National Savings and Investments
Annual Report and Accounts
and Product Accounts 2012–13

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National Savings and Investments
Annual Report and Accounts and Product Accounts 2012–13

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Any enquiries regarding this publication should be sent to us at National Savings and Investments, Glasgow, G58 1SB, or alternatively email us at enquiries@nsandi.com

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Who we are

NS&I (National Savings and Investments) is one of the largest savings organisations in the UK with over 25 million customers and more than £102 billion invested. NS&I is both a government department and an Executive Agency of the Chancellor of the Exchequer.
Its 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, stock market linked returns or prizes for Premium Bonds. We offer 100% security on all deposits.

Our values

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.

Our vision

Service, Value and Trust

Our mission

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

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

It is no coincidence that this statement sits opposite a page showing NS&I's values. These values are at the heart of the way NS&I works and, looking back on this year and the key events that have shaped it, the organisation has risen to the challenge of living up to them all.

To start, take straightforwardness: as this report shows, in 2012–13 our Net Financing figure was -£666 million, within our initial target range of £0 (+/- £2 billion). Yet there was a point in the year when our forecasts indicated that we risked dipping below that level. By late November 2012, we were forecasting a Net Financing figure of -£2 billion, amid predictions that market conditions would worsen.

Rather than shying away from that, we agreed a revised target of -£1 billion (+/- £2 billion) with HM Treasury, to ensure that we could adhere to our operating framework of balancing the interests of our savers with the delivery of cost-effective Net Financing and the stability of the broader financial services sector. We published this revised target as a way of ensuring that the wider savings market was aware of our position.

Our Value Indicator target was adjusted at the same time, reflecting the extraordinary market conditions which meant that, over the course of the year, gilt yields were at or close to historic lows. As a result, for the first time since we have actively measured it, it was cheaper for the Government to raise funding through gilts than through NS&I and the retail savings market. While still tasked with delivering positive value, we were set a lower limit with a target of no lower than -£320 million.

Again, we published this change to our target and made clear why it was appropriate. In this case, if we had sought to deliver a positive Value Indicator figure we would have had to reduce rates on our products to levels that were unfair for savers. The final Value Indicator figure was -£249 million; a dip this year but one that sits within the context of some £2.3 billion of value generated over the four years since the Value Indicator was introduced.

By publishing these changes in clear terms, even with the knowledge that further market fluctuations might render them unnecessary, we made sure that the financial services industry and savers knew exactly what our financial position was and – more importantly – how we intended to respond. To me, it demonstrates not only straightforwardness, but also our core value of integrity.

This value was further underlined by the manner in which NS&I has conducted the re-tender for our operational services contract. As a board, we went to great lengths to satisfy ourselves that the re-tender process was fair and robust. I have great confidence that it was but, perhaps more importantly, it was also recognised as fair by the non-incumbent shortlisted bidders.

This matters because this outsourcing contract is one of the largest Public Private Partnerships in the UK. The responsibility for getting it right is immense – not simply from the process point of view, but in terms of picking the best supplier to do the job. This has involved not only the re-tender team, but many others across the business. Over 35 staff in different parts of the business were involved in the evaluation, drawing on their specialist knowledge to assess each bidder's proposal. The selection of Atos is one I am confident will deliver the goals of the contract in terms of further efficiencies, further modernisation and maintaining outstanding customer service.

Our commitment to customer service was once again in evidence throughout the year, with satisfaction and retention levels very high – particularly impressive given the level of change to the customer offer. As this report explains, some products have been closed, and others simplified and updated, as they have been moved to the new banking platform. This has allowed us to extend secure online services to the majority of our products.

All this is the cumulative result of a gathering momentum over recent years and, while the speed of change this year has been greater than ever, the effort made to ensure that customers were prepared for these changes has been considerable. To me, this is evidence of a strategy delivered with a human touch, pace and confidence. It provides an excellent foundation on which the new contract and the next chapter in NS&I's story can begin.

John de Trafford

Sir John de Trafford Bt. MBE
Chairman
NS&I

For details of the board's composition, committees and activities, please see the governance statement on pages 31 to 42.

Chief Executive's review

Since 2007, NS&I has followed a strategy to improve customer service by modernising our operations and simplifying our product range. This year, that strategy neared completion. As I write this review, most of our current products are hosted on our new banking platform, following the migration of fixed-term products last summer and Income Bonds in April 2013. Our range is streamlined, and terms and conditions consistent and clear. Many customers can view their NS&I holdings through our secure website, which is also an increasingly popular way of managing their savings. There remain a few final elements to complete, but we are exactly where we expected to be at this point in time.

The scope, ambition and complexity of the strategy means that delivering it has been no small achievement. It has involved the development and testing of new systems, the secure migration of millions of customer records, changes to secondary legislation and product terms and conditions, and some difficult decisions about the future of some of those products. It has also meant significant volumes of customer communications at each step, regular retraining for our operations and contact centre team and a lot of late nights for many of those leading the transformation – all while maintaining business as usual, which for us means handling many millions of customer interactions each year.

I am delighted that we are now on the home straight in terms of our modernisation programme, in readiness for the next, significant period of change: the start of our new operational services contract in April 2014. We announced in May 2013 that the contract was awarded to Atos after a rigorous, competitive bid process, which is described in more detail in the re-tender section of this report. I look forward to working with them on the new contract.

Net Financing in a shifting market

While the significant achievements of the modernisation programme and re-tender will be my abiding memories of the year, they were undertaken to help us with our overall mission of reducing the cost to the taxpayer of government borrowing now and in the future. Our success in doing so is measured against our two headline targets – Net Financing and the Value Indicator. Complex market conditions created significant challenges in achieving these targets this year, but ultimately I am pleased to report we did so.

Our Net Financing target for 2012–13 was £0 (with a range of £2 billion either side). By the third quarter, retention levels had remained strong (meaning few customers were withdrawing money) and in line with our forecasts, but we had seen a marked decrease in new sales. By December 2012 our Net Financing forecast for 2012–13 was -£2 billion – within, but at the very bottom of, our target range. At this point too, wider market forecasts indicated that the figure was more likely to worsen than improve.

We discussed the implications of this with HM Treasury, and agreed that – in line with our operating framework, which seeks to balance the interests of our savers, taxpayers and the stability of the broader financial services sector – we would not actively seek the volume of sales that would be needed to ensure we hit the Net Financing target. Instead, to maintain transparency to other financial services providers, we published our revised Net Financing forecast, of -£2 billion, on the same day as the Chancellor's Autumn Statement. In that Statement, the Chancellor announced that our Net Financing target would also be revised to -£1 billion, enabling the wider market to understand our intentions.

During the final quarter of the year, however, the markets changed again – and against wider expectations. Our already strong retention levels increased still further which lessened expected outflows of deposits. Our capitalised and accrued interest figure for 2012–13 also increased against forecast, mainly as a result of changes in the Retail Prices Index against that which was originally forecast. These two factors, combined with a very modest increase in sales levels, led to a final Net Financing figure of -£666 million – comfortably within the revised target range. It is also worth placing this figure within the context of our contribution to the Government's debt financing requirement over a number of years. Over the last four years, NS&I has delivered some £5 billion of Net Financing.

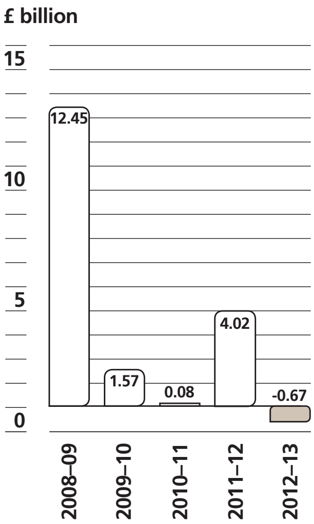
Delivering long-term value

The Autumn Statement also announced a change to our Value Indicator target. Our original target for the year was to deliver positive value; this was changed to include a new lower limit of -£320 million, in recognition of exceptional external market conditions.

It is important to be clear what this target means. Our Value Indicator is a comparative figure, which is designed to indicate whether we are providing a cost-effective source of funding for government, and hence reducing the cost of borrowing. The comparison is made with other sources of funding, most notably gilts. Over the course of the year, gilt yields were close to historic lows, well below the assumed levels on which NS&I's initial target had been based. As a result, for the first time since we actively measured our value, raising money through NS&I was more expensive than through wholesale markets.

We examined all possible options to enable us to deliver positive value. But comparator gilt yields had fallen to such a low level that, even were we to reduce our interest rates to absolutely minimal levels, there was no guarantee that we would have delivered positive value. Taking such action would also not have been compatible with balancing the interests of our savers, the taxpayer and broader financial stability in a time of extreme market conditions. Therefore, HM Treasury adjusted the target to include a lower limit.

Net Financing



Our final Value Indicator figure for 2012–13 was -£249 million, well within the revised target range. As noted earlier, over the last four years we have delivered value of £2.3 billion – as measured by the Value Indicator.

In 2013–14, we have been tasked by HM Treasury to deliver £0 of Net Financing (with a range of £2 billion either side). While this target, to broadly balance deposits and withdrawals, means we will not be able to return Index-linked Savings Certificates to sale, we would like to be able to put our other fixed-term products, such as Guaranteed Growth Bonds, Guaranteed Income Bonds and Fixed Interest Savings Certificates, back on sale during 2013–14, subject to market conditions.

Our Value Indicator target for 2013–14 once again is to deliver positive value, but the lower limit of -£320 million has been retained to reflect historically low gilt yields. This means we can continue to meet our operating framework of balancing the interests of savers, the taxpayer and the stability of the broader savings sector.

Demonstrating and driving efficiency

NS&I creates value in a number of ways outside the Value Indicator measure. For example, we monitor closely our efficiency ratio, which assesses how cost-effectively we manage the £100 billion-worth of funds we hold. This year, the ratio improved further, to just 16 basis points, which compares extremely well with the private sector.

To give us the best possible platform to achieve efficiency improvements under the new contract, it was imperative that we completed our modernisation programme on time. As part of the re-tender process, we stated clearly to all three shortlisted bidders (Atos, Capita and Hewlett Packard) exactly what our operating environment would be from 2014. This enabled them not only to calculate realistic costs, but also to make relevant proposals for further service improvements. In some ways too, it challenged them to be more ambitious, because we had already made the most obvious savings.

The result is, I believe, a partnership programme that will deliver better value for NS&I and hence for the taxpayer, both in the immediate term and over the full duration of the contract, which will see a step-change in our operating efficiency. It is also helping shape our next five-year strategy and further enhancements to services for our customers. I would like to thank all three of the shortlisted bidders for their engagement with us, over a sustained period, and further thank those organisations that took part in the process at an earlier stage.

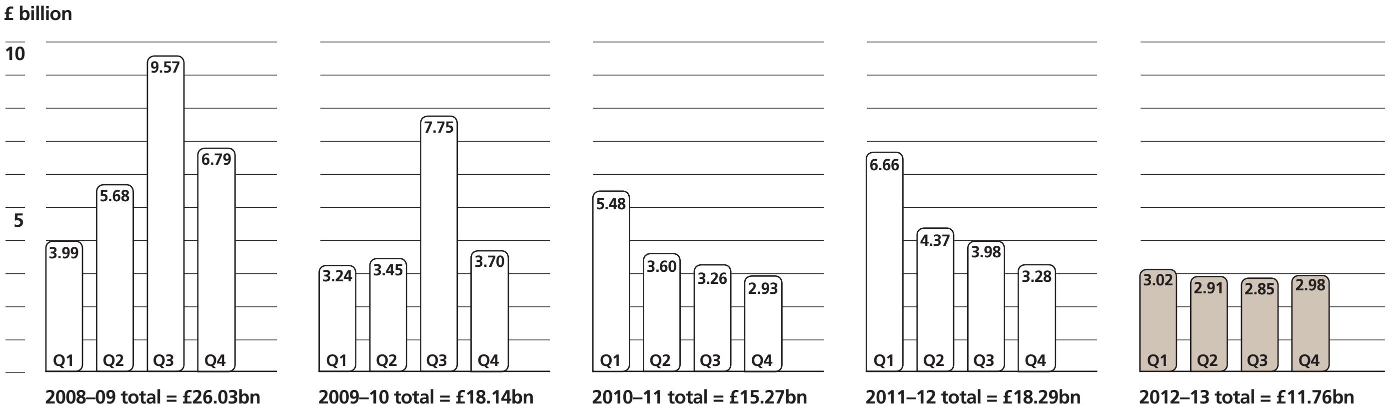
Maintaining service standards

While looking forward to the new contract, it is important too to acknowledge the work of the team at Atos over the last year. They adapted willingly to the essential changes in our everyday working relationship that we introduced as part of the re-tender process, and I am sure will be glad to be able to visit us unescorted once again. More importantly, their performance remained at the high level we have come to expect, both in everyday operations and in helping us deliver our modernisation programme.

The evidence of that can be best seen in our service delivery measures for customer satisfaction and service, all of which we met once again despite considerable change from the customer perspective. We have well-established processes for keeping customers informed. In fact, retention has been above our expectations given the changes we have made to products such as the Investment Account, which is now postal only, and Children's Bonds – which can now be purchased only by phone, online or by post. An overwhelming majority of Investment Account customers remained in the product, or switched to another NS&I product.

The strength, flexibility and quality of our direct channels – phone, post and online – have been tested repeatedly over the past few years and proved their reliability. Independent confirmation of that came through our retention of the Customer Service Excellence accreditation with excellent results. This year, once again, use of online services has increased and the range of functionality on the website broadened. To reflect this we have expanded our key targets, called service delivery measures, to include a new target for 2013–14 which covers availability of our online services, and we agreed to pursue a specific independent accreditation for our contact centre – through the Contact Centre Association – rather than seeking the broader Customer Service Excellence award again. Focusing specifically on each of

Gross inflows to NS&I (including reinvestments)



these digital channels is essential as we continue to move more of our business to them. Our service delivery measures, and performance against them, are detailed on page 8.

Extending our business-to-business services

This year has also seen the further development of our business-to-business services. Launched in 2011–12, these services involve us leveraging our infrastructure and expertise to provide transaction processing to other government departments as a means of helping us become increasingly self-funding. In addition, it improves the efficiency of our clients' operations, which in turn helps reduce operating costs across government as a whole.

The impact of this has been well demonstrated at the Court Funds Office, for which we took on banking and administration services in December 2011. Latest evaluations show that we have reduced its operating costs by some 25% per annum. We have also continued to deliver the Equitable Life Payment Scheme. We now have a third contract which will start in July 2013, taking over visa payments processing and related services for the Home Office's in country immigration application service, with the aim of delivering cost savings of around 10%.

The role of our people

As ever, such successes as these, and our modernisation programme, can only be delivered through the commitment of our people. I'd like to thank them once again for all their efforts, delivering change while maintaining business as usual. The Civil Service-wide staff survey demonstrated again that NS&I benefits from a high level of employee engagement – well above the Civil Service high performance benchmark. The results of that can be seen in our wider business performance.

I would also like to acknowledge the commitment of the staff who work for our delivery partner, and who themselves have had to go through a period of considerable uncertainty during the re-tender process. Their performance too has been exceptional, and as they become accustomed to the changes within the partnership, I'd like to assure them we will continue to support them; we know what an asset they are.

A platform for the future

I would like to thank the Treasury for their frankness and openness throughout the year, particularly in their willingness to address the exceptional market circumstances outlined above and for their input to the re-tender process. Finally, I am grateful as ever to the NS&I board for their invaluable input, both in understanding our challenging environment and setting our path for the future. I know the board shares my satisfaction at the delivery of the programme – and my excitement as we look ahead.

Jane Platt

Jane Platt
Chief Executive
NS&I

12 July 2013

Management commentary

Strategy and performance

Our strategy

NS&I direct+ is our business strategy, announced following the Spending Review 2010. It sets out NS&I's role in delivering the Coalition's programme for government. It seeks to balance the interests of our customers, taxpayers and the stability of the broader financial services sector. The strategy is on course to be completed on schedule by the end of 2013–14, and the table below summarises progress made during 2012–13 against its core objectives.

Objective	Progress during 2012–13
Delivering the agreed Net Financing target each year	We met our Net Financing target in 2012–13. This target was revised in the Chancellor's Autumn Statement in December 2012, from £0 (+/- £2 billion) to -£1 billion (+/- £2 billion). For more detailed commentary on this, please see the Chief Executive's review (pages 4 to 6).
Delivering positive value as measured by the Value Indicator	Our Value Indicator figure was -£249 million this year. This means that this year, overall, it was more cost-effective for the Government to raise and service finance through the wholesale market – the first time this has been the case since we started actively measuring value. This reflects gilt yields being close to historic lows over the course of the year. This was recognised by HM Treasury in the Autumn Statement where our target for the year was revised to include a lower limit of -£320 million. For more detailed commentary on this, please see the Chief Executive's review (pages 4 to 6).
Accelerating the move to direct channels for our retail customers	All NS&I products are available directly from NS&I either by phone, online or by post. Premium Bonds are also available at the Post Office®. Other key changes during the year, which had already been announced, included Investment Account becoming a postal-only product in May 2012; the closure of the Easy Access Savings Account in July 2012; and the closure (May 2013) of Cash ISA and T Cash ISA – with customers holding these ISAs being transferred automatically into NS&I's Direct ISA. For more detailed commentary on this, please see Our customers (pages 11 to 15).
Completing our modernisation programme to ensure that we have a low-cost business model	All current products now run on our new banking system and the majority are now available on our website. Product terms and conditions have been simplified and inconsistencies removed. An increasing proportion of customer communications is delivered via email rather than post. These changes have helped reduce our operating costs.
Delivering the business-to-business plan, providing services to other government departments and third parties	We have continued operations on our business-to-business contracts to deliver payments for the Equitable Life Payment Scheme and the Court Funds Office (CFO). The CFO has stated it has reduced its annual operating cost by over 25% since contracting NS&I. In July 2013, we began a third contract, with the Home Office for delivery of in country immigration application payments processing and related services. Together, these contracts are generating the volume of revenue we had sought at this stage as we move towards becoming increasingly self-funding. For more detailed commentary on this, please see Our customers (pages 11 to 15).
Ensuring the continuation of high-quality, cost-effective operational services beyond the 2014 re-tender	In May 2013, we announced that Atos had been selected to take on the Public Private Partnership (PPP) contract for NS&I from April 2014 after a rigorous re-tender process. For more detailed commentary on the process, the winning bidder, and the performance of the partnership in 2012–13, see The re-tender (pages 17 to 18) and Operational delivery (page 16).
Continuing our risk and compliance plan	We have an established Risk Management Framework and, on a voluntary basis, aim to comply with regulatory requirements where applicable and appropriate. Further details of our risk and compliance plan are included in our governance statement on pages 40 to 42.

Our performance in 2012–13

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.

Goals and objectives	Measure	Perfomance 2011–12	Target 2012–13	Perfomance 2012–13	Target 2013–14
1. Net Financing To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from NS&I products	£4.02 billion	-£1 billion (+/- £2 billion)	-£666 million	£0 billion (+/- £2 billion)
2. Value Indicator To create at least an agreed minimum amount of value, measured using the Value Indicator	Absolute amount of value from NS&I products	£420 million	Deliver positive value (with lower limit of -£320 million)	-£249 million	Deliver positive value (with lower limit of -£320 million)
3. Customer satisfaction To exceed a threshold level of customer satisfaction with NS&I (1)	Average level of satisfaction against question, 'Taking everything into account, how would you rate NS&I's customer service?'	88%	At least 87%	88%	At least 87%
4. Customer service – timeliness To meet a consistently high timeliness target	Average performance against timeliness key performance indicator (KPI) targets	97.9%	At least 97%	99.2%	At least 97%
5. Customer service – accuracy To meet a consistently high accuracy target	Average performance against accuracy KPI targets	99.2%	At least 98.5%	99.4%	At least 98.5%
6. Efficient administration of funds To demonstrate efficiency of administering funds	Ratio of total NS&I administrative costs to average funds invested by customers	17 basis points	Fewer than 19 basis points	16 basis points	Fewer than 19 basis points
7. Customer Service Excellence accreditation To maintain our current Customer Service Excellence accreditation following the annual assessment (2)	A Cabinet Office approved external assessment body confirming overall accreditation following its annual assessment	Full accreditation achieved across all 57 areas	Maintain accreditation	Full accreditation maintained	Accreditation under Contact Centre Association Global Standard version 5
8. Financial Ombudsman Service (FOS) To minimise the incidents where FOS intervention is justified	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	0.07%	Less than 0.5% of total complaints raised found against us by FOS	0.18%	Less than 0.5% of total complaints raised found against us by FOS
9. Fraud To improve the effectiveness of fraud management	The cost of fraud as a percentage of total stock	0.00042%	Below 0.001% of average funds invested by customers	0.00051%	Below 0.001% of average funds invested by customers

(1) From April 2012, this metric covered service through NS&I's direct channels – the website, telephone and post – only. Previously, it had also included service at the Post Office.

