilts; and less the revenue NS&I receives for providing payment processing services for other public bodies, like the Equitable Life Payment Scheme)
- tax foregone on NS&I's total stock of tax-free products (i.e. tax revenue potentially not received by HM Treasury for NS&I's tax-free products, such as Savings Certificates).

We then calculate the comparator cost to the Government if it were to replace all the deposits held by NS&I through the wholesale markets in the following way.

- Fixed rate products: we compare the interest cost for each of our fixed rate products and terms (i.e. Savings Certificates and Guaranteed Growth/Income Bonds across 1-, 3- or 5-year terms) with the interest cost of an equivalent maturity gilt. So the interest costs of a 5-year term of NS&I's Fixed Interest Savings Certificates is compared with the interest costs of a 5-year gilt; a 3-year term of NS&I's Guaranteed Growth bonds is compared with a 3-year gilt.

These costs are calculated on a term-by-term and product-by-product basis then added together to give a total comparator cost for our fixed-term products.

- Variable rate products: we calculate the average length of time our customers hold a variable rate product and then compare the interest cost of delivering this with the cost of delivering an equivalent maturity gilt.

We then add the comparator costs for fixed and variable rate products together.

The cost of delivering Net Financing and servicing existing customers' deposits is then subtracted from the total comparator cost figure to give the Value Indicator figure.

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.

Contacts and more information

We want to make it as easy as possible for you to contact us at any time in a way that is convenient to you.

Internet

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Write to us at

NS&I, Glasgow G58 1SB

Thank you

NS&I would like to thank all colleagues for their contribution to the 2014–15 Annual Report and Accounts.

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nsandi.com

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