(2) Reflecting NS&I's move to become a direct focused business, in agreement with HM Treasury, from April 2013, NS&I will seek re-accreditation under the Contact Centre Association Global Standard version 5 as our SDM rather than Customer Service Excellence. More details about this standard can be found at www.cca-global.com/gsx/content/awards/?contentid=115. Also in 2013–14, NS&I will have an additional customer service SDM covering online availability – reflecting the importance of this channel as NS&I becomes a direct focused business. The target for 2013–14 is at least 97% online availability.

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 PPP contract and the payments made to the Post Office.

The basic payment to our delivery partner (the unitary fee) reduces over the life of the partnership as a result of the gains from capital investment and operational efficiency brought about by the agreement. The partner also receives variable payments based on transaction volumes and new product and service channel developments.

In 2012–13, NS&I's actual net resource requirement was £168.4 million, which is £7.6 million lower than the net resource requirement approved in the 2012–13 estimate. It is £4.7million lower than the net resource outturn in 2011–12. The following table provides a more detailed comparison of NS&I's 2012–13 outturn with the 2012–13 estimate.

Comparison of outturn with estimate (1)

	2012–13 Outturn £million	2012–13 Savings compared with estimate £million	2011–12 Outturn £million	2011–12 Savings compared with estimate £million
Net resource requirement	168.4	7.6	173.1	7.8
of which:				
Departmental Expenditure Limit (DEL) (2)	167.2	2.8	172.5	1.1
Annually Managed Expenditure (AME) (2)	1.2	4.8	0.6	6.7
Non-budget adjustments (3)	(7.4)	7.4	3.5	(3.5)
Net operating cost (Accounts)	**161.0**	**15.0**	**176.6**	**4.3**
Capital expenditure (DEL)	0.0	0.2	0.2	0.3
Non-budget adjustments (3)	17.0	(17.0)	24.4	(24.4)
Total capital expenditure (Accounts)	**17.0**	**(16.8)**	**24.6**	**(24.1)**
Net cash requirement	**175.2**	**2.4**	**161.6**	**12.3**

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

Savings achieved against the approved net resource requirement

The variance against the net resource requirement is mainly due to a combination of savings on outsourcing 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)

	2012–13 £million	2012–13 £million
Lower than expected transaction volume costs	(4.0)	
Additional project costs	5.4	
Deferred property asset management project	(1.9)	
Lower operational change costs	(2.1)	
Lower depreciation costs	(0.7)	
Other differences	0.5	
Total DEL underspend		**(2.8)**
Lower than expected requirement for provisions	(0.3)	
Lower than expected impairment charge for NS&I properties	(4.5)	
Total AME underspend		**(4.8)**
Total underspend against estimate		**(7.6)**

(1) Figures are presented here to the nearest £0.1m. Note 2.1 on page 55 provides figures to the nearest £1,000.
(2) See the glossary for definition of these terms.
(3) Non-budget adjustments reflect the different treatment of items between DEL set by Parliament and the accounts, which are prepared in accordance with International Financial Reporting Standards.

Financial position

The Statement of financial position on page 47 shows NS&I's assets, liabilities and taxpayers' equity. It shows that as at 31 March 2013, NS&I's capital employed (being total assets less total liabilities) was £55.8 million, £13.8 million higher than as at 31 March 2012. Table 3 on page 95 at Annex 2 summarises the movements in capital employed from 2006–07.

Non-current assets decreased by £7.5 million, due to a fall in the value of NS&I's property portfolio following a professional revaluation, and depreciation/amortisation of other non-current assets.

Current assets, excluding client funds, fell by £1.0 million. Total liabilities, excluding client funds, fell by £22.4 million driven by a significant fall in trade payables and accruals.

Suppliers

Payment of suppliers: policy and performance

NS&I is committed to a policy of prompt payment and is a signatory to the Better Payment Practice Code. 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. For 2012–13, the average time taken to pay suppliers was 10 days.

In 2012–13, NS&I paid 96.5% (2011–12: 96.1%) of bills within this standard. The Government made a commitment to speed up the payment process for small and medium-sized enterprises (SMEs). HM Treasury's *Managing Public Money* guidance states: 'Public sector organisations should aim to pay suppliers wherever possible within 10 days.' NS&I has followed this commitment and implemented a process to pay SMEs within 10 days of acceptance of the relevant goods or services, or receipt of a legitimate invoice if that is later.

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.

Our customers

In 2012–13, our long-term strategy to modernise our customer experience reached a major milestone. Customers can now log on and view many of their holdings of NS&I products on a single screen, as well as benefiting from the ability to manage their savings online and by phone. Over 1.5 million customers have now registered to manage their accounts online and by phone. The form to apply for online and telephone banking was downloaded more than 650,000 times in the last year alone.

But the strategy was as much about simplification as modernisation. NS&I's product range had grown over decades to include a number of products that no longer reflected the way people saved. Others, launched many years ago, still operated under their original terms and conditions, which differed considerably from product to product. Over the last few years, we have worked extensively to identify these differences and replace them with clearer and more consistent terms that not only add clarity from a customer perspective but also make the products easier to manage internally.

For example, we now have the same minimum age of investment, 16 years, across our entire product portfolio. We have replaced passbooks with transaction records and annual statements. We now contact customers 30 days in advance of investments reaching maturity across all five fixed-term products, and we have also simplified interest rates, replacing tiered rates with a straightforward single rate of interest.

Making these changes has been no small task. We have had to migrate large volumes of customer records and in some cases request changes to secondary legislation. We ensured that customers knew about and understood each change and were aware of the options available to them – particularly where we have made the decision to close products. That meant providing extensive notice of all changes and closures, and making sure that whenever customers were obliged to move, they were offered, where possible, an alternative NS&I product with a better rate.

Changes to our portfolio

To minimise the impact on customers, the changes have taken place in distinct steps. The first few of these were detailed in previous reports; this year, the pace of change has accelerated.

- In May 2012, our Investment Account returned to general sale as a postal-only account. This had been announced in November 2011, and meant that customers could no longer transact at the Post Office. Customers were offered the option of either the postal-only account or our Direct Saver account which is operated by phone and online and pays a higher interest rate – or requesting their balance to be repaid in full.
- In July 2012, the Easy Access Savings Account closed. This was announced in November 2011, with customers being given the choice of transferring either to Direct Saver or the Investment Account. If customers did not make a choice in advance of closure, we repaid their balance directly to their nominated bank account. Where we were unable to do so, we will hold the money in our Residual Account until the customer makes contact with us.
- In August 2012, we announced changes to all new Issues of our fixed-term products: Index-linked Savings Certificates, Fixed Interest Savings Certificates, Guaranteed Growth Bonds, Guaranteed Income Bonds and Children's Bonus Bonds. These started to take effect from September 2012, and included the renaming of the latter as Children's Bonds, reflecting the replacement of the 'bonus' payable on the fifth anniversary of investment with a higher flat rate of interest. We also standardised terms and conditions as outlined above and introduced penalties for early repayment/encashment of Savings Certificates and Children's Bonds. These were similar to those already in place for Guaranteed Growth Bonds and Guaranteed Income Bonds – the penalty is designed to encourage the saver to hold the product for the full term, as opposed to previously when an escalating interest rate was used to do this. Escalating interest rates were removed and replaced with a single, straightforward interest rate across the term of the product.
- At the time of the change in August 2012, only Children's Bonds were on sale, so for most customers this meant that no action was required until their investments reached maturity. Upon reaching the end of their term, eligible customers can renew their investment for another term – and can then manage the investment online and by phone.
- However, current Issues of fixed-term products, with start dates before 20 September 2012, are not visible online; instead, customers must continue to manage these holdings using existing processes. This is an interim process and means that, over the next few years, as each Issue of the products reaches maturity, all future renewed investments will be made using the new infrastructure. This will enable all product holdings eventually to be managed online, by telephone or by post. We recognise that this phased approach has caused some frustration, but we have taken extra steps to ensure that customers are aware of the situation and understand the reasons for this approach.
- In January 2013, we announced some changes to our ISA range to take effect from May 2013. Notably, these included the closure of our T Cash ISA and Cash ISA, with some 85,000 customers transferring into our Direct ISA, offering them a significant interest rate increase. We also reduced the minimum investment level in Direct ISA from £100 to £1.
- In April 2013 – outside the reporting year – we moved Income Bonds on to our new banking system. This means that Income Bonds customers can now manage their holdings online, by phone or by post.

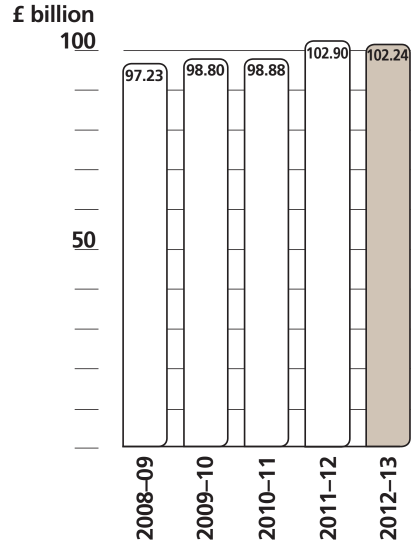
Unclaimed assets(1)

	Estimate: held at 1 January 2013 £ million	Estimate: held at 1 January 2012 £ million
Accounts	545	522
Certificates	832	575
Bonds	1	2
Other products(2)	27	28
Unclaimed Premium Bond prizes	9	9
Total	**1,414**	**1,136**

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

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

Total amount invested by customers at the end of the year



01 Annual Report

The table on page 14 provides a quick summary of our product range.

Along with the changes to our products, we have also announced further changes to our partnership with the Post Office. Since September 2012, the only product available for purchase at the Post Office is Premium Bonds. From April 2013, customers have only been able to purchase these by cheque or debit card; cash sales are no longer allowed. NS&I brochures are no longer on display in post offices, though Premium Bonds brochures are available on request.

These changes are consistent with our overall direction of the last few years, which has seen a greater emphasis on direct channels as the Post Office expands its own range of financial services products.

In March 2013, we wrote to customers who used NS&I's Welsh Language Service to inform them that the service would close in April 2013. Although it had been available since 1998, the service was used by only 107 customers, 0.007% of the NS&I customers who live in Wales. The total cost of delivering the service was around £96,000 per year (£900 per customer) meaning it was not a cost-effective use of public funds (costs and usage data as at February 2012).

Customer retention and satisfaction

At each stage in the product modernisation process we kept customers informed through direct mail/email, as well as via intermediaries, the media and press advertising. The overwhelming majority of customers chose to remain with us. In fact, retention rates have been at their highest level for many years. Customer satisfaction levels have also remained above our targets.

Naturally, not all customers welcomed the changes, and some changes in particular generated complaints – notably about Children's Bonds which can no longer be renewed past the age of 16. Previously, although a child could access the money when they turned 16, the investment could continue to be held until their 21st birthday.

We aim to handle any complaints received as quickly as possible. Over the last year, we have made improvements to our complaints handling process in line with changes to complaints handling rules made by the Financial Services Authority, which means that if customers are unhappy with the way we handle a complaint, they are invited to refer it directly to the FOS, rather than to an independent customer relations manager at NS&I.

Figures published by the Ombudsman show that from July to December 2012, the FOS received 114 complaints about NS&I, compared with just 47 in the previous six months, and fewer than 40 in successive corresponding periods before that. This overall level of complaints referred still compares very well with other financial services organisations. We measure our performance more specifically on the proportion of cases which the Ombudsman resolves in favour of the customer. In the period from July to December, that proportion was 18%, which means we are ranked 5th out of 57 businesses in the banking and credit sector and joint 23rd out of all 197 businesses for which the Ombudsman collects data.

We remain committed to minimising the level of cases in which the Ombudsman needs to intervene, and to operating within the parameters of the Treating Customers Fairly (TCF) agenda. We review our processes and performance against key TCF criteria. As reported elsewhere, we have also maintained Customer Service Excellence accreditation, and were deemed to deliver best practice in 14 of the 57 areas of assessment – up from 10 last year. Customer Service Excellence, in its Compliance Plus Report, confirmed that the total of 14 best practices places NS&I with Atos at the forefront of the nearly 2,000 organisations accredited to the Customer Service Excellence standard.

Continuing to invest in the customer experience

While the main phases of our modernisation programme have now been completed, we are continuing to invest in enhancing the customer experience. In April 2013, we launched a YouTube channel, with videos also accessible via **www.nsandi.com**. Initial content includes some guidance videos on how to use our online services, as well as general interest videos, such as NS&I's 'Agent Million' explaining what happens when a customer wins the £1 million jackpot prize with Premium Bonds.

Our immediate focus is on streamlining processes further: we will be making it possible for customers to reset lost or forgotten passwords online, rather than waiting for a new password to be sent by post. We will also introduce new forms which allow customers to fill in their details online and then print them ready-completed.

In 2012–13, we continued to focus our marketing activity on promoting our direct channels and the benefits these offer to savers. The objective of our advertising this year was to raise awareness of these channels and generate direct sales of Premium Bonds. Other marketing activity, in the autumn, supported our changes to fixed-term products by providing information and reassurance for existing customers.

We have also invested in improvements to our dedicated website for financial advisers, making it more user-friendly and ensuring that advisers have full access to the information they need about our services. The revised site was launched in June 2013. Just over 12,000 financial advisers are registered on our emailing lists. We also have access to additional databases through our continued relationships with Unbiased.co.uk and the Assureweb adviser online portal. This enables us to communicate important messages quickly – and at low cost – to the financial adviser audience. Our relationship with Unbiased.co.uk – the leading consumer resource for those looking for financial advice – also enables us to use their 'Find an adviser' search facility on our main customer website.

Finally, we once again had a presence at the Institute of Financial Planning and the Personal Finance Society annual conferences.

Our relationships with financial advisers remain key, as they have a relationship with many clients with significant NS&I holdings. Also, the Retail Distribution Review, which introduced changes to the way financial advisers charge for their services, could increase interest in NS&I. We will closely monitor the impact of this on our business.

Celebrating the fifth anniversary of My Lost Account

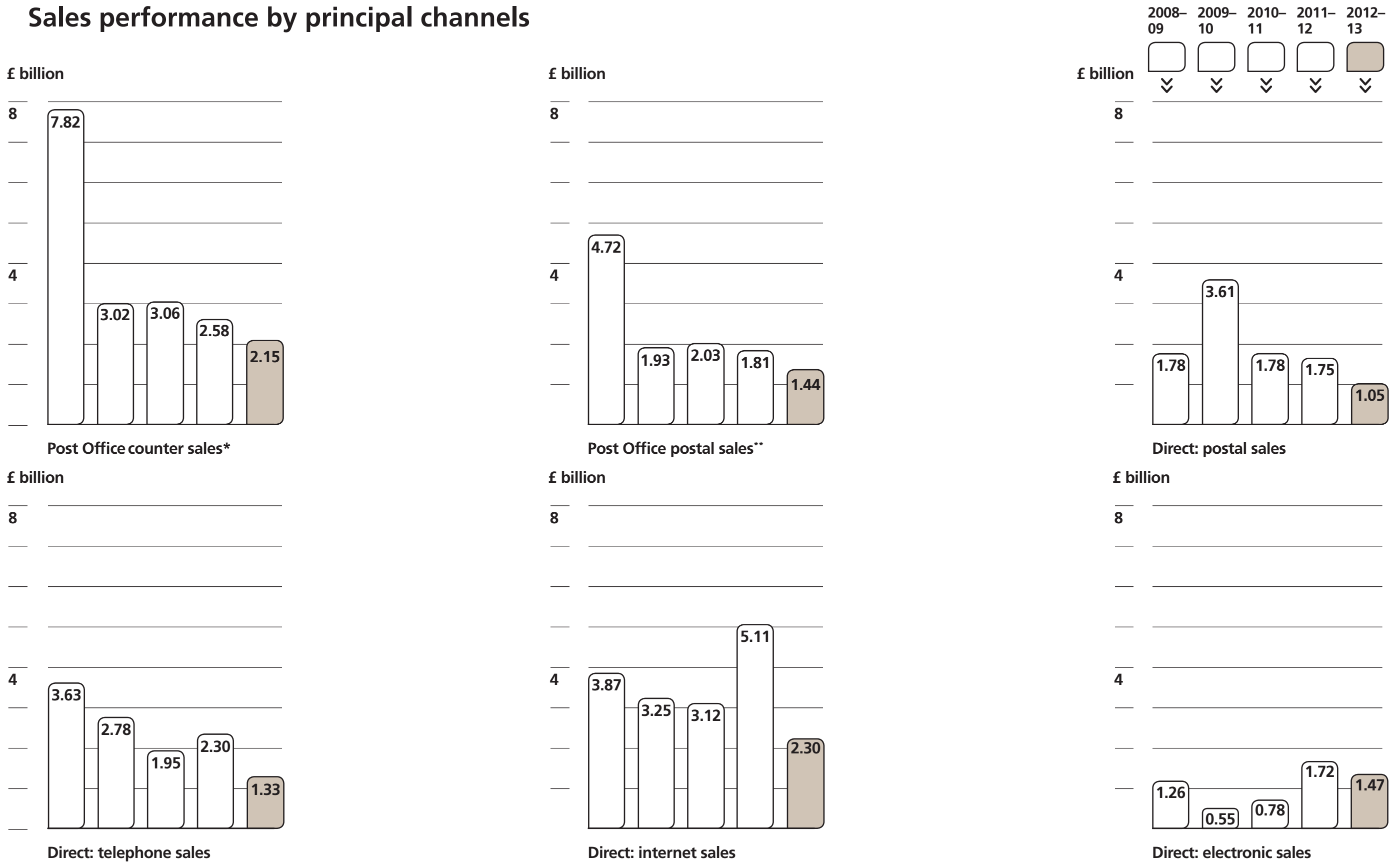
In January 2013, the My Lost Account service set up by NS&I in partnership with the British Bankers' Association and the Building Societies Association celebrated its fifth anniversary. The free service, available through www.mylostaccount.org.uk, aims to reunite customers with money and accounts they have lost track of. Since 2008, for the scheme as a whole, more than 315,000 people have used the service, and around £645 million has now been returned to customers. Through both My Lost Account and our tracing service, we have now reunited customers with over £445 million held in forgotten or lost NS&I accounts since 2008.

Our product range

Our product range is designed to offer options that meet customers' different savings needs and evolve in line with market conditions and customer demand. The changes to our products this year have already been highlighted.

Our full product range and the key benefits of each are shown on the next page. Due to our requirement to balance the interests of our customers, taxpayers and the stability of the wider financial services sector, the full range is not currently available.

Sales performance by principal channels



*Figures differ slightly from those in Product Accounts note 15, 'Related party transactions', due to timing differences (see page 90).

**These are sales where a customer picks up an NS&I application form at the Post Office and then sends this by post to NS&I.

Our product range

Product	Status at 31 March 2013	Tax-free	Fixed rate	Monthly income	Manage online and by phone	Manage by post	Annual statement
Children's Bonds (formerly Children's Bonus Bonds)	On sale	✓	✓		✓	✓	✓
Direct ISA	On sale	✓			✓		✓
Direct Saver	On sale				✓		✓
Fixed Interest Savings Certificates*	Not currently on sale	✓	✓		✓	✓	✓
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	Opened as a postal-only account on 21 May 2012				Holdings can be viewed online but no transactions can be carried out	✓	✓
Premium Bonds	On sale	✓			✓	✓	

*Renewals at maturity still permitted. Current issues of fixed-term products with start dates before 20 September 2012 are not visible online.
NS&I's Guaranteed Equity Bonds are not currently on sale.

Business-to-business services

Following the successful launch in 2011–12 of our business-to-business services which help us meet the cost reduction targets set down in the 2010 Spending Review, this year has been one of consolidation and growing maturity in service delivery. Processes have been reviewed and optimised, and skills developed, with the result that, in addition to running payment processing services for clients, we have been able to identify and introduce service improvements.

Savings through shared services

Since we took over transaction processing services for the CFO on 5 December 2011, we have helped them deliver a like-for-like saving of 25% on their operational costs. This kind of service – and saving – is very much in line with the Government's *Next Generation Shared Services: The Strategic Plan* (www.gov.uk/government/uploads/system/uploads/attachment_data/file/83717/19284_Next_Generation_3rd_Online.pdf), published in December 2012.

Eddie Bloomfield, Head of the Office of the Accountant General and Deputy Accountant General, said: 'So far, the CFO declares itself a satisfied client of NS&I. Our running costs have fallen by 25% and NS&I is able to provide a more stable service to our clients by using their tried and tested technology.'

Plans are now under way to integrate the CFO telephone helpline into our contact centre, offering longer opening hours, increased call handling skills for CFO clients and integrated call handling across all our services. There is no impact on the service provided for NS&I's retail savings customers.

Delivering the Equitable Life Payment Scheme

Our other existing contract has been the delivery of the Equitable Life Payment Scheme. As reported last year, we were formally appointed by HM Treasury in May 2011 to process payments and services for the Scheme, and the first payments were made in June 2011. Progress has continued and payments to all the individual policy holders that the Scheme can trace were completed by April 2013. Progress reports continue to be published regularly with the latest details of payments, and appear on http://equitablelifepaymentscheme.independent.gov.uk/

A report on HM Treasury and NS&I's administration of the Scheme was published by the National Audit Office in April 2013. The report highlighted challenges, including setting up a complex operation in a short period of time and dealing with data issues. It highlighted that: payments to policy holders had been delayed; that potentially up to 20% of untraced policy holders may not get a payment; and there had been some issues with customer service. The report provided recommendations to improve the Scheme's performance during its final year. The report was subsequently reviewed by the Public Accounts Committee in May 2013.

Together with HM Treasury, we welcomed the publication of the report and its findings and are committed to working together closely to take forward the recommendations. In respect of the recommendations relating specifically to NS&I, these are in train and being monitored through NS&I's Audit Committee as well as through Equitable Life Payment Scheme governance.

Next steps

With these two existing contracts well established, we were able to take on new business, and from July 2013, we will take over in country immigration application payments processing and related services for the Home Office. This contract aims to reduce overall costs for the Home Office and deliver service improvements. The first phase will see us commencing operations immediately, using existing processes; over the coming months, we will work to identify and implement efficiencies.

This third contract validates our business-to-business proposition and the new operational contract will offer further opportunities for us to increase the efficiency of our offer: business-to-business services were fully included within the contract specification, setting out clearly our overall strategy and direction as well as operational requirements.

Operational delivery

This year, our fundamental goal from a delivery perspective was to maintain our high standards of customer service against a background of significant change and the re-tender exercise. As performance against our service delivery measures shows, we did exactly that. Timeliness levels were 99.2% and accuracy 99.4%, both above our targets and showing a high level of consistency year-on-year.

While these performance figures were achieved without the significant spikes in traffic experienced in recent years – through new product Issues, market turmoil or other factors – we still handled many millions of customer interactions, the majority either through our contact centre or online. There were no major service issues.

As the delivery of the modernisation programme progressed, staff had to undertake additional training, familiarise themselves with product changes, be ready to answer customer queries and adapt to different procedures. That meant rigorous planning not just on the operational side but across the whole business, from writing Q&A documents for contact centre enquiries to identifying and mitigating any potential risks to service delivery. While this is something we have now become accustomed to, and have well-established change management processes, the scale of the effort to absorb changes seamlessly should never be underestimated – nor should the commitment of operational staff, particularly those employed by our partner, to making it work.

The benefit of this approach was evidenced by an independent survey conducted by the consumer association *Which?*. The survey involved *Which?* researchers calling 180 advisers at 15 major financial services providers to test their knowledge of cash ISA transfer rules. In its report, *Which?* stated that 'National Savings & Investments' advisers gave the most correct answers, with an overall score of 72%.' While we were naturally pleased to be in this position, we also recognise that our goal should be to answer all questions correctly, and increasing knowledge of ISA transfer rules is therefore an important part of our training over the next year.

This year also saw a number of important changes to our systems and processes behind the scenes. We have introduced a new workflow system, streamlined our back office registration and verification checking processes and installed a new telephony system within the contact centre and the back office. This had been planned for some time, and increases our flexibility to manage demand; it is now much easier to balance call volumes across our different UK contact centre sites. The new system also enhances our call recording capabilities and offers a greater depth of management information.

These system changes were undertaken with one eye on the re-tender; we had stated clearly in our requirements and draft contract what the operational environment would be at the start of the new contract. So it is imperative that we implement all planned changes to schedule. To date, we remain on track.

Our three contact centre sites in Blackpool, Durham and Glasgow achieved the respected Customer Contact Association Global Standard Accreditation, and we were also pleased to see Atos attain the Investors in People Gold Standard for the operation as a whole. It shows a continued level of commitment to service, despite the obvious potential distraction of the re-tender for both staff and management. Our partnership score, as measured in the annual survey conducted by an independent third party, remains at a very high level, despite a slight dip this year from 7.5 out of 10 to 7.3. This is not unexpected given the uncertainty created by the re-tender and remains well above the industry average.

The re-tender

In May 2013, we formally awarded a seven-year contract for the delivery of our customer-facing and back office services to Atos, following a rigorous procurement process. The new contract will deliver savings of more than £400 million to the taxpayer over its duration, as well as enabling us to make a range of improvements to the customer experience we provide.

Since 1999, NS&I's call centre, IT and processing operations have been outsourced under one of the largest PPP contracts in the UK. During that time, the contract has reduced NS&I's core operating costs by 55% on a 'like-for-like' basis (that is stripping out the impact of growth and inflation), which equates to some £530 million in cost savings. It has also been integral to achieving our business strategy and growing our direct sales channels. The current contract expires at the end of March 2014, and so in 2011 – as reported last year – we began the re-tender process.

Adhering to best practice

Given the scale and significance of the contract, we ensured that we followed best practice in procurement from the outset. That meant that before the process even began we had some key decisions to make regarding procurement method and the scope of the contract, which would necessarily be considerably different from the initial contract, drafted in the late 1990s; not only has our business changed since then, but so has the way that customers engage with financial services providers.

We decided to keep the contract as a whole, rather than split it into smaller lots, and use the competitive dialogue process to allow engagement with prospective providers during procurement.

In July 2011, we held an 'Industry Day' to explain to prospective providers what we were seeking and how the procurement would be managed. Over 50 organisations attended the day which featured presentations from the NS&I Executive Committee and our Minister.

The procurement process was then formally launched in November 2011, when we issued a pre-qualification questionnaire (PQQ). Ten providers responded, and so 2012 began with a full evaluation of these, involving over 35 individuals across the entire business.

Ensuring propriety

We had always stated our intention to take between three and five providers through the full re-tender process. The evaluation of the PQQ responses showed that three providers were clearly ahead. These three – Capita, Hewlett-Packard and the incumbent Atos – were therefore shortlisted, and we announced this in February 2012.

We took significant steps to ensure propriety within the process. Clearly, the everyday relationship between Atos and NS&I had to change, in terms of both overall governance of the current contract and core operations. The small number of Atos staff who were based at our London office were moved to a different floor during the re-tender and restrictions were placed on their access to the main office. Even stricter guidelines were introduced regarding contact with the dedicated NS&I re-tender team, who worked on a separate IT system run by a different IT provider.

Engaging in dialogue with the shortlisted providers

After shortlisting, we began an initial five-week dialogue phase, during which providers were issued with a comprehensive draft contract and invited to ask as many questions as they wanted of our business. This was particularly important to allow the non-incumbents to get up to speed and to gain a full understanding of our operational business, the scope of the re-tender and our culture. As part of this process, we undertook joint visits to all our sites, including Chennai, where back office processing work takes place.

At the end of this dialogue, bidders were asked to submit an outline solution, which we reviewed and commented on. They then provided an outline proposal with an indicative price. Again, we reviewed these and worked closely with each provider to ensure the highest possible quality of bids, highlighting any areas we felt needed further attention. This led to the submission of final bids on 1 February 2013.

A fair and transparent process

The NS&I evaluators were asked to look at specific elements of the bids and submit scores against agreed criteria by 21 February 2013. These scores were moderated by the NS&I Executive Committee, and their conclusions and recommendations documented and submitted to our board. A special board meeting on 21 March 2013 audited the process and approved the recommendation, which was then submitted to HM Treasury, the Cabinet Office and finally, for approval, to NS&I's Minister, the Economic Secretary to HM Treasury. This was secured on schedule and on 3 May 2013 we informed the bidders of the outcome. As required, there was then a 'standstill period' which follows the announcement of the preferred bidder on a major contract such as this. This gives the unsuccessful bidders time before the contract is awarded to assess whether they wish to query the decision. No challenges were raised. The contract was then signed and announced on 20 May 2013.

The process was a comprehensive one, involving considerable resource across our business and for each of the bidders. While it followed acknowledged best practice, it was nevertheless gratifying to receive feedback from the non-incumbent bidders – well before any decision was made – acknowledging the efforts made to deliver a fair and transparent process.

What the new contract offers

Hewlett-Packard and Capita each offered strong, well-constructed and thought-through bids, but the selection of Atos was a clear one: Atos led in each evaluation category, which included cost, how well the proposed solution met our requirements, and willingness to accept the commercial terms we sought. The contract value is £660 million for seven years in nominal terms. However, this will vary depending on the overall level of NS&I's stock and the growth of our business-to-business services.

While this is a significant investment for NS&I, the returns are equally significant in two key areas: overall savings and improvements to the customer experience.

The new contract will save UK taxpayers more than £400 million, when compared with projected costs if we continued under the terms of the current contract. These savings will be delivered by further increasing customer use of direct sales channels, improving processes and technology and through the new commercial terms.

Enhancing the customer experience

The new contract will also deliver many benefits to our customers. A key area is the focus on digital channels, meaning we will help customers make the switch to digital sales channels. This will include the addition of a mobile-optimised website and apps; web chat and co-browsing that can help guide customers through the website. However, just as importantly, it will focus on further improving the current online experience to ensure that our customers will find managing their money online with NS&I as simple and straightforward as possible.

Meeting government goals

By enabling increased use of digital channels, the new contract helps us meet the wider government goal of moving transactions online. Less obviously, it also supports the overall aim of using more SMEs as suppliers to government, albeit indirectly: over the course of the contract, we expect Atos to use well over 100 subcontractors – many of whom are SMEs. The contract specifically challenges Atos to ensure that SME involvement increases over time. Government goals are also supported by the development of information and communications technology capability and shared service operations, as well as meeting NS&I's needs in relation to being voluntarily compliant with the relevant Financial Conduct Authority requirements.

Investing in change

Changes of this scale underline the fact that this is no mere contract extension; it demands new ways of working for our partner and will lead to changes in every aspect of our operations and processes. While many of these will involve small-scale streamlining, the cumulative impact will be immense, and the level of financial investment significant.

The majority of this investment will take place in the first half of the contract, with the savings becoming most apparent in the latter years. All changes will be tightly managed, first under our comprehensive transition programme and then following our standard project management processes, to ensure that there is no negative impact on customers.

Using existing skills to support business-to-business growth

One further area of change involves the projected growth, over the contract, of our business-to-business services. As stated earlier in the report, these were fully included within the contract, along with our strategy and direction to deliver more shared services for government; these will help us meet our savings targets. Atos fully embraced this opportunity within its bid, and has made it clear that it sees the growth of business-to-business services as a major opportunity.

For NS&I, the new contract will mean an acceleration of the pace of change; it gives us new capacity to deliver the improvements that, as a business, we have known for some time that we want and need to make. These improvements will help us become a more streamlined operation, but also allow us to develop our offer to meet changing customer expectations.

We are looking forward to moving ahead with the Atos management team through this transition year, and thank all three bidders for the time and energy they invested in the re-tender process.

Our people

The significant progress on our strategy this year relied, as ever, on the commitment of our people to the organisation and its objectives. Their work to deliver and embed product changes and advance our business-to-business services took place not only in addition to business-as-usual, but also against the backdrop of the re-tender.

Almost half of our staff were actively involved in the re-tender; this wasn't simply something happening around them. Some were involved as part of the re-tender team, others in supporting site visits, providing analysis and answering queries. As mentioned in the previous section, over 35 members of staff were asked to evaluate the bids. While this added to the workload for many, it meant that the organisation as a whole has been involved in the process – important, given the scale and significance of the new contract to our people and customers.

Providing a modern working environment

The imminent re-tender also affected our estates strategy. Previously, we had stated our intention to sell our ageing Glasgow site and acquire new, ready-built premises elsewhere in Glasgow. Those plans have now been revised, as all three of the bidders took up the option to offer us space on either their own existing sites in Glasgow or sites they planned to acquire if they won the contract. Therefore, as part of the transition to the new contract with Atos, we will move our Glasgow operation to a city centre location from 2014 – the new building will be leased by Atos.

Elsewhere, there has been significant progress towards our new sustainable premises in Durham city centre. Following extensive consultation, plans were submitted by the developer in November 2012 and received assent in March 2013. We anticipate moving into the new site in 2015. At Blackpool, meanwhile, we have continued the process of consolidation, with almost all staff now working in the modern Moorland building.

Plans are in place to sell our old sites in Glasgow and Durham and the surplus land on our Blackpool site.

Maintaining high levels of engagement

In what has been an exceptionally busy year, we were very pleased with the response to the independent Civil Service-wide staff engagement survey. Though overall levels of engagement were marginally down from last year's score of 71% to 68% – returning to the levels of 2010–11 – we were still significantly above the high performance benchmark (see chart on next page). As before, we scored particularly highly for 'leadership and managing change', but another satisfying result this year concerned working together as a team to improve the service we provide, where our score went up five percentage points to put us significantly over the high performance benchmark.

The survey also highlighted the challenges we face in terms of reward. Although this year brought the end of the Civil Service-wide pay freeze, we were only able – like other government agencies – to offer a small increase. Satisfaction with pay dropped in the survey, and is one of only a handful of areas where we are not ranked as a high performer. However, satisfaction with the total benefits package actually saw a marginal increase; this is pleasing, given the emphasis we have placed on improving communication about the total reward. That is important to our short and long-term future, as is the fact that staff turnover remained low. Turnover is also still very low among staff in the UK working for our delivery partner, whose contribution is essential to our performance.

Listening and action

We have a well-established 'Speaking Up' policy, which includes published processes for whistle-blowing. As well as internal reporting, and the opportunity 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.

We have an active listening and action group that operates across NS&I and acts as a focus for staff issues and feedback.

The impact of this, and our organisational culture, can be seen in the staff engagement survey, where 69% of respondents agreed with 'I think it is safe to challenge the way things are done in NS&I' – up two percentage points on last year, and a full 29% above the overall Civil Service average.

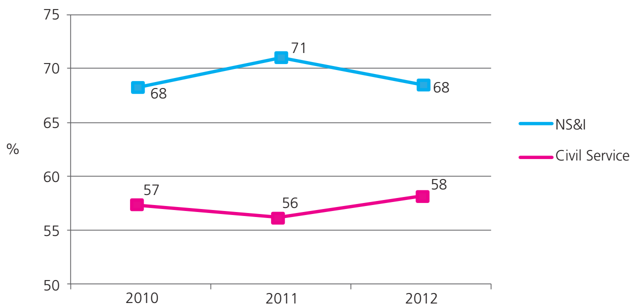
Learning and development

We have continued with our focus on investing in learning requirements identified in individuals' Personal Development Plans, and using our overall learning and development budget as effectively as possible to meet those requirements.

That means using independently accredited learning programmes where appropriate – such as those from the Institute for Leadership and Management – and supporting this with internal e-learning and various Civil Service-wide training programmes for core skills. We have also actively sought to offer opportunities for development through secondment within the business.

Personal Development Plans are actively 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.

Civil Service People Survey – engagement



NS&I supports the training and development of employees by:

- providing the time, equipment and opportunities to ensure that our people have the right skills and the knowledge required to carry out their roles
- ensuring that all managers are aware of their role in supporting their team's training and development, and that managers themselves have the skills and knowledge required to help their team in identifying and fulfilling learning and development needs
- encouraging our people to pursue development over and above their job role and to give consideration to career development
- providing mentoring to colleagues across the business.

Learning and development are offered on a fair basis to all employees. Senior managers are responsible for ensuring that no employee receives less favourable treatment or consideration in relation to training and development on the grounds of their gender, sexual orientation, racial group, marital status, disability, age, religion or religious beliefs, working pattern or any other unlawful criterion or circumstances.

Pay and reward

As mentioned above, the Civil Service pay freeze, as it affected NS&I, ended in July 2012. Following guidelines from HM Treasury, we were able to increase remuneration by 1%.

At NS&I, we are committed to being wholly transparent about executive pay and performance-related pay, and details of these can be seen in the Remuneration report on pages 25 to 29. 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. For NS&I as a whole, 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.

Pension liabilities

The majority of our current and previous employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). A new career average scheme is set to be introduced in 2015; employee contributions to the existing schemes rose in April 2012 and April 2013, as announced in the 2010 Spending Review. Full details of the changes to the PCSPS can be found on the Cabinet Office website.

The rate of employer's contribution is determined by the Government Actuary and advised by HM Treasury. For 2012–13 the rates were between 16.7% and 24.3% (2011–12: 16.7% and 24.3%) of pensionable pay, depending on salary.

See the Remuneration report (page 25 to 29) for further details

Recruitment monitoring

The Civil Service-wide freeze on recruitment continued throughout 2012–13. However, we agreed with HM Treasury and with the Cabinet Office a process whereby our Chief Executive had delegated authority to recruit to fill vacancies in business-critical roles. Wherever possible, we have sought internal candidates, but we have also used external recruitment and interim appointments to ensure we have the skills we need in all areas of our business.

As stated above, staff turnover remained very low, which partly reflects conditions in the wider labour market. In the year, there were a total of 31 permanent and fixed-term appointments, and these are summarised in the following table. Full details of staff numbers can be found in Table 5 of the Departmental Report on page 96.

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 20 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 fill a short-term resource requirement).

We have a monitoring system in place to ensure that recruitment is carried out on the basis of fair and open competition and selection on merit.

Our recruitment campaign files are independently audited annually through a reciprocal agreement with the Office of the Rail Regulator (a requirement of the Civil Service Commissioners). This includes comparing CVs against the selection criteria and reviewing diversity breakdowns to ensure that the criteria were fair and robustly applied. 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

Permanent and fixed–term appointments in 2012–13

	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	1	0	1	5	5	3	2
Female	0	0	0	0	1	3	6	3	1
White	0	0	1	0	2	6	10	5	3
Non-white	0	0	0	0	0	2	1	1	0
Disabled	0	0	0	0	0	0	0	0	0

review by the Civil Service Commissioners, and campaign files are kept for two years to comply with these requirements.

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 the diversity of NS&I's employees, and is available here: **www.nsandi.com/files/asset/pdf/equality-information-statement.pdf**

Sickness absence data

The average number of sick days per person in the 12 months ending 31 March 2013 was 3.63 days (2011–12: 3.57). This figure includes all absences including long-term absence. Short-term absences were 2.21 days (2011–12: 2.45).

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 which 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. We had no material issues in 2012–13.

Table 1: Off-payroll engagements at a cost of over £58,200 per annum that were in place as of 31 January 2012

Number in place on 31 January 2012	16
of which	
Number that have since come on to the organisation's payroll	1
and	
Number that have since been renegotiated/re-engaged, to include contractual clauses allowing the Department to seek assurance as to tax obligations	4
Number that have not been successfully renegotiated, and therefore continue without contractual clauses allowing the Department to seek assurance as to tax obligations	0
Number that have come to an end	11
Total	16

Table 2: All new off-payroll engagements between 23 August 2012 and 31 March 2013, costing more than £220 per day and lasting more than six months

Number of new engagements	11
of which	
Number of new engagements which include contractual clauses giving the Department the right to request assurance in relation to Income Tax and National Insurance obligations	11
of which	
Number for whom assurance has been requested and received	11
Number for whom assurance has been requested but not received	0
Number that have been terminated as a result of assurance not being received	0
Total	11

Sustainability report

This year, progress towards our medium-term carbon reduction plan was maintained with significant increases in recycling levels. We have retained independent accreditation, including Sustainable Mail™ and ISO14001. We remain ahead of government targets for carbon emissions and energy and water consumption.

As the graph opposite shows, there has been a reduction of carbon emissions by 395 tonnes against the 2011–12 financial year. However, the business is not able to report carbon emissions for travel and, as such, a like-for-like comparison shows a 52-tonne increase in carbon emissions. This is due to the harsher conversion factors being applied and, with a prolonged severe winter, higher energy consumption. As a whole, we are still on track to achieve our carbon reduction plan of cutting our carbon emissions by over 7,000 tonnes a year from the end of March 2015, against the 2009–10 baseline year.

Energy consumption clearly accounts for the biggest share of this, and we have continued the trend from last year of reductions at all sites. As detailed in Our people (pages 19 to 22), our overall estates strategy is to move all our operations into modern, more energy-efficient premises; we anticipate delivering carbon reductions when we move to a new building at Durham and relocate our Glasgow operation.

Increasing recycling and reducing paper consumption

Ahead of our office moves in Durham and Glasgow, investment in sustainability improvements in these sites managed by our delivery partner was reduced, though planned changes were still made, including enhanced recycling facilities and processes. At our London offices, the recycling improvements were more noticeable still: we introduced composting for food waste, meaning that almost 100% of waste from the London site is now recycled.

The move towards direct channels, increased use of email for customer communication and removal of marketing materials from post offices all had an indirect environmental benefit by cutting our stationery consumption further. Last year, 5 million customer communications took place by email – a large proportion of which may previously have been printed. Where we do send printed mailings, we use sustainable methods, which have ensured we have retained the Sustainable Mail™ accreditation. We have also retained ISO14001 accreditation for our environmental management system.

Monitoring performance

All sustainability performance data continues to be audited by KPMG, who further support us to deliver continuous improvement. We monitor our performance closely, as part of our overall People and Corporate Social Responsibility risk policy.

Looking ahead

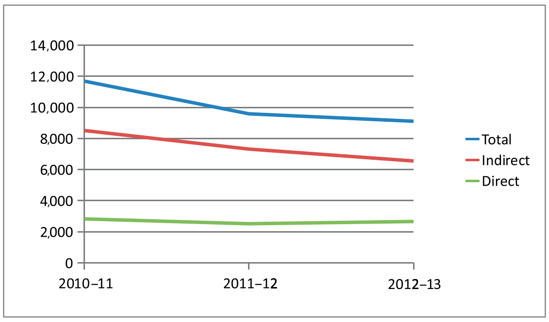
Our delivery partner Atos has played a pivotal role in ensuring that we continue to progress against our plan during this year, and indeed over the last few years, helping us achieve substantial reductions in resource use and emissions. The new contract includes a requirement that Atos will help us meet our carbon reduction targets over the coming years and follow government standards for sustainability.

Volunteering and staff charity

Our staff charity for the second consecutive year was Sebastian's Action Trust, which provides respite holidays as well as practical support to very sick children and their families. Staff took part in a range of fundraising activities and several members of staff volunteered with the charity. Other staff took up the option within our benefits package of 'giving something back days' to volunteer with other charities and community organisations. In total, just under 10% of staff used this option. Payroll giving remains comparatively high, with 20% of staff taking up the option.

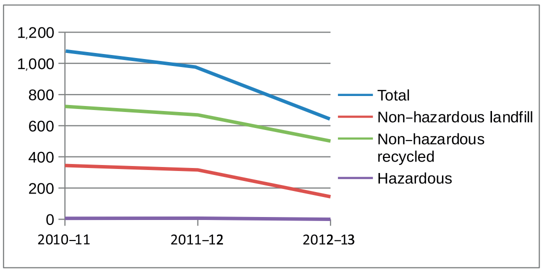
CO_2 emissions (four sites)

Tonnes



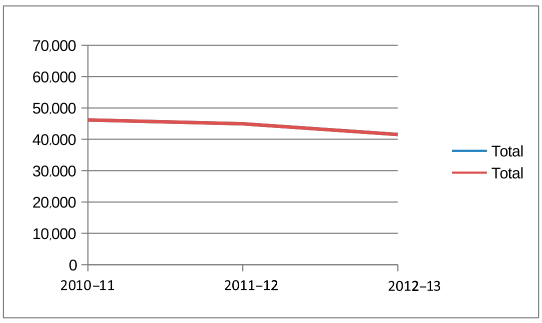
Waste (four sites)

Tonnes



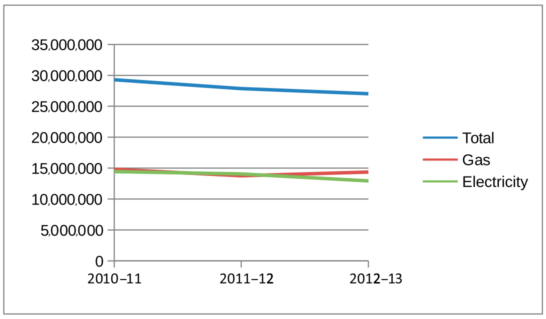
Water consumption (four sites)

Cubic metres



Energy consumption (four sites)

Million kWh



Note: Emissions conversion factors have been taken from the Department for Environment, Food and Rural Affairs website: www.gov.uk/government/publications/2012-greenhouse-gas-conversion-factors-for-company-reporting

For electricity: Annex 3, Table 3c, Grid rolling average CO_2.

For gas: Annex 1, Table 1c, Scope 1, gross CV CO_2.

Waste

Location	2009–10	2010–11	2011–12	2012–13 Tonnes
Blackpool	190.93	227.01	156.64	125
Durham	481.99	529.05	378.81	262
Glasgow	395.01	251.13	416.39	229
London	71.49	65.25	45.12	31
Total	**1,139.42**	**1,072.44**	**996.96**	**647**

Percentage of waste recycled

Location	2009–10	2010–11	2011–12	2012–13 %
Blackpool	71.07	48.26	45.54	56.56
Durham	66.17	69.78	58.65	76.2
Glasgow	84.88	78.96	84.16	86.46
London	73	86.49	84.91	100
Total	**74**	**67.71**	**68.43**	**77.16**

Water

Location	2009–10	2010–11	2011–12	2012–13 Cubic metres
Blackpool	30,197	21,376	16,318	17,641
Durham	12,346	13,459	19,576	13,360
Glasgow	14,308	10,958	9,162	8,877
London	3,784	1,076	59	1,220
Total	**60,635**	**46,869**	**45,115**	**41,098**

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.

Energy (CO_2e)

Location	2009–10	2010–11	2011–12	2012–13 Tonnes
Blackpool	2,839	3,796	3,232	3,010
Durham	3,451	3,616	3,300	3,430
Glasgow	2,249	2,852	2,476	2,606
London	355	366	300	315
Total	**8,894**	**10,630**	**9,308**	**9,361**

Note: A different electricity conversion factor was used for this year's energy data. If it was applied to 2011–12 data, it would show a reduction of 34 tonnes.

NS&I produces a full annual Corporate Social Responsibility report, which can be found on our website at **www.nsandi.com/about-nsi-what-we-do-corporate-social-responsibility.** This gives greater details of the summary report presented here and includes the financial costs of key corporate social responsibility measures.

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 Corporate Services Director. Support to the Committee is provided by Gerard Hutchinson (Director of Global Reward, Rolls-Royce plc) in an independent advisory capacity.

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. All senior managers are on permanent contracts, except the Chief Executive who is on a rolling three-year fixed-term contract (now extended until September 2015). 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 C.

Salary and pension entitlements

The salary and pension entitlements of the Executive board members are shown in Tables A and B. 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 2012–13 relate to performance in 2012–13 (with the exception of CEO where the cash amount paid during 2012-13 for 2011-12 performance-related pay has been included) and the comparative payments reported for 2011–12 relate to performance in 2011–12.

Table A: Salary and performance-related pay entitlements of the Executive board members of NS&I

Audited

	2012–13 Salary £000	2012–13 Performance-related pay £000	2011–12 Salary £000	2011–12 Performance-related pay £000
Jane Platt *Chief Executive*	190–195	15–20(1)	190–195	15–20(2)
Peter Cornish *Risk and Assurance Director*	105–110	15–20	105–110	15–20
Julian Hynd *Business-to-Business and Change Director*	115–120	20–25	115–120	15–20
Steve Owen *Operations and Commercial Management Director*	115–120	20–25	115–120	15–20
Gillian McGrattan(3) *Corporate Services Director*	105–110	15–20	105–110	15–20
John Prout *Retail Customer Director*	115–120	15–20	115–120	15–20
Dharmesh Tailor(4) *Acting Finance and Business Insight Director*	20–25 (90–95 annualised equivalent)	0–5	90–95	10–15
Rodney Norman *Finance and Business Insight Director*	85–90 (120–125 annualised equivalent)	10–15		
Band of highest-paid Director	190–195	15–20	190–195	15–20
Remuneration median for workforce	43,924		37,665	
Ratio of highest-paid Director to median salary of the workforce	4.7(5)		5.6	

(1)The Chief Executive's performance-related pay is agreed by HM Treasury as she is the only NS&I member of the Senior Civil Service. The process for agreeing this element of her pay had not been completed at the date of authorisation of these Accounts. As a result the cash amount paid during 2012–13 for 2011–12 performance-related pay has been included for the Chief Executive only. As soon as the amount is known it will be published on the NS&I website. All other performance-related pay figures relate to amounts earned by Directors for the reporting period.

(2) In view of the economic background, the Chief Executive chose to limit her performance-related pay for 2011–12 to the maximum performance-related amount set for Senior Civil Servants, regardless of her contractual entitlement.

(3) Gillian McGrattan left NS&I in June 2013.

(4) Dharmesh Tailor was Acting Finance and Business Insight Director until July 2012, when he was succeeded by Rodney Norman.

(5) In the absence of actual performance-related payment for 2012-13 for Chief Executive, the 2011-12 performance-related payment has been used to calculate the ratio.

(6) During the year, 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 £40,500 for the year. Since the year end, she has been appointed a Non-executive Director of the FCA and has resigned from Royal London Group to accommodate this activity. The remuneration for the FCA role will also be paid directly to NS&I.

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 banded remuneration of the highest-paid Director in NS&I in the financial year 2012–13 was £190,000–£195,000 (no change in band from 2011–12). This was 4.7 times (2011–12: 5.6 times) the median remuneration of the workforce, which was £43,924 (2011–12: £37,665).

No employee received remuneration in excess of the highest paid Director in either 2012–13 or 2011–12. Remuneration ranged from £15,000–£20,000 to £140,000–£145,000 in 2012–13 (2011–12: £20,000–£25,000 to £140,000–£145,000).

The remuneration median for the workforce increased in 2012–13 compared with 2011–12, due to recruitment activity being largely confined to key roles to support transition and leveraging activities in 2012–13.

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

Audited

	Accrued pension at pension age as at 31 March 2013 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2013 £000	CETV at 31 March 2012 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Jane Platt *Chief Executive*	15–20	2.5–5	352	270	44	–
Peter Cornish *Risk and Assurance Director*	15–20 (plus lump sum of 55-60)	0–2.5 (plus lump sum of 2.5-5)	358	324	13	–
Julian Hynd *Business-to-Business and Change Director*	20–25	0–2.5	243	209	17	–
Steve Owen *Operations and Commercial Management Director*	45–50 (plus lump sum of 145–150)	0–2.5 (plus lump sum of 0–2.5)	919	859	5	–
Gillian McGrattan (1) *Corporate Services Director*	10–15	2.5–5	189	143	24	–
John Prout (1) *Retail Customer Director*	25–30	2.5–5	545	488	48	–
Dharmesh Tailor *Acting Finance and Business Insight Director*	15–20	0–2.5	240	227	3	–
Rodney Norman *Finance and Business Insight Director*	10–15	0–2.5	195	159	24	–

(1) The Cash Equivalent Transfer Values at 31 March 2012 for Gillian McGrattan and John Prout supplied by MyCSP and published in NS&I's 2011-12 Annual Report and Accounts were incorrect. MyCSP supplied amended data for inclusion in the 2012-13 Annual Report and Accounts and the correct figures are published above.

Table C: The remuneration of Non-executive Directors
Audited

	2012–13 £000	2011–12 £000
James Furse (joined in January 2012)	15–20	0–5 (15–20 full time equivalent)
David Hulf	15–20	15–20
Sir John de Trafford Bt. (Chairman from January 2012)	20–25	15–20
Simon Ricketts	15–20	15–20

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 3.9% of pensionable earnings for Classic and between 3.5% and 5.9% for Premium, Classic Plus and Nuvos. Increases to employee contributions will apply from 1 April 2013. 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).

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

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

Cash equivalent transfer values

Table B 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

No compensation payments for loss of office were paid in 2012–13.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments

12 July 2013

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 2013 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 coped with the risks it has faced during 2012–13.

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. Sajid Javid MP, Economic Secretary to HM Treasury, replaced Lord Sassoon, Commercial Secretary to HM Treasury, as the Minister with the portfolio responsible for NS&I from 1 January 2013.

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 sustainable 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 Product 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 allows NS&I to manage risk to a reasonable level to ensure that 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 achievement of NS&I's policies, aims and objectives. The Chief Executive is supported by the board.

Role of the NS&I board and its committees

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. It is advisory to the Accounting Officer who has agreed to abide by the decisions of the board, except where they may conflict with her duties as Accounting Officer.

In 2012, NS&I adopted a Board Operating Framework consistent with the principles of the *Corporate Governance in Central Government Departments: Code of Good Practice 2011* (the 'Code'). A further review will take place as part of the next board effectiveness review during 2013–14.

There were three recommendations which, after due consideration, the NS&I board agreed not to comply with:

- senior Non-executive board member – see 'Lead Non-executive board member' section on page 33 for further detail
- the establishment of a governance committee – this role is discharged by the board
- the maximum number of executive members – because each Executive Director had specific expertise and experience to contribute.

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 legislation specific to NS&I, and all strategic decisions affecting our products require Ministerial consent. NS&I is regulated by HM Treasury and aims to comply with the Financial Conduct Authority (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.

NS&I continues to progress its programme of work to implement and embed compliance with the relevant regulatory requirements. This has been discussed periodically with the Financial Services Authority (FSA) and it is expected that this will continue with the FCA. Progress against the programme is governed and tracked through the Risk Management Committee with reports provided to the Audit 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, provide only 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 2013 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 lies with the Chief Executive and the Executive Committee.

More detail as to 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, including the embedded transformation of NS&I's services and products
- 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 the Corporate Plan by:

- having in place sound systems for providing management information for performance measurement purposes
- ensuring that 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; and disclosure of interests and participation in the decision-making process where a member has a conflict of interests. NS&I publishes declarations of interests, a register of gifts and hospitality and the expenses of the board on its website.

The board, committees and how we operate

In particular, the NS&I 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 that NS&I has the capability to meet current and future needs
- results focus: agreeing the Corporate Plan
- management information: ensuring that clear and 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, the NS&I 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 for recommendation to the Minister
- ensuring that robust systems are in place for compliance with legal, regulatory and government security requirements
- adopting the Annual Report and Accounts and giving support to their signature by the Accounting Officer, taking into account the recommendations and comments from the Audit Committee.

Other specific responsibilities are delegated to the board committees which operate within clearly defined terms of reference. Details of the responsibilities delegated to the committees are given on pages 36 and 37.

Terms of reference for the board can be found on our website at **www.nsandi.com/files/asset/pdf/board_termsofref.pdf** The terms of reference are reviewed annually.

NS&I is committed to achieving the highest standards of corporate governance, integrity and business ethics. Throughout 2012–13, NS&I complied with the Code, except as detailed below.

Our board

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

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 at 31 March 2013 were:

- Jane Platt, Chief Executive
- Peter Cornish, Risk and Assurance Director
- Julian Hynd, Business-to-Business and Change Director
- Gillian McGrattan, Corporate Services Director
- Rodney Norman, Finance and Business Insight Director (from July 2012)
- Steve Owen, Operations and Commercial Management Director
- John Prout, Retail Customer Director
- Sir John de Trafford Bt. MBE, Non-executive Chairman
- James Furse, Non-executive Director and Chairman of the Appointments and Remuneration Committee
- David Hulf, Non-executive Director and Chairman of the Audit Committee
- Simon Ricketts, Non-executive Director
- James Richardson, HM Treasury (from June 2012)
- Clare Roberts, HM Treasury.

In July 2012, Sam Beckett (HM Treasury) stepped down from the board and was replaced by James Richardson. Rodney Norman joined NS&I as Finance and Business Insight Director on 9 July 2012, replacing acting Director Dharmesh Tailor. Rodney Norman was previously the Treasury Accountant, Head of Exchequer Funds and Accounts at HM Treasury. Gillian McGrattan will be leaving NS&I in June 2013 to take up a new role elsewhere.

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 Non-executive Directors can be found on page 38.

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 the developments and demands on NS&I, it was concluded that it was not appropriate to change the maximum number of Executive Directors.

Chairman and Chief Executive

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

- ensuring the effectiveness and both 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, Director of Savings and Accounting Officer, 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 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 Accounting Officer and the Director of Savings. The Statement of Accounting Officer's responsibilities is on page 30.

In July 2012, Jane Platt became a Non-executive Director of Royal London Group. In April 2013, she was appointed a Non-executive Director of the FCA. As a consequence, she stepped down from her role at Royal London Group in June 2013. The remuneration from both roles is paid directly to NS&I.

The Non-executive Directors

The four Non-executive Directors are independent of management and 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 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 for ensuring that all board procedures are followed. All Directors 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. 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 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 2012–13 was as follows:

Name	Board (6 meetings)		Audit Committee (8 meetings)		Appointments and Remuneration Committee (4 meetings)	
	Possible	Actual	Possible	Actual	Possible	Actual
Sir John de Trafford Bt.	6	6	N/A	N/A	4	4
David Hulf	6	6	8	8	N/A	N/A
Simon Ricketts	6	6	8	8	N/A	N/A
James Furse	6	6	N/A	N/A	4	4
Sam Beckett(1)	2	0	N/A	N/A	N/A	N/A
Clare Roberts(2)	6	6	8	5	N/A	N/A
James Richardson(2), (3)	4	1	N/A	N/A	N/A	N/A
Jane Platt	6	6	N/A	N/A	4	4
Peter Cornish	6	6	N/A	N/A	N/A	N/A
Julian Hynd	6	6	N/A	N/A	N/A	N/A
Gillian McGrattan	6	6	N/A	N/A	4	3
Steve Owen	6	6	N/A	N/A	N/A	N/A
John Prout	6	6	N/A	N/A	N/A	N/A
Dharmesh Tailor(4)	2	2	N/A	N/A	N/A	N/A
Rodney Norman(5)	4	4	N/A	N/A	N/A	N/A

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

(1) Sam Beckett left the NS&I board in July 2012.

(2) Only one HM Treasury representative is expected to attend each board or Audit Committee meeting.

(3) James Richardson was appointed as HM Treasury representative to the NS&I board in July 2012.

(4) Dharmesh Tailor left the NS&I board in July 2012.

(5) Rodney Norman was appointed as Finance and Business Insight Director on 9 July 2012.

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.

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. Normally they can serve for two terms of office, subject to satisfactory performance and business need.

Board effectiveness

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 the Director's induction.

During 2012–13, board members were 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 facilitate its continued development.

The board has adopted the recommendation in the Code to hold an annual evaluation of board's, the committees' and officers' effectiveness with an external evaluation at least once every three years.

In April 2012, an external evaluator led a quantitative and qualitative evaluation of the board, with results discussed openly. An action plan was produced and approved by the board at its next meeting in May. As a result of this, the board's terms of reference were amended. The remaining actions identified were:

- spending more time addressing strategic issues/forward planning
- spending less time on detail and routine reporting and more on debate and challenge
- reviewing the calendar of standard board items and making it more flexible to business demands
- fully using the expertise and knowledge of the Non-executive Directors by having more debate/discussion as opposed to passive monitoring.

During the year, the agenda has been restructured to ensure that appropriate emphasis is given to strategy and forward planning and a number of workshops have been held – for example on strategy and leveraging – with less time allocated to routine reporting items.

In December 2012, the board considered its progress against the plan and agreed that the board effectiveness review had been implemented.

A further, internal review will be taking place in June 2013.

Quality of data used by the board

As part of its effectiveness review, the board considered the quality of data it receives and actions have been taken to improve it where required.

There is a comprehensive rolling calendar which ensures that only relevant reports are presented to the board and at the right time during the year.

Conflicts of interests

NS&I's Board Operating Framework includes provisions that reflect recommended practice concerning conflicts of interests. 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.

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 Committee in terms of the provision of assurances.

The Chairs of the Audit Committee and the Appointments and Remuneration Committee report back to the board after each meeting and, where necessary, if a committee has requested more detailed assurances, such as work on cyber security.

Audit Committee

The Audit Committee consists solely of Non-executive Directors and an HM Treasury representative. It is chaired by David Hulf and comprises Simon Ricketts and Clare Roberts. As required by the Code, the Chairman of the Audit Committee has recent and relevant experience for this role.

The main responsibilities of the Audit 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 NS&I work outsourced to our operational delivery partner 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 Committee met eight times during the year. At the invitation of the Committee, the Chief Executive, the Finance and Business Insight Director and the Director of Risk and Assurance also attend, as well as the Head of Internal Audit, the director from the National Audit Office and the external audit partner (under the National Audit Office's framework agreement). All Directors have access to the minutes of the Audit Committee meetings.

During 2012–13, the Audit 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
- implementation progress on compliance, risk and fraud strategies, including developments to the risk assurance framework
- business continuity, disaster recovery and physical and data security arrangements
- review of the Audit Committee and the achievement of its terms of reference.

It also produces an annual report for the board on its activities.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprises Non-executive Directors James Furse (as Chairman) and Sir John de Trafford Bt. It also comprises two Executive Directors: the Chief Executive and the Corporate Services Director.

Support to the Committee is provided by Gerard Hutchinson (Director of Global Reward, Rolls-Royce plc) in an independent advisory capacity.

The Committee reviews and approves the Chief Executive's recommendations on pay and performance-related awards to confirm that it is consistent with government policy, HM Treasury pay guidance and the needs of the business. Performance-related awards are judged on three elements: NS&I's performance against its service delivery measures, which are audited; individual performance objectives, which are assessed by the Chief Executive using appropriate measures of outcomes; and performance against the NS&I competency framework, which is assessed through 360–degree feedback.

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.

Details of Directors' remuneration and emoluments are set out in the remuneration report on pages 25 to 29.

Executive Committee

The Executive Committee consists of all Executive Directors and is chaired by the Chief Executive. The Account Director for our delivery partner is invited to attend relevant sections of these meetings.

The Executive Committee meets twice monthly to discuss issues relating to strategy, people, risk and financial results. Representatives from across NS&I and our operational delivery partner are invited to the meetings, as appropriate, to discuss aspects of their business or to give presentations on specific topics.

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 £719,000 (2011–12: £698,800) and Accounts statutory audit of £94,000 (2011–12: £160,000). 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 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.

Non-executive Directors' biographies

Sir John de Trafford Bt. MBE

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 EMEA Executive. He retired from American Express seven years ago and currently has a portfolio of not-for-profit and commercial activities.

David Hulf

Chairman of the Audit Committee

David was appointed a Non-executive Director in January 2010. He was appointed for a second term in January 2013. 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 also Chair of the NHS Business Service Authority's Audit and Risk Committee.

Simon Ricketts

Simon was appointed a Non-executive Director in July 2007. He was appointed for a second term in July 2010. His second term has been extended for an additional year to July 2014 to cover the start of the new outsourcing contract. 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

Chairman of the Appointments and Remuneration Committee

James was appointed as a Non-executive Director in January 2012. He enjoyed a long and distinguished career with the John Lewis Partnership, which he joined in 1981, progressing through a series of roles to become a managing director within the retail operation. He later moved to managing outsourced relationships, including a key contract with HSBC, and subsequently became Director of Card Services reporting directly to the Chairman. 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 and became a member of a number of related boards, including Duchy Originals Ltd.

Clare Roberts

Clare is Deputy Director, Fiscal and Head of the Debt and Reserves Management Team at HM Treasury where she is responsible for government debt (wholesale and retail) and foreign exchange reserves management. She has worked at HM Treasury since 1997 on fiscal, expenditure and international finance policies, and for two years as an economic adviser for the Department for International Development based in Beijing. Clare joined the NS&I board in October 2011.

James Richardson

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 HM Treasury's Chief Scientific Adviser. James joined the NS&I board in July 2012.

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, and its strategic risks. The board ensures 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 its compliance with best corporate governance practice.

The Audit Committee is responsible for assuring the Accounting Officer and board on the adequacy of the processes for risk control, governance, security and the accounting policies adopted. In addition, the Audit Committee assures the adequacy of internal audit arrangements, including resourcing to provide the 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 enables 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 FSA 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. With the replacement of the FSA with the FCA from 1 April 2013, NS&I will be guided on a voluntary basis and where appropriate and applicable, by the provisions set out by the FCA handbook.

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

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 is 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.

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 or mitigate the risk. The impact of 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 these 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 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 Procurement Directives which set 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. A list of contractors with a contract value of £90,000 or more is available at **www.nsandi.com/files/asset/pdf/ojeu-contracts-december-2013.pdf**
- Staff can report illegal, dishonest or unethical activities to a confidential reporting service.
- We employ a range of internal controls to mitigate our fraud risk, and these are reviewed regularly.
- business continuity and disaster recovery plans are in place to manage incidents or crisis events.

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 managers who are 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 and external audit functions which are independent of day-to-day business and which report to the Audit 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

The Audit 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 that has exposed, or continues to expose, NS&I to an unacceptable risk.

A range of controls operate to ensure that figures in the accounts are fairly stated. These include controls that operate over processing transactions for customers and controls that operate for the purposes of financial reporting ("reporting controls") but which do not affect customers. A high level reporting control is used which checks the interest charge by producing an estimate and comparing it to the interest recognised in the accounts. From September 2012 to March 2013 this estimation process was not updated for fixed-term products. The estimate does not itself affect the calculation of the accounts figures which are produced by NS&I's core system. Alternative procedures were used to provide assurance, including other estimation techniques and data checks, and all the results were good. The original estimation process is being updated so that it can once again be used to provide assurance on the interest charge in 2013-14.
The estimation process is a reporting control. There have not been any effects on finances or customers.

The Committee has reviewed the National Audit Office report on the administration of the Equitable Life Payment Scheme and is satisfied that appropriate action has been agreed to respond to the recommendations.

No serious or untoward incidents were reported during the year.

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 41 and 42 along with a summary of how we managed or mitigated these risks in 2012–13.

Assurances

NS&I's governance framework is subject to an annual review by independent internal auditors who report to the Audit Committee on its effectiveness. This annual audit enables the Audit 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 Committee is provided with an independent evaluation of the governance framework through:

- a risk-based internal audit programme agreed by the Audit Committee and which has been delivered during the year 2012–13 primarily 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 Committee; a comprehensive tracker system is used to monitor delivery of the control improvements
- a quarterly update on compliance assurance monitoring which has included reports on Data Protection Act records management and retention and Data Protection Act strategy and governance
- internal audit's annual opinion for the year ended 31 March 2013
- 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 FSA (FCA from 2013-14) on the compliance agenda
- provision of International Standard on Assurance Engagements (ISAE) 3402 operational controls assurance for business-to-business clients
- the external auditors' annual audit with recommendations for improvements to the internal control environment identified during the annual audit and inspection
- the report from the National Audit Office on the administration of the Equitable Life Payment Scheme, which made recommendations for improvements encompassing timetable and budget; management of the remaining payments; tracing of policy holders; and customer service quality.

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

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

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

Principal risks facing NS&I

Principal risk factor	Key factors	Key specific risks and mitigation
Net Financing risk Net Financing risk is the risk of failing to meet the annual Net Financing target agreed annually with HM Treasury.	Our ability to remain within the agreed Net Financing remit depends on a number of factors, including: • change in deposit market conditions • competition for retail deposits • market shocks that may impact on consumer confidence • material changes to (and awareness of) depositor insurance arrangements.	**Inability to meet Net Financing target** Mitigating actions include pricing, taking products on or off sale and marketing activity.
Change programme risk Change programme risk is the failure to deliver NS&I's change programme within agreed cost, time and quality parameters.	As part of the NS&I direct+ strategy, we continued to upgrade and modernise our infrastructure and product range.	**Failure to meet the change programme objectives** To manage the risks associated with this, we have put a programme of 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 Brand risk is the failure to manage the gap between what we want to communicate about NS&I (e.g. our brand values, our product range, our pricing policy) and what others (e.g. customers, industry competitors, consumer groups) think and understand about us.	Any brand needs to actively monitor the way in which its broader reputation (or 'brand health') is perceived – particularly if it operates within the financial services sector – so we need to track brand awareness measures closely. The risks of any negative trends, however arising, are significant. NS&I's unique role in helping ensure confidence across the financial sector makes this particularly important.	**Damage to the 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 Outsourcing risk is the failure to manage the provision of key functions by a third party supplier.	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 retains ultimate accountability and responsibility for service provision. Transitioning to a new outsourced supplier has formed a significant part of our outsourcing and operations planning over the year and a robust re-tender process was followed.	**Failure of outsourcing partnerships** In order to manage the risks associated with these partners, we have well-developed governance and relationship structures, coupled with formal contract arrangements and targets, so that horizon risks and current issues are dealt with promptly and the partnerships remain aligned.

Principal risks facing NS&I (continued)

Principal risk factor	Key factors	Key specific risks and mitigation
Business-to-business risk Business-to-business risk is the failure to achieve the revenue targets set as part of the direct+ strategy.	The new NS&I direct+ strategy brings with it uncertainties inherent in the sourcing of business-to-business income while maintaining NS&I's core business and conducting the re-tender programme.	**Failure to deliver business-to-business revenue** In the light of our NS&I direct+ strategy experience over the year, we revised our governance arrangements within our business-to-business directorate and these changes took effect from 1 January 2013. We will continue to monitor the strategy and revised structure to ensure that we remain on track.
Operations risk Operations risk is the failure of NS&I's outsourced provider to process customer transactions to meet the requirements of NS&I's customers and stakeholders to agreed standards, regulations and quality measures.	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.	**Operational failure and losses** We have a robust governance and monitoring system in place. Some of our key management controls used to manage these risks are highlighted earlier in this statement on page 39.
Information risk Information risk is the failure to control, protect, deliver and enhance the value of NS&I's data and information assets.	We hold personal information relating to our customers and 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.	**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 a Security Risk Management Overview. No serious or untoward incidents were reported during the year.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
12 July 2013

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

I certify that I have audited the financial statements of National Savings and Investments for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, Statement of Cash Flows, Statement of 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 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 the circumstances of National Savings and Investments 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. 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 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 2013 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 the affairs of National Savings and Investments as at 31 March 2013 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 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.

Amyas C E Morse
Comptroller and Auditor General

Date: 16 July 2013

National Audit Office
157-197 Buckingham Palace Road
Victoria,
London,
SW1W 9SP

Statement of Parliamentary supply

Summary of resource and capital outturn 2012–13

								2012–13	2011–12
		Estimate			Outturn			Voted outturn compared with estimate: saving/ (excess)	Outturn
	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, 3.2	169,950	–	169,950	167,203	–	167,203	2,747	172,465
–Capital	2.2	239	–	239	34	–	34	205	191
Annually Managed Expenditure (AME)									
–Resource	2.1	6,000	–	6,000	1,181	–	1,181	4,819	639
–Capital		–	–	–	–	–	–	–	–
Total budget		**176,189**	**–**	**176,189**	**168,418**	**–**	**168,418**	**7,771**	**173,295**
Total		**176,189**	**–**	**176,189**	**168,418**	**–**	**168,418**	**7,771**	**173,295**
Total resource	2.1	175,950	–	175,950	168,384	–	168,384	7,566	173,104
Total capital	2.2	239	–	239	34	–	34	205	191
Total		**176,189**	–	176,189	**168,418**	–	168,418	**7,771**	**173,295**

Net cash requirement 2012-13

	2012–13		2012–13	2011–12
	Estimate	Outturn	Outturn compared with estimate: saving	Outturn
Note	£000	£000	£000	£000
4	177,590	175,210	2,380	161,588

Administration costs 2012-13

Note	2012-13 Estimate £000	2012-13 Outturn £000	2011-12 Outturn £000
3.2	169,950	167,203	172,465

Figures in the areas outlined in **bold** are voted totals subject to Parliamentary control.

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

The notes on pages 50 to 71 form part of these accounts.

Statement of comprehensive net expenditure
for the year ended 31 March

	Note	2012–13 £000	2011–12 £000
Administration costs			
Staff costs	7	11,494	11,490
Other administration costs	8	187,578	192,032
Operating income	10	(31,885)	(31,255)
Net administration costs		**167,187**	**172,267**
Programme costs			
Programme costs	9	(2,211)	(10,345)
Operating income	10	(4,012)	14,659
Net programme costs		**(6,223)**	**4,314**
Net operating costs		**160,964**	**176,581**
Total expenditure		196,861	193,177
Total income		(35,897)	(16,596)
Net operating costs		**160,964**	**176,581**
Other comprehensive net expenditure			
Net loss on revaluation of property	19	1,223	3,642
Total comprehensive expenditure		**162,187**	**180,223**

All income and expenditure are derived from continuing operations.

The notes on pages 50 to 71 form part of these accounts.

Statement of financial position
as at 31 March

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Non-current assets					
Property, plant and equipment	11	23,231		28,677	
Intangible assets	12	65,704		66,915	
			88,935		95,592
Other receivables	14		4,371		5,245
Total non-current assets			93,306		100,837
Current assets					
Trade and other receivables	14	6,287		6,835	
Cash and cash equivalents	15	105		554	
Client funds	16	173,552		332,908	
Total current assets			179,944		340,297
Total assets			273,250		441,134
Current liabilities					
Trade and other payables	17	(201,837)		(378,201)	
Provisions	18	(132)		(126)	
Total current liabilities			(201,969)		(378,327)
Non-current assets plus net current assets			71,281		62,807
Non-current liabilities					
Trade and other payables	17	(15,486)		(20,832)	
Provisions	18	–		(16)	
Total non-current liabilities			(15,486)		(20,848)
Total assets less liabilities			**55,795**		**41,959**
Taxpayers' equity					
General Fund			45,326		29,824
Revaluation reserve			10,469		12,135
Total equity			**55,795**		**41,959**

The notes on pages 50 to 71 form part of these accounts.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
12 July 2013

Statement of cash flows
for the year ended 31 March

	Note	2012–13 £000	2011–12 £000
Cash flows from operating activities			
Net operating cost		(160,964)	(176,581)
Adjustment for non-cash transactions	8, 9	23,232	20,727
(Decrease)/increase in trade and other receivables	14	1,422	(8,427)
(Decrease)/increase in trade and other payables	17	(15,252)	25,715
less movements in payables relating to items not passing through the Statement of comprehensive net expenditure		–	(17)
Use of provisions – early retirements	18	–	(190)
Use of provisions – Glasgow sports ground	18	(16)	(8)
Net cash outflow from operating activities		**(151,578)**	**(138,781)**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(565)	(1,050)
Purchase of intangible assets	12	(16,415)	(23,556)
(Decrease)/increase in trade and other payables	17	(6,652)	1,780
Net cash flows from investing activities		**(23,632)**	**(22,826)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		175,312	162,142
From the Consolidated Fund (Supply) – prior year		(552)	(872)
Net Financing		**174,760**	**161,270**
Net decrease in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(450)	(337)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		(26)	(56)
Payments of amounts due to the Consolidated Fund		27	75
Net decrease in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	15	(449)	(318)
Cash and cash equivalents at the beginning of the period	15	**554**	**872**
Cash and cash equivalents at the end of the period	15	**105**	**554**

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

The notes on pages 50 to 71 form part of these accounts.

Statement of changes in taxpayers' equity
for the year ended 31 March

	Note	General Fund (1) £000	Revaluation reserve (2) £000	Total reserves £000
Balance at 1 April 2011		**43,958**	**15,777**	**59,735**
Changes in taxpayers' equity 2011–12				
Net Parliamentary Funding – drawn down		161,270	–	161,270
Net Parliamentary Funding – deemed		872	–	872
Consolidated Fund Extra Receipts payable to Consolidated Fund		(2)	–	(2)
Supply payable adjustment		(552)	–	(552)
		161,588	**–**	**161,588**
Comprehensive net expenditure for the year		(176,581)		(176,581)
Non-cash adjustments				
Auditor's remuneration	8	859	–	859
Net loss on revaluation of property, plant and equipment	19	–	(3,642)	(3,642)
		(175,722)	(3,642)	(179,364)
Balance at 31 March 2012		**29,824**	**12,135**	**41,959**
Changes in taxpayers' equity 2012–13				
Net Parliamentary Funding – drawn down		174,760	–	174,760
Net Parliamentary Funding – deemed		552	–	552
Supply payable adjustment		(102)	–	(102)
		175,210	**–**	**175,210**
Comprehensive net expenditure for the year		(160,964)		(160,964)
Non-cash adjustments				
Auditor's remuneration	8	813	–	813
Net loss on revaluation of property, plant and equipment	19	–	(1,223)	(1,223)
		(160,151)	(1,223)	(161,374)
Movements in reserves				
Transfer between reserves		443	(443)	–
Balance at 31 March 2013		**45,326**	**10,469**	**55,795**

(1) General Fund: The General Fund represents the total assets less liabilities of NS&I, to the extent that the total is not represented by other reserves and financing items. Supply financing is credited to the General Fund. An amount equal to any expenditure on standing services is debited to the General Fund.

(2) Revaluation reserve: The revaluation reserve reflects the unrealised balance of the cumulative revaluation adjustments to assets. The movement of £443,000 is the balance on the revaluation reserve attributable to assets derecognised in the year.

The notes on pages 50 to 71 form part of these accounts.

Notes to the Accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the Government's 2012–13 *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 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 at Annex1).

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 2013 or later periods. NS&I has not early adopted the standards, amendments or interpretations described below:

1.1.1 Amendments to International Accounting Standard (IAS) 1 – Presentation of financial statements – other comprehensive income (effective for annual periods beginning on or after 1 July 2012)
The amendments change the groupings of items presented in other comprehensive income (OCI). Items that might be reclassified (or recycled) to profit or loss at a future point in time will be presented separately from items that will never be reclassified. The change will assist users of the financial statements to identify more easily the potential impact that OCI items may have on future profit and loss. The standard will be applied by government departments and agencies for the 2013–14 financial year.

1.1.2 Amendment to IAS 19 – Post employment benefits – pensions (effective for annual periods beginning on or after 1 January 2013)
The amendment eliminates the option for deferring gains and losses resulting from defined benefit plans. It also improves disclosure requirements as characteristics of the plans are more accurately reflected. The amendment also modifies accounting for termination benefits, including distinguishing between benefits provided in exchange for service and benefits provided in exchange for the termination of employment, and affects the recognition and measurement of termination benefits. The standard will be effective for government departments and agencies for the 2013–14 financial year.

1.1.3 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 January 2013)
The standard defines fair value, provides guidance on fair value measurement techniques and sets out disclosure requirements. The standard establishes 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. This standard is still subject to further review by HM Treasury and the other relevant authorities following proposals put to the Financial Reporting Advisory Board in December 2012. Further due consultation process will take place during 2013.

1.1.4 Other amendments to the FReM due to come into effect on or after 1 April 2013 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), note 1.8

(impairments) 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 IFRIC (International Financial Reporting Interpretations Committee) 12 was implemented. Capitalisation of these costs requires considerable judgement. The 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 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 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 quarterly 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 22.

1.5 Property, plant and equipment

Property, plant and equipment (PPE) is initially recorded at cost. It is subsequently restated at fair value less any impairment losses and accumulated depreciation. Subsequent costs are included in the asset fair value only to the extent that they enhance the future economic benefits associated with the asset that will flow to NS&I and the value can be reliably measured. Expenditure on assets of £500 and over is capitalised.

Property that is being constructed or developed for future use is classified as an asset under construction in PPE and initially stated at cost until construction or development is complete, at which time it is classified as property. Assets under construction values are reviewed at year end for impairment even though the asset is not in use.

Depreciated historical cost basis is being used as a proxy for the fair value of assets in all asset categories that have short useful lives or low values (or both).

Where appropriate, and where active markets exist for assets in all asset categories with higher values and longer lives, fair values will be based on the relevant market value. In some cases where this is not available this will be depreciated replacement cost.

Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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, otherwise it is charged to the Statement of comprehensive net expenditure (other comprehensive net expenditure). The revaluation surplus is not transferred to the General Fund until the asset's ultimate disposal.

Individual desks, chairs, computers, furniture and cabinets fall below the prescribed capitalisation limit, but these assets are grouped together for capitalisation purposes. Where material they are valued at their net current replacement cost using appropriate indices.

1.6 Depreciation

Land is not depreciated. Depreciation on other PPE is charged to the Statement of comprehensive net expenditure on a straight-line basis over their estimated useful economic lives. The depreciable amount is the cost or value of the asset less its residual value. The estimated useful economic lives are as follows:

Freehold buildings	20 to 50 years
Plant and machinery	5 to 10 years
Furniture and fittings	5 to 10 years
Information technology	3 to 5 years

The majority of purchased plant and machinery has been capitalised over a ten-year period and the majority of information technology assets are capitalised over a five-year period.

1.7 Intangible assets

1.7.1 Software licences

Computer software licences are carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software licences are capitalised and amortised on a straight-line basis over their useful economic lives of three to five years.

1.7.2 Information technology software

The external and internal costs of acquiring and developing software are capitalised where the software is controlled by NS&I, and where it is probable that future economic benefits will flow from its use over more than one year and the cost can be measured reliably. Costs associated with maintaining software are recognised as an expense when incurred. The estimated useful economic life is three to five years. The software is amortised on a straight line-basis.

1.7.3 Website

Expenditure on the website is capitalised at cost as an intangible asset when it is directly attributable to creating, producing and preparing the asset to be capable of operating in the manner intended by management and it is probable that future economic benefits that are attributable to the asset will flow to NS&I, and the cost of the asset can be measured reliably. The estimated useful economic life is three to five years. The website is amortised on a straight-line basis.

Website costs solely related to advertising and promoting NS&I products and services are recognised as an expense when incurred.

1.7.4 Assets under construction

These are initially recognised when they are separable and identifiable or arise from contractual or other legal rights and the cost can be measured reliably. External and internal costs of acquiring and developing intangible assets are capitalised where it is probable that future economic benefits will flow from their use over more than one year. NS&I has capitalised a number of development assets connected with the modernisation, simplification and leveraging of its capabilities.

These are not amortised until the assets come into use, when the value of such intangible assets is amortised on a straight-line basis over the estimated useful economic life. Estimated useful life is the lower of legal duration and expected useful life. The estimated useful economic life is three to five years.

An intangible asset is derecognised on disposal or when no future economic benefits arise from use.

1.8 Impairments of PPE and intangible assets

At each Statement of financial position date, NS&I assesses whether there is any indication that its intangible assets or PPE are impaired. If such an indication exists, NS&I estimates the recoverable amount of the assets or the cash-generating unit and the impairment loss, if any. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less selling costs and its value in use. Value in use is the present value of future cash flows expected to be derived from an asset or cash-generating unit discounted at a market rate.

Cash-generating units are assets that generate cash inflows which are largely independent of the cash inflows from other assets or groups of assets. Where an asset or group of assets is not held for the purpose of generating cash flows, the value in use is assessed to equal the cost of replacing the service potential provided by the asset or group of assets, unless there has been a reduction in service potential.

If the recoverable amount of a non-current asset is less than its carrying value, an impairment loss is recognised immediately in the Statement of comprehensive net expenditure and the carrying value of the asset reduced by the amount of the loss unless the asset has been revalued upwards previously. In this instance, the impairment loss is written off against the revaluation reserve with any excess written off to the Statement of comprehensive net expenditure. A reversal of an impairment loss on intangible assets or PPE is recognised in operating costs where a previous impairment loss had been recognised in operating costs.

Intangible assets that have a finite useful life are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

1.9 Leases

Leases are accounted for as operating leases as a significant portion of the risks and rewards of ownership are 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. 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 on 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 expenditure. The classification of expenditure as administration costs or as programme expenditure 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 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 expenditure. These include costs covered in 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 on 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. These amounts are released back to operating income over the useful life of the development asset as programme income. The result of the adjustment is to reduce the level of operating income in the Statement of comprehensive net expenditure.

1.19 Value added tax

NS&I's 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. NS&I's business-to-business activities are also exempted from VAT under the same terms of the VAT legislation.

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 is based on NS&I being one 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 a current asset on the Statement of financial position, with the corresponding liability in trade and other payables.

2 Net outturn

2.1 Analysis of net resource outturn by section

	2012–13									2011–12
	Outturn							Estimate		
	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	Outturn £000
Spending in Departmental Expenditure Limit (DEL)										
Voted Administration	199,088	(31,885)	167,203	–	–	–	167,203	169,950	2,747	172,465
Spending in Annually Managed Expenditure (AME)										
Voted Administration	–	–	–	1,181	–	1,181	1,181	6,000	4,819	639
	199,088	**(31,885)**	**167,203**	**1,181**	**–**	**1,181**	**168,384**	**175,950**	**7,566**	**173,104**

Difference between resource outturn and estimate	**2012–13 £000**	**2012–13 £000**
Lower than expected transaction volume costs	(4,008)	
Additional project costs	5,429	
Deferred property asset management project	(1,879)	
Lower operational change costs	(2,104)	
Lower depreciation charges	(691)	
Other differences	506	
Total DEL underspend		(2,747)
Lower than expected requirement for provisions	(310)	
Lower than expected impairment charge for NS&I properties	(4,509)	
Total AME underspend		(4,819)
Total underspend against estimate		**(7,566)**

2.2 Analysis of net capital outturn by section

	2012–13					2011–12
	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	34	–	34	239	205	191
	34	**–**	**34**	**239**	**205**	**191**

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.

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

3.1 Reconciliation of net resource outturn to net operating cost

	Note	2012–13 Outturn £000	2011–12 Outturn £000
Total resource outturn in Statement of Parliamentary supply		168,384	173,104
	2	**168,384**	**173,104**
Add			
Income recognised in budget but transferred to deferred income	10	–	15,580
Income transferred from deferred income to operating income	10	(4,012)	(921)
PPP asset depreciation	9	2,377	2,855
PPP asset amortisation	9	16,738	12,138
PPP asset impairment	9	–	791
PPP asset reduction	9	288	1,655
PPP asset loss on disposal	9	10	29
		15,401	**32,127**
Less:			
Transfer of PPP costs to capital	9	(22,821)	(28,650)
		(22,821)	**(28,650)**
Net operating cost in Statement of comprehensive net expenditure		**160,964**	**176,581**

3.2 Outturn against final administration budget and administration net operating cost

	Note	2012–13 Outturn £000	2011–12 Outturn £000
Estimate-administration costs limit		**169,950**	**173,610**
Outturn - administration costs		199,088	203,720
Outturn - income relating to administration costs	10	(31,885)	(31,255)
Outturn - net administration costs		**167,203**	**172,465**
Reconciliation to operating costs			
Provision cash release	18	(16)	(198)
Administration net operating costs in statement of comprehensive net expenditure		**167,187**	**172,267**

4 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	Outturn £000	Net saving/ (excess) £000	Outturn 2011–12 £000
Resource outturn	2.1	175,950	168,384	7,566	173,104
Capital outturn					
– Addition of property, plant and equipment	2.2	239	37	202	77
– Addition of intangible assets	2.2	–	(3)	3	114
Accruals to cash adjustments					
– Non-cash items		(9,299)	(3,819)	(5,480)	(3,259)
– Changes in working capital other than cash		10,700	10,595	105	(8,646)
– Changes in payables falling due after more than one year					
Use of provisions – early retirements	18	–	–	–	190
Use of provisions – Glasgow sports ground	18	–	16	(16)	8
Net cash requirement		**177,590**	**175,210**	**2,380**	**161,588**

5 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 2012–13		Outturn 2011–12	
	Income £000	Receipts £000	Income £000	Receipts £000
Operating income outside the ambit of the estimate	27	*27*	58	*58*
Excess cash surrenderable to the Consolidated Fund	–	–	–	–
Total income payable to the Consolidated Fund	**27**	***27***	**58**	***58***

6 Fees and charges: business-to-business

The Spending Review 2010 challenged NS&I to find substantial reductions in costs. Investments that have been made in NS&I's direct channel 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-business activities with HM Treasury and the Ministry of Justice (Office of Accountant General (OAG)) with regard to the Equitable Life Payment Scheme (ELPS) and the Court Funds Service.

The financial objective of business-to-business was to recover the costs of providing the payment services and making a contribution towards financing other costs. The initial service for ELPS went live in June 2011 followed by an automated solution which went live in November 2011. The Court Funds Service went live in December 2011. NS&I's departure from the requirements from the FReM to report its fees and charges is due to the commercial sensitivities in publishing the information pertinent to its two existing clients.

7 Staff numbers and related costs

Staff costs comprise:

	2012–13 Permanently employed UK staff £000	2012–13 Others £000	2012–13 Total £000	2011–12 Total £000
Wages and salaries	8,021	1,144	9,165	9,445
Social security costs	842	–	842	637
Other pension costs	1,487	–	1,487	1,408
Total net costs	**10,350**	**1,144**	**11,494**	**11,490**

The PCSPS is an unfunded multi-employer defined benefit scheme but NS&I is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the Resource Accounts of the Cabinet Office: civil superannuation (www.civilservice.gov.uk/pensions).

For 2012–13, employers' contributions of £1,436,975 were payable to the PCSPS (2011–12: £1,377,389) at one of four rates in the range 16.7% to 24.3% (2011–12: 16.7% to 24.3%) of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2012–13 to be paid when the member retires and not the benefit 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 £45,937 (2011–12: £30,944) 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% (2011–12: 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 £2,977, 0.8% (2011–12: £2,095, 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 was £9,006. 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:

	2012–13 Permanently employed UK staff	2012–13 Others	2012–13 Total	2011–12 Total
Administration of NS&I	160	26	186	173
Total	**160**	**26**	**186**	**173**

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

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

Exit package cost band	2012–13 Number of compulsory redundancies	2012–13 Number of other departures agreed	2012–13 Value of exit packages by cost band (total cost)	2011–12 Number of compulsory redundancies	2011–12 Number of other departures agreed	2011–12 Value of exit packages by cost band (total cost)(1)
			£000			£000
<£10,000	–	–	–	–	–	
£10,000 – £25,000	–	–	–	–	1	
£25,000 – £50,000	–	–	–	–	–	
£50,000 – £100,000	–	–	–	–	–	
£100,000 – £150,000	–	–	–	–	–	
£150,000 – £200,000	–	–	–	–	–	
Total number of exit packages by type	–	–	–	–	1	
(total cost)	–	–	–	–	–	
Total resource cost (£)	–	–	**–**	**–**	**–**	

(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 for the prior 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.

8 Other administration costs

	Note	2012–13 £000	2012–13 £000	2011–12 £000	2011–12 £000
Public Private Partnership		147,831		149,026	
Selling agents (1)		13,268		17,828	
Banking charges		1,075		1,161	
			162,174		168,015
Marketing and research costs					
Marketing		6,380		4,930	
Research (2)		1,697		1,663	
			8,077		6,593
Other expenditure					
Consultancy, internal audit contract and personnel costs		4,374		4,305	
Professional services		7,516		7,846	
Other costs		1,517		1,404	
Losses and special payments	25	446		595	
Rentals under operating leases		852		852	
			14,705		15,002
Non-cash items					
Depreciation	11	1,682		1,545	
Amortisation	12	33		18	
Reduction in non current assets	11	89		–	
Loss on disposal	11	5		–	
Notional external audit fees (3)		813		859	
			2,622		2,422
Total			**187,578**		**192,032**

(1) Selling agents include our distribution partners, the Post Office and WHSmith, along with other minor agents.

(2) 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.

(3) The notional external audit fees include fees for the Product Accounts statutory audit of £719,000 (£698,800 in 2011–12) and for the Resource Accounts statutory audit of £94,000 (£160,000 in 2011–12).

9 Programme costs

	Note	2012–13 £000	2012–13 £000	2011–12 £000	2011–12 £000
Transfer of Public Private Partnership provider costs to capital (1)		(22,821)		(28,650)	
			(22,821)		(28,650)
Non–cash items					
Depreciation	11	2,377		2,855	
Amortisation	12	16,738		12,138	
Impairment (2)	11	1,873		1,660	
Reduction in non-current assets	11, 12	288		1,655	
Reversal of previous downward revaluation (2)	11	(682)		(716)	
Impairment of IP telephony system (3)	11	–		791	
Reversal of early departure provision (4)	18	–		(9)	
Increase in fraud losses provisions provided in year (4)	18	77		39	
Reversal of fraud losses provision (4)	18	(71)		(137)	
Loss on disposal	11	10		29	
			20,610		18,305
Total (5)			**(2,211)**		**(10,345)**

(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) In 2012–13, NS&I carried out a revaluation of its properties at the year end. Glasgow land increased in value (part of the increase was used to reverse a previous impairment in 2011–12); the value of the Glasgow, Blackpool and Moorland buildings decreased. The Durham building increased slightly. In 2011–12 the Moorland and Glasgow buildings were impaired. Land at Glasgow was also impaired. As there was no unrealised balance remaining for this in the revaluation reserve, a charge was made to programme costs.

(3) In 2011–12, NS&I impaired its IP telephony system as planned further development to the system could not be undertaken. This was carried out through non-budget.

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

(5) NS&I recognises all costs in note 9 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.

10 Income

Operating income comprises:

	Note	2012–13 £000	2011–12 £000
Contracted fraud loss recovery from Atos	25	443	337
Rent from external tenants		6,499	6,383
Business-to-business		24,943	24,535
Total income (net administration costs)		**31,885**	**31,255**
Transfer to deferred income		–	(15,580)
Transfer from deferred income to operating income		4,012	921
Total income (net programme expenditure)		**4,012**	**(14,659)**
Total operating income		**35,897**	**16,596**

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.

Non-operating income and receipts are not classified as income. They comprise amounts received as interest. The actual receipts surrenderable to the Consolidated Fund were £26,773 (2011–12: £57,984).

11 Property, plant and equipment

11(a) Current year

	Land £000	Buildings £000	Information technology £000	Plant and machinery £000	Furniture and fittings £000	Total £000
Cost or valuation						
At 1 April 2012	10,246	22,356	14,292	2,433	4,068	53,395
Additions	–	–	540	6	19	565
Disposals	–	–	(260)	(3)	(1)	(264)
Transfer from 'assets under construction'	–	–	695	–	–	695
Upward revaluation (1)	1,100	157	–	–	–	1,257
Downward revaluation (2)	(70)	(2,217)	–	–	–	(2,287)
Reclassification (3)	–	–	(239)	15	29	(195)
Increase adjustments (3)	–	–	106	–	–	106
Reduction adjustments (3)	–	–	(66)	(172)	(464)	(702)
At 31 March 2013	**11,276**	**20,296**	**15,068**	**2,279**	**3,651**	**52,570**
Depreciation						
At April 2012	–	(14,392)	(6,011)	(2,394)	(1,921)	(24,718)
Charge in year	–	(1,152)	(2,574)	(7)	(326)	(4,059)
Disposals	–	–	246	3	–	249
Backlog depreciation (1)	–	(1,385)	–	–	–	(1,385)
Reclassification (3)	–	–	44	(4)	(20)	20
Increase adjustments (3)	–	–	(135)	–	–	(135)
Reduction adjustments (3)	–	–	–	149	540	689
At 31 March 2013	**–**	**(16,929)**	**(8,430)**	**(2,253)**	**(1,727)**	**(29,339)**
Carrying amount						
At 31 March 2013	**11,276**	**3,367**	**6,638**	**26**	**1,924**	**23,231**
Asset financing						
Owned assets	**11,276**	**3,367**	**884**	**13**	**1,451**	**16,991**
IFRIC 12 assets	–	–	**5,754**	**13**	**473**	**6,240**
Total	**11,276**	**3,367**	**6,638**	**26**	**1,924**	**23,231**

(1) The freehold land and buildings at Blackpool, Durham and Glasgow were revalued as at 31 March 2013 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.

(2) The land and buildings are owned by NS&I but leased to Atos under an operating lease.

(3) In its Statement of comprehensive net expenditure, NS&I reports resources used under its PPP as administration costs. It then, in accordance with IFRIC 12, and under the heading of programme costs, transfers amounts spent on non-current assets to capital. Such assets are referred to as IFRIC 12 assets.

In preparing the 2011–12 accounts, a number of reclassifications, reduction adjustments and increase adjustments had to be made to align the amounts included in the accounts with the underlying accounting records. The adjustments impacted mostly on IFRIC 12 information technology assets. During 2012–13, work continued to complete the alignment of the accounts to underlying accounting records and a number of further adjustments were made.

The overall impact of these adjustments was to reduce the carrying value of PPE by £0.217 million (2011–12: £1.447 million), of which £0.175 million (2011–12: £0.427 million) arose from assets being reclassified as intangible rather than tangible non-current assets. The balance of £0.042 million (2011–12: £1.020 million) was charged to programme costs in the Statement of comprehensive net expenditure.

11(b) Prior year

	Land £000	Buildings £000	Information technology £000	Plant and machinery £000	Furniture and fittings £000	Total £000
Cost or valuation						
At 1 April 2011	12,336	20,160	22,345	2,680	6,409	63,930
Additions	–	(24)	1,031	1	42	1,050
Disposals	–	–	(560)	(6)	(14)	(580)
Upward revaluation (1)	140	3,199	–	–	–	3,339
Downward revaluation (2)	(2,230)	(979)	–	–	–	(3,209)
Impairment of IP telephony system	–	–	(1,310)	–	–	(1,310)
Reclassifications (3)	–	–	(556)	614	(614)	(556)
Reduction adjustments (3)	–	–	(8,127)	(856)	(2,374)	(11,357)
Increase adjustments (3)	–	–	1,469	–	619	2,088
At 31 March 2012	**10,246**	**22,356**	**14,292**	**2,433**	**4,068**	**53,395**
Depreciation						
At April 2011	–	(8,677)	(9,962)	(2,245)	(4,169)	(25,053)
Charge in year	–	(999)	(2,846)	(176)	(379)	(4,400)
Disposals	–	–	543	3	8	554
Backlog depreciation (1)	–	(4,716)	–	–	–	(4,716)
Impairment of IP telephony system	–	–	519	–	–	519
Reclassification (3)	–	–	129	(614)	614	129
Reduction adjustments (3)	–	–	6,094	840	2,287	9,221
Increase adjustments (3)	–	–	(488)	(202)	(282)	(972)
At 31 March 2012	**–**	**(14,392)**	**(6,011)**	**(2,394)**	**(1,921)**	**(24,718)**
Carrying amount						
At 1 April 2011	12,336	11,483	12,383	435	2,240	38,877
At 31 March 2012	**10,246**	**7,964**	**8,281**	**39**	**2,147**	**28,677**
Asset financing						
Owned assets	**10,246**	**7,964**	**1,184**	**39**	**1,735**	**21,168**
IFRIC 12 assets	**–**	**–**	**7,097**	**–**	**412**	**7,509**
At 31 March 2012	**10,246**	**7,964**	**8,281**	**39**	**2,147**	**28,677**

12 Intangible assets

12(a) Current year

	Information technology software	Software licences	Website	Assets under construction (1)	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2012	72,355	6,412	886	9,873	89,526
Additions	781	261	–	15,373	16,415
Transfer from 'assets under construction'	13,767	450	–	(14,912)	(695)
Disposals	–	(21)	–	–	(21)
Reclassifications (2)	23	172	–	–	195
Increase adjustments (2)	–	92	–	–	92
Reduction adjustments (2)	(248)	(249)	–	–	(497)
At 31 March 2013	**86,678**	**7,117**	**886**	**10,334**	**105,015**
Amortisation					
At 1 April 2012	(18,253)	(3,953)	(405)	–	(22,611)
Charged in year	(15,793)	(800)	(178)	–	(16,771)
Disposals	–	21	–	–	21
Reclassifications (2)	(6)	(14)	–	–	(20)
Increase adjustments (2)	–	(92)	–	–	(92)
Reduction adjustments (2)	156	6	–	–	162
At 31 March 2013	**(33,896)**	**(4,832)**	**(583)**	**–**	**(39,311)**
Carrying amount					
At 31 March 2013	**52,782**	**2,285**	**303**	**10,334**	**65,704**
Asset financing					
Owned assets	**–**	**108**	**–**	**–**	**108**
IFRIC 12 assets	**52,782**	**2,177**	**303**	**10,334**	**65,596**
At 31 March 2013	**52,782**	**2,285**	**303**	**10,334**	**65,704**

(1) Assets under construction during 2012–13 mainly included development work in connection with the modernisation programme.

Assets under construction during 2011–12 mainly included development work for NS&I's business-to-business projects. This involved transferring £14.91 million to IT intangibles once the development was ready to be used.

(2) As described in note 11, a review of non-current assets in 2011–12 resulted in a number of reclassifications, reduction adjustments and increase adjustments that had to be made to align the accounts with the underlying accounting records. During 2012–13, work continued to complete the alignment of the accounts to underlying accounting records. The overall impact of these adjustments was to reduce the carrying value of intangible assets by £0.160 million (2011–12: £0.208 million), of which an increase of £0.175 million (2011–12: £0.427 million) arose from assets being reclassified as intangible rather than tangible non-current assets. The balance of £0.335 million (2011–12: £0.635 million) was charged to programme costs in the Statement of comprehensive net expenditure.

12(b) Prior year

	Information technology software	Software licences	Website	Assets under construction (1)	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2011	49,614	1,434	886	11,703	63,637
Additions	2,724	1,647	–	19,185	23,556
Transfer from 'assets under construction'	19,648	–	–	(19,648)	–
Disposals	–	(5)	–	–	(5)
Reclassifications (2)	556	–	–	–	556
Reduction adjustments (2)	(192)	(1,955)	–	(1,367)	(3,514)
Increase adjustments (2)	5	5,291	–	–	5,296
At 31 March 2012	**72,355**	**6,412**	**886**	**9,873**	**89,526**
Amortisation					
At 1 April 2011	(6,653)	(1,031)	(227)	–	(7,911)
Charged in year	(11,406)	(572)	(178)	–	(12,156)
Disposals	–	2	–	–	2
Reclassifications (2)	(129)	–	–	–	(129)
Reduction adjustments (2)	67	950	–	–	1,017
Increase adjustments (2)	(132)	(3,302)	–	–	(3,434)
At 31 March 2012	**(18,253)**	**(3,953)**	**(405)**	**–**	**(22,611)**
Carrying amount					
At 1 April 2011	42,961	403	659	11,703	55,726
At 31 March 2012	**54,102**	**2,459**	**481**	**9,873**	**66,915**
Asset financing					
Owned assets	**–**	**144**	**–**	**–**	**144**
IFRIC 12 assets	**54,102**	**2,315**	**481**	**9,873**	**66,771**
At 31 March 2012	**54,102**	**2,459**	**481**	**9,873**	**66,915**

13 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 which include 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 to the book value of receivables, payables or cash held to their fair value.

NS&I is not exposed to any credit or liquidity risk in its performance of business-to-business services for both the OAG and HM Treasury. NS&I receives funds from HM Treasury into its bank accounts to cover payments to ELPS policy holders and the payment services operated for the OAG are carried out using the OAG's bank accounts.

14 Trade receivables, financial and other current assets

14(a) Trade and other receivables

	2013 £000	2012 £000
Amounts falling due within one year:		
Trade receivables	874	966
Deposits and advances	68	62
Prepayments	198	87
Accrued income	5,147	5,720
Subtotal	**6,287**	**6,835**
Amounts falling due after more than one year:		
Trade receivables	4,371	5,245
Total trade and other receivables	**10,658**	**12,080**

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

	2013 £000	2012 £000
Amounts falling due within one year:		
Balance with other central government bodies	5,124	5,888
Subtotal: intra-government balances	5,124	5,888
Balance with bodies external to government	1,163	947
Subtotal	**6,287**	**6,835**
Amounts falling due after more than one year:		
Balance with other central government bodies	4,371	5,245
Total trade and other receivables	**10,658**	**12,080**

15 Cash and cash equivalents

	2012–13 £000	2011–12 £000
Balance at 1 April	554	872
Net change in cash and cash equivalent balances	(449)	(318)
Closing cash and cash equivalents balance	**105**	**554**
The following balances are held at:		
Government Banking Service	105	554
Balance at 31 March	**105**	**554**

16 Client funds

	2012–13 £000	2011–12 £000
Balance at 1 April	332,908	–
Net (decrease)/increase in cash and cash equivalent balances	(159,356)	332,908
Closing cash and cash equivalents balance	**173,552**	**332,908**
The following balances are held at:		
Government Banking Service	173,552	332,908
Balance at 31 March	**173,552**	**332,908**

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.

17 Trade payables and other current liabilities

17(a) Trade and other liabilities

	2013 £000	2012 £000
Amounts falling due within one year:		
Taxation and social security	255	246
Trade payables	9,228	15,004
Other payables	165	154
Accruals	14,520	25,782
Deferred income	4,012	3,551
CFERs due to be paid to the Consolidated Fund	3	2
Amounts issued from the Consolidated Fund for supply but not spent at year end	102	554
Payments to be made on behalf of HM Treasury	173,552	332,908
Subtotal	**201,837**	**378,201**
Amounts falling due after more than one year:		
Trade payables	4,371	5,245
Deferred income	11,115	15,587
Subtotal	**15,486**	**20,832**
Total trade and other payables	**217,323**	**399,033**

Amounts falling due after more than one year refer to payments to be made to Atos and deferred income received from other government departments.

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

	2013 £000	2012 £000
Amounts falling due within one year:		
Balance with other central government bodies	178,089	337,571
Balance with public corporations and trading funds	–	145
Subtotal: intra-government balances	178,089	337,716
Balance with bodies external to government	23,748	40,485
Subtotal	**201,837**	**378,201**
Amounts falling due after more than one year:		
Balance with other central government bodies	11,115	15,587
Trade payables	4,371	5,245
Subtotal	**15,486**	**20,832**
Total trade and other payables	**217,323**	**399,033**

18 Provisions for liabilities and charges

18(a) Movements in provisions

	Note	Early departure costs (1) £000	Provision for fraud losses (2) £000	Provision for Glasgow sports ground (3) £000	Total £000
Balance at 1 April 2012		–	111	31	**142**
Provided in the year	25	–	77	–	**77**
Provision written back	25	–	(71)	–	**(71)**
Provisions utilised in the year		–	–	(16)	**(16)**
Balance at 31 March 2013		**–**	**117**	**15**	**132**
Balance at 1 April 2011		199	209	39	**447**
Provided in the year		–	39	–	**39**
Provision written back		(9)	(137)	–	**(146)**
Provisions utilised in the year		(190)	–	(8)	**(198)**
Balance at 31 March 2012		**–**	**111**	**31**	**142**

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

	Early departure costs(1) £000	Provision for fraud losses(2) £000	Provision for Glasgow sports ground (3) £000	Total £000
Not later than one year	–	117	15	**132**
Later than one year and not later than five years	–	–	–	**–**
Balance at 31 March 2013	**–**	**117**	**15**	**132**
Not later than one year	–	111	15	**126**
Later than one year and not later than five years	–	–	16	**16**
Balance at 31 March 2012	**–**	**111**	**31**	**142**

(1) NS&I meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. NS&I provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by an appropriate discount rate.

(2) NS&I provides for fraud losses that have been identified during the year and where it is probable that a liability will result.

(3) NS&I meets its rental obligations in an operating lease agreement with Pollok & Corrour Ltd (landlords of Glasgow sports ground) for the hire of the ground. Up until 2009–10 the payment had been refunded to NS&I by the Glasgow Sports and Social Association. The association ceased operating and no longer covers the payments. The lease is an onerous lease. There are still 60 years to run on the lease. The Department for Communities and Local Government signed a sealing letter of consent on 17 June 2011 authorising NS&I to sublease the sports ground to another party. At most the lease is likely to be held for a further year. The provision represents the liability to the landlord for that period.

19 Net loss on revaluation of property

	2013 £000	2012 £000
Revaluation on property charges to reserve:		
Downward revaluation	2,287	3,209
Revaluation of property: charges to Statement of comprehensive net expenditure	(1,192)	(944)
Upward revaluation	(1,257)	(3,339)
Backlog depreciation adjustment	1,385	4,716
Movement in revaluation reserve	**1,223**	**3,642**

20 Capital commitments

	2013 £000	2012 £000
Contracted for but not provided	12,637	9,195
Total	**12,637**	**9,195**

21 Commitments under leases

21(a) Operating leases with tenants

NS&I leases all of its properties to Atos under operating lease agreements to 31 March 2014. The future minimum rentals, excluding third party rents receivable under non-cancellable leases, are shown below. The rentals increase by RPIX annually. RPIX is the Retail Prices Index, excluding mortgage payments.

	2013 £000	2012 £000
Buildings		
Not later than one year	6,464	5,948
Later than one year and not later than five years	–	5,747
Total	**6,464**	**11,695**
Land (1)		
Not later than one year	–	–
Later than one year and not later than five years	66	47
Later than five years	237	207
Total	**303**	**254**

21(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.

	2013 £000	2012 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	860	823
Later than one year and not later than five years	3,306	3,023
Later than five years	–	520
Total	**4,166**	**4,366**
Land (1)		
Not later than one year	16	16
Later than one year and not later than five years	66	62
Later than five years	510	369
Total	**592**	**447**

None of these leases relates to the hire of plant.

(1) NS&I holds a lease on land in Glasgow with Pollok & Corrour Ltd. The lease commenced in 1974. The original lease term was for 99 years. NS&I pays £16,000 rent to the landlord annually. This will be increased to £17,930 from 2014. The lease has been subleased to another party from July 2011. NS&I will pay the lease costs to March 2014 after which the other party will reimburse NS&I the rent costs for a further 22 years to March 2036. A possibility remains that NS&I has a future liability of around £300,000.

22 Commitments under the Public Private Partnership contract

NS&I entered into a 10-year PPP contract with Siemens IT Solutions and Services (SIS) for the provision of operational services, which came into effect on 1 April 1999. 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. After exercising the option to extend on pre-agreed terms included in the original contract, the initial 10-year period was extended to 15 years, ending in March 2014. SIS was acquired by Atos Origin (Atos) in July 2011.

NS&I is committed to making annual payments to Atos. The level of annual payment is specified in the contract but may vary according to transaction volumes, new product and service channel developments and the level of Atos' performance. It is also uplifted each year in line with movements in the RPIX.

Atos' performance is measured through a set of detailed Key Performance Indicators on a monthly basis. Under the terms of the contract, Atos has an obligation to provide specified levels of operational and other services. Failure to attain these targets results in penalty payments to NS&I.

If Atos meets the performance standards in the contract and the transaction levels and business developments fall within agreed parameters, the payments under the contract at constant price levels would be:

	£000
Amounts falling due within one year	109,255
Net present value of amounts falling due within two to three years	–
Total	109,255

	£000
Comparable figures at 31 March 2012 were:	
Amounts falling due within one year	109,523
Net present value of amounts falling due within two to three years	92,747
Total	**202,270**

The capital commitments as disclosed in note 20 are included in the total PPP commitments shown above.

23 Other financial commitments

There were no other financial commitments at 31 March 2013 (Nil 31 March 2012).

24 Contingent liabilities disclosed under IAS 37

There were no material contingent liabilities at 31 March 2013 (Nil 31 March 2012).

25 Losses and special payments

	2012–13 Number of cases	2012–13 £000	2011–12 Number of cases	2011–12 £000
Compensation payments (1)	–	–	2	191
Fraud loss	127	446	188	404
Fruitless payments	–	–	–	–
Special payments	–	–	–	–
Total	**127**	**446**	**190**	**595**

Net fraud losses are shown in the table below:

	2012–13 £000	2011–12 £000
Fraud loss	446	404
Reversal of fraud losses in provisions	(71)	(137)
Increase in provisions for fraud losses	77	39
	452	306
Contracted fraud loss recovery	(443)	(337)
Total net fraud losses charged to Statement of comprehensive net expenditure	**9**	**(31)**

(1) Special payment of £190,000 related to settlement of a legal case.

26 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 major distributor of NS&I products and, as a public body, the Post Office is a related party. NS&I had a significant number of transactions with the Post Office during the accounting period. NS&I's Post Office costs during 2012–13 were £13,000,000 (2011–12: £17,149,107) for contract services.

In addition, NS&I has carried out a number of significant transactions with the Government Banking Service, the Ministry of Justice OAG, the Office for National Statistics 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, and the Financial Ombudsman Service. All related party transactions undertaken were at arms length.

Neither the Economic Secretary to HM Treasury, nor the Commercial Secretary to HM Treasury, 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 following table relates to deposits (excluding Premium Bond holdings) held by key management personnel and persons connected to them in NS&I.

	2012–13 £000	2011–12 £000
Executive Directors and Non-executive Directors	**1,933**	**1,829**

In relation to holdings in Premium Bonds, the Premium Bond Regulations 1972 (Statutory Instrument (SI) 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.

27 Events after the reporting period date

In May 2013, NS&I entered into a new seven-year PPP contract with Atos for the provision of operational services which will come 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 £660 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.

There are no other reportable events between the Statement of financial position date and 16 July 2013, the date of authorisation of these accounts. The financial statements do not reflect events after that date.

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 2013 under the Government Resources and Accounts Act 2000. These financial statements comprise: the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of 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 the circumstances of National Savings and Investments 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. 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 transactions 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 transactions 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 the 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 as at 31 March 2013 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 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.

Amyas C E Morse
Comptroller and Auditor General

Date: 16 July 2013

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 disclosed at Annex 1 to these accounts.

Scope of the Product Accounts

These accounts record transactions for the year ended 31 March 2013 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. Prior to 1 September 2009 certain funds were passed to the Commissioners for the Reduction of the National Debt (CRND), where they were invested mainly in government securities.
- *NS&I's administration costs*. These are funded by Parliamentary Vote and accounted for separately in the Accounts section in 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 National Loans Fund (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.

The Commissioners for the Reduction of the National Debt

Under the National Savings Bank Act 1971, Ordinary Account investments were passed to the Commissioners for the Reduction of the National Debt (CRND), who invested them under section 18 of that Act. The CRND form part of the DMO. Under the National Savings Stock Register Regulations 1976, some unclaimed funds were also passed to the CRND for inclusion in the Unclaimed Dividends Account.

From 1 September 2009, all NS&I funds held by the CRND were transferred to the NLF as part of NS&I's modernising and standardising strategies.

NS&I's products and regulation

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

Capital Bonds	National Savings Stock Register Regulations 1976
Children's Bonds (previously known as Children's Bonus Bonds)	Savings Certificates (Children's Bonus Bonds) Regulations 1991
First Option Bonds	National Savings Stock Register Regulations 1976
Guaranteed Income Bonds and Guaranteed Growth Bonds (previously known as Fixed Rate Savings Bonds)	National Savings Stock Register Regulations 1976
Guaranteed Equity Bonds	National Savings Stock Register Regulations 1976
Income Bonds	National Savings Stock Register Regulations 1976
Pensioners' Guaranteed Income Bonds	National Savings Stock Register Regulations 1976
Premium Bonds	Premium Savings Bonds Regulations 1972
Savings Certificates	Savings Certificates Regulations 1991

Products governed by the National Savings Bank Act 1971

Direct Saver Account	National Savings Bank Regulations 1972
Easy Access Savings 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.

Capital Bonds, Pensioners' Guaranteed Income Bonds, 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.

Easy Access Savings Account closed at the end of July 2012 and the bulk of the funds were either repaid or reinvested in other NS&I products. A small amount of these funds remain unclaimed within the Residual Account in order to continue earning interest for customers.

Audit

These accounts have been audited by the Comptroller and Auditor General, whose Certificate and Report appears on pages 72 and 73.

Statement of comprehensive income

for the year ended 31 March

	Note	2012–13 £000	2011–12 £000
Income			
Interest and prizes financed by the NLF (excluding revaluation of embedded derivatives)		2,277,476	2,410,545
Gain/(loss) on revaluation of embedded derivatives		10,813	(5,659)
Interest and prizes financed by the NLF		2,288,289	2,404,886
Cost			
Interest and prizes earned by investors (excluding revaluation of embedded derivatives)		(2,277,476)	(2,410,545)
(Loss)/gain on revaluation of embedded derivatives		(10,813)	5,659
Interest and prizes earned by investors	2	(2,288,289)	(2,404,886)
Income less cost		–	–

The notes on pages 79 to 90 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	2013 £000	2012 £000
Current assets			
Held by the NLF	4	101,585,990	102,427,202
Other receivables	5	158,490	104,081
Cash and cash equivalents	9	500,820	378,559
Total current assets	10	102,245,300	102,909,842
Current liabilities			
Liability to investors	6	(102,146,244)	(102,710,047)
Other payables	7	(7,494)	(6,458)
Total current liabilities		(102,153,738)	(102,716,505)
Net current assets		**91,562**	**193,337**
Non-current liabilities			
Liability to investors	6	(91,562)	(193,337)
Total non-current liabilities		**(91,562)**	**(193,337)**
Assets less liabilities		–	–

The notes on pages 79 to 90 form part of these accounts.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
12 July 2013

03 Product Accounts 2012-13

Statement of cash flows

for the year ended 31 March

	Note	2012–13 £000	2011–12 £000
Cash flows from operating activities			
Income less cost		–	–
Decrease/(Increase) in net funds held by the NLF	8	846,760	(4,080,145)
(Decrease) in amortisation of Guaranteed Equity Bonds' principal liabilities	4	(5,548)	(8,126)
(Increase) in other receivables	5	(54,409)	(17,914)
(Decrease)/Increase in total funds invested	2	(665,578)	4,017,847
Increase/(Decrease) in other payables	7	1,036	(1,421)
Net cash flow from operating activities		122,261	(89,759)
Net Increase/(Decrease) in cash and cash equivalents in the period	9	122,261	(89,759)
Cash and cash equivalents at beginning of the period	9	378,559	468,318
Cash and cash equivalents at end of the period	9	**500,820**	**378,559**

The notes on pages 79 to 90 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

These accounts are prepared in accordance with the Government 2012–13 *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 2013. 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 2015)

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. The standard has not yet been endorsed by the EU. This may impact the effective commencement date.

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 January 2013)

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 application of IFRS 13 is subject to further review by HM Treasury and the other relevant authorities following proposals put to the Financial Reporting Advisory Board in December 2012. Further due consultation process will take place during 2013. 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 complies.

1.2.3 Other amendments to the FReM due to come into effect on or after 1 April 2013 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 are 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 roll-over 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 is 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. Other receivables are subsequently measured at amortised cost using the effective interest method. 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 stand-alone 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	Interest and prizes earned by investors	Paid to investors including tax deducted at source	Transfer to Residual Account	Increase/ (decrease) in investors' funds	Invested 31 March 2013
	£000	£000	£000	£000	£000	£000
Capital Bonds	–	4,166	(233,863)	(20,663)	(250,360)	698
Children's Bonds	24,666	29,564	(180,390)	(99,112)	(225,272)	943,903
Direct Saver	1,953,211	51,775	(1,377,220)	–	627,766	3,690,038
Easy Access Savings Account	41,760	1,223	(680,138)	(268,530)	(905,685)	–
First Option Bonds	–	241	(52,384)	–	(52,143)	192
Guaranteed Equity Bonds	–	11,082	(51,814)	–	(40,732)	207,689
Guaranteed Income Bonds and Guaranteed Growth Bonds	626,827	184,914	(1,024,662)	(2,671)	(215,592)	5,623,607
Income Bonds	1,192,280	134,263	(1,353,989)	–	(27,446)	7,955,563
Individual Savings Account	445,177	67,666	(597,149)	–	(84,306)	3,257,335
Investment Account	235,593	23,101	(817,342)	–	(558,648)	3,207,559
Pensioners' Guaranteed Income Bonds	7	5,547	(285,218)	(5,894)	(285,558)	2,784
Premium Bonds	6,676,098	662,718	(5,718,515)	–	1,620,301	45,759,021
Residual Account	102,170	549	(355,418)	415,352	162,653	627,379
Savings Certificates	460,475	1,111,480	(1,984,029)	(18,482)	(430,556)	30,962,038
Total	**11,758,264**	**2,288,289**	**(14,712,131)**	**–**	**(665,578)**	**102,237,806**

Amounts paid to investors include both capital and interest payments.

First Option Bonds, Guaranteed Income Bonds and Guaranteed Growth Bonds are the only products that have tax deducted at source. The total tax deducted in 2012–13 was £37,710,000 (2011–12: £46,992,000).

The GEB interest earned figure includes a revaluation gain from the embedded derivative in 2012–13 of £10,813,000 (2011–12: loss £5,659,000) and accrued interest in 2012–13 of £269,000 (2011–12: £2,442,000).

Children's Bonus Bonds were renamed Children's Bonds during 2012–13 to reflect changes in the way interest would be earned on new issues and any matured bonds being renewed for a further term.

The Easy Access Savings Account closed at the end of July 2012 and prior to this customers were encouraged to reinvest in Direct Saver. The transfer of £268,530,000 to Residual Account represents the amount that had not been withdrawn or reinvested in any NS&I product at the end of July 2012. The bulk of these funds was paid out at the start of August 2012 and only a small amount of these funds remains unclaimed as part of the Residual Account balance.

2(b) Prior year

	Received from investors	Interest and prizes earned by investors	Paid to investors including tax deducted at source	Transfer to Residual Account	Increase/ (decrease) in investors' funds	Invested 31 March 2012
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Capital Bonds	–	16,023	(170,298)	(8,694)	(162,969)	251,058
Children's Bonus Bonds	27,465	36,965	(129,825)	–	(65,395)	1,169,175
Direct Saver	2,421,721	36,727	(1,086,721)	–	1,371,727	3,062,272
Easy Access Savings Account	464,602	8,879	(1,393,321)	–	(919,840)	905,685
First Option Bonds	–	1,652	(57,638)	–	(55,986)	52,335
Guaranteed Equity Bonds	(1)	(3,217)	(55,795)	–	(59,013)	248,421
Guaranteed Income Bonds and Guaranteed Growth Bonds	1,273,059	217,054	(2,624,551)	–	(1,134,438)	5,839,199
Income Bonds	985,176	138,622	(1,525,289)	–	(401,491)	7,983,009
Individual Savings Account	486,683	70,859	(718,281)	–	(160,739)	3,341,641
Investment Account	320,596	9,980	(998,978)	–	(668,402)	3,766,207
Pensioners' Guaranteed Income Bonds	–	20,940	(335,829)	(11,563)	(326,452)	288,342
Premium Bonds	6,317,080	642,638	(5,936,085)	–	1,023,633	44,138,720
Residual Account	67,024	433	(71,455)	20,257	16,259	464,726
Savings Certificates	5,928,417	1,207,331	(1,574,795)	–	5,560,953	31,392,594
Total	**18,291,822**	**2,404,886**	**(16,678,861)**	**–**	**4,017,847**	**102,903,384**

A repayment of capital with a value of £1,000 was made from Guaranteed Equity Bonds (GEB) during 2011–12.

3 Interest and prizes

	Note	2012–13 £000	2011–12 £000
Total interest and prizes earned in year	2	(2,288,289)	(2,404,886)
Add accrued interest and prizes opening balance		(947,224)	(1,061,793)
Less interest capitalised in year		1,510,323	1,720,128
Less interest and prizes paid in year		800,669	801,920
Add movements in out of date warrants/outstanding prizes in year		(3,896)	(2,593)
Accrued interest and prizes at 31 March	6	**(928,417)**	**(947,224)**

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

4 Amounts held by the NLF

	Note	2012–13 £000	2011–12 £000
As at 1 April		102,427,202	98,338,931
Interest and prizes financed by the NLF		2,288,289	2,404,886
Received from the NLF	8	(13,778,655)	(15,012,309)
Paid to the NLF	8	10,643,606	16,687,568
Net funds held by the NLF		101,580,442	102,419,076
Amortisation movements of GEB principal liabilities		5,548	8,126
As at 31 March		**101,585,990**	**102,427,202**

The amount held by the NLF includes interest and prizes accrued in 2012–13 of £858,743,000 (2011–12: £881,995,000).

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

	2013 £000	2012 £000
Agents	129,229	60,303
Post Office	27,485	40,218
Other receivables	1,776	3,560
Total	**158,490**	**104,081**

Changes were made to the Post Office partnership during 2012–13. Prior to September 2012, a range of NS&I products were distributed by the Post Office, which provided counter and brochure pick-up services for customers across its UK network. As part of our direct channels strategy, the only product now available for purchase at the Post Office is Premium Bonds. The ‘Our customers’ section in the Annual Report provides more detail on these changes.

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 2013 £000
Current liabilities			
Capital Bonds	698	–	698
Children's Bonds	915,102	28,801	943,903
Direct Saver	3,690,038	–	3,690,038
First Option Bonds	192	–	192
Guaranteed Equity Bonds	96,554	19,573	116,127
Guaranteed Income Bonds and Guaranteed Growth Bonds	5,579,303	44,304	5,623,607
Income Bonds	7,931,979	23,584	7,955,563
Individual Savings Account	3,192,829	64,506	3,257,335
Investment Account	3,201,651	5,908	3,207,559
Pensioners' Guaranteed Income Bonds	454	2,330	2,784
Premium Bonds	45,649,052	109,969	45,759,021
Residual Account	626,845	534	627,379
Savings Certificates	30,353,180	608,858	30,962,038
	101,237,877	**908,367**	**102,146,244**
Non-current liabilities			
Guaranteed Equity Bonds	71,512	20,050	91,562
	71,512	**20,050**	**91,562**
Total liability to investors	**101,309,389**	**928,417**	**102,237,806**

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 (£928,417,000) is accrued interest in respect of the principal liability to investors. Note 4 discloses accrued interest (£858,743,000) in respect of balances held by the NLF. The difference between these amounts is due to outstanding interest liabilities which are pending settlement, such as prizes and interest warrants.

All products are payable on demand and therefore are classified as current liabilities, except for GEBs, which have a five-year term and repay at maturity.

The GEB accrued interest figure of £39,623,000 (2012: £28,809,000) 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.

6(b) Prior year

	Principal liability £000	Accrued interest and prizes £000	Liability 31 March 2012 £000
Current liabilities			
Capital Bonds	242,512	8,546	251,058
Children's Bonus Bonds	1,128,348	40,827	1,169,175
Direct Saver	3,062,272	–	3,062,272
Easy Access Savings Account	905,685	–	905,685
First Option Bonds	51,681	654	52,335
Guaranteed Equity Bonds	55,084	–	55,084
Guaranteed Income Bonds and Guaranteed Growth Bonds	5,792,184	47,015	5,839,199
Income Bonds	7,960,210	22,799	7,983,009
Individual Savings Account	3,274,878	66,763	3,341,641
Investment Account	3,763,959	2,248	3,766,207
Pensioners' Guaranteed Income Bonds	285,234	3,108	288,342
Premium Bonds	44,034,499	104,221	44,138,720
Residual Account	464,340	386	464,726
Savings Certificates	30,770,746	621,848	31,392,594
	101,791,632	**918,415**	**102,710,047**
Non-current liabilities			
Guaranteed Equity Bonds	164,528	28,809	193,337
	164,528	**28,809**	**193,337**
Total liability to investors	**101,956,160**	**947,224**	**102,903,384**

7 Other payables

	2013 £000	2012 £000
NLF	99	116
HM Revenue and Customs	151	27
Agents	–	594
Other payables including sales repayments and evidence of identity repayments	7,244	5,721
Total	**7,494**	**6,458**

The balance under agents in 2012 consisted of amounts due to Link in respect of ATM withdrawals from Easy Access Savings Account only. There are no agents balances in 2013 as this product closed during the financial year.

8 Movement in net funds held by the NLF

	2012–13 £000	2011–12 £000
NLF		
Received from the NLF	13,778,655	15,012,309
Paid to the NLF	(10,643,606)	(16,687,568)
Net NLF outflow/(inflow)	3,135,049	(1,675,259)
Interest and prizes payable to investors	(2,288,289)	(2,404,886)
Decrease/(increase) in net funds held by the NLF	**846,760**	**(4,080,145)**

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

	2012-13 £000	2011-12 £000
Balance at 1 April	378,559	468,318
Net change in cash and cash equivalent balances	122,261	(89,759)
Closing balance	**500,820**	**378,559**
The following balances at 31 March are held at:		
Bank of England	544,322	456,850
Government Banking Service (items in transit)	(43,502)	(78,291)
Balance at 31 March	**500,820**	**378,559**

10 Categorisation of financial assets and liabilities

	Note	2013 £000	2012 £000
Assets			
Financial assets measured at fair value through the Statement of comprehensive income	14	39,623	28,809
Loans and receivables		101,704,857	102,502,474
Cash and cash equivalents		500,820	378,559
Total		**102,245,300**	**102,909,842**
Liabilities			
Financial liabilities measured at fair value through the Statement of comprehensive income	14	(39,623)	(28,809)
Financial liabilities measured at amortised cost		(102,205,677)	(102,881,033)
Total		**(102,245,300)**	**(102,909,842)**

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 meets 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, except for GEB products, which are repayable at maturity. As required by IFRS 7, the undiscounted maturity profile for the total liability for all products is as follows:

	2012–13 Variable rate, prize-based and index-linked products £000	2012–13 Fixed rate products £000	2012–13 Non-interest bearing products £000	2012–13 Total £000
Maturing in one year or less or repayable on demand	90,900,449	11,197,566	49,308	102,147,323
Maturing in more than one year but not more than two years	93,768	–	–	93,768
Total	**90,994,217**	**11,197,566**	**49,308**	**102,241,091**

There are no products maturing in more than two years.

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, First Option Bonds, Guaranteed Growth Bonds, Guaranteed Income Bonds, Pensioners' Guaranteed Income 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

	2011–12 Variable rate, prize-based and index-linked products £000	2011–12 Fixed rate products £000	2011–12 Non-interest bearing products £000	2011–12 Total £000
Maturing in one year or less or repayable on demand	89,944,205	12,651,088	115,494	102,710,787
Maturing in more than one year but not more than two years	112,343	–	–	112,343
Maturing in more than two years but not more than five years	89,059	–	–	89,059
Total	**90,145,607**	**12,651,088**	**115,494**	**102,912,189**

There are no products maturing in more than five years.

Variable rate products include Guaranteed Equity Bonds, Direct Saver, Easy Access Savings Account, 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 Bonus Bonds, First Option Bonds, Guaranteed Growth Bonds, Guaranteed Income Bonds, Pensioners' Guaranteed Income 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

	2013 Total per accounts £000	2013 Fair value £000
Assets		
Held by the NLF – all products apart from GEB	101,379,396	101,869,716
Held by the NLF – GEB	206,594	206,487
Cash and cash equivalents	500,820	500,820
Other receivables	158,490	158,490
Total	**102,245,300**	**102,735,513**
Liabilities		
Fixed rate products	(11,197,566)	(11,687,887)
GEB	(207,689)	(207,581)
Variable rate products – apart from GEB	(90,783,243)	(90,783,243)
Non-interest bearing products	(49,308)	(49,308)
Other payables	(7,494)	(7,494)
Total	**(102,245,300)**	**(102,735,513)**

13(b) Prior year

	2012 Total per accounts £000	2012 Fair value £000
Assets		
Held by the NLF – all products apart from GEB	102,179,907	102,589,488
Held by the NLF – GEB	247,295	254,642
Cash and cash equivalents	378,559	378,559
Other receivables	104,081	104,081
Total	**102,909,842**	**103,326,770**
Liabilities		
Fixed rate products	(12,651,088)	(13,060,669)
GEB	(248,421)	(255,768)
Variable rate products – apart from GEB	(89,888,381)	(89,888,381)
Non-interest bearing products	(115,494)	(115,494)
Other payables	(6,458)	(6,458)
Total	**(102,909,842)**	**(103,326,770)**

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 apart from the GEB product which has been disclosed separately. The rates for variable rate products are determined by taking into account factors highlighted on page 13 (Our product range) including the base rate, 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.

The fair value of the GEB product is the total of the fair value of the embedded derivative and the fair value of the related host contract. The fair value of the embedded derivative is calculated by an independent specialist company and provided to NS&I by the DMO. The fair value of the host contract is derived by discounting future expected cash flows at an appropriate zero coupon bond rate. The impact of early repayments on the GEB product has proved to be immaterial, and therefore does not impact on the fair values shown. For each GEB issue, a matched hedge is taken out by the DMO to hedge HM Government's overall exposure.

14 Fair values 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 2013 £000	Total 2013 £000	Level 2 2012 £000	Total 2012 £000
Assets				
GEB embedded derivative (1)	39,623	39,623	28,809	28,809
	39,623	**39,623**	**28,809**	**28,809**
Liabilities				
GEB embedded derivative (1)	(39,623)	(39,623)	(28,809)	(28,809)
	(39,623)	**(39,623)**	**(28,809)**	**(28,809)**

(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' and the Governance Section. In addition, note 4 contains details of the NLF transactions. The Post Office was a major distributor of NS&I products during the year and, as a public body, the Post Office is a related party. NS&I had a significant number of transactions with the Post Office during the accounting period in relation to sales received from investors and repayments made to investors through Post Office channels. The total amount received from the Post Office during 2012–13 was £2.14 billion (2011–12: £2.58 billion) and the total amount transferred to the Post Office for repayment during 2012–13 was £0.04 billion (2011–12: £0.22 billion). The outstanding amount due from the Post Office at 31 March 2013 is £27.48 million (2012: £40.22 million).

NS&I has carried out transactions with HM Revenue and Customs (HMRC) on behalf of investors, in respect of tax deducted at source (2012–13: £37.58 million, 2011–12: £46.99 million) on interest earned on First Option Bonds, Guaranteed Income Bonds and Guaranteed Growth Bonds. The outstanding tax due to HMRC at 31 March 2013 is £0.15 million (2012: £0.03 million). In this regard as a public body, HMRC is a related party.

Neither the Commercial Secretary nor the Economic Secretary to HM Treasury, 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 71 of this Annual Report.

16 Events after the reporting period date

There are no reportable events between the Statement of financial position date and 16 July 2013, 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 2013 (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 that issued on 6 January 2012.

KSanderson.

Karen Sanderson
Deputy Director, Government Financial Reporting
HM Treasury
15 February 2013

Annex 2: Departmental Report information

The 2012–13 Departmental Report information shown in the tables below is not consistent with the information shown in the 2012–13 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 show 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 to plans for 2013–14 to 2014–15. As a result the data shown in this Departmental Report does not directly reconcile to the Accounts.

Table 1: Total departmental spending

	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Outturn 2011–12 £000	Outturn 2012–13 £000	Plans 2013–14 £000	Plans 2014–15 £000
Resource DEL							
Section A: Administration	183,766	179,189	169,103	172,465	167,203	151,615	150,210
Total resource DEL	**183,766**	**179,189**	**169,103**	**172,465**	**167,203**	**151,615**	**150,210**
of which:							
Pay	8,922	9,514	9,770	9,695	10,350	11,000	11,101
Net current procurement (1)	171,108	167,696	157,545	160,348	154,231	137,195	135,569
Current grants and subsidies to the private sector and abroad	–	–	–	–	–	–	–
Current grants to local government	–	–	–	–	–	–	–
Depreciation (2)	3,002	1,211	1,026	1,563	1,809	2,600	2,700
Other	734	768	762	859	813	820	840
Resource AME							
Section B: Administration	(4)	1,502	3,747	639	1,181	5,300	5,300
Total resource AME	**(4)**	**1,502**	**3,747**	**639**	**1,181**	**5,300**	**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	203	93	480	(107)	6	300	300
Release of provisions	(207)	(277)	(392)	(198)	(16)	–	–
Depreciation(2)	–	1,686	3,659	944	1,191	5,000	5,000
Other	–	–	–	–	–	–	–
Total resource budget	**183,762**	**180,691**	**172,850**	**173,104**	**168,384**	**156,915**	**155,510**
of which:							
Depreciation	3,002	2,897	4,685	2,507	3,000	7,600	7,700

Table 1: Total departmental spending (continued)

	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Outturn 2011–12 £000	Outturn 2012–13 £000	Plans 2013–14 £000	Plans 2014–15 £000
Capital DEL							
Section A: Administration	926	4,991	1,415	191	34	215	273
Total capital DEL	**926**	**4,991**	**1,415**	**191**	**34**	**215**	**273**
of which:							
Net capital procurement (4)	926	4,991	1,415	191	34	215	273
Capital 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:							
Capital grants to the private sector and abroad	–	–	–	–	–	–	–
Net lending to the private sector	–	–	–	–	–	–	–
Capital support for public corporations	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–
Total capital budget	**926**	**4,991**	**1,415**	**191**	**34**	**215**	**273**
Total departmental spending (5)	**181,686**	**182,785**	**169,580**	**170,788**	**165,418**	**149,530**	**148,083**
of which:							
Total DEL	181,690	181,283	165,833	170,149	164,237	144,230	142,783
Total AME	(4)	1,502	3,747	639	1,181	5,300	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
	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
Resources											
Spending in DEL	180,635	–	180,635	(10,685)	169,950	–	–	–	169,950	167,203	2,747
Spending in AME	–	5,300	5,300	–	5,300	700	–	700	6,000	1,181	4,819
	180,635	**5,300**	**185,935**	**(10,685)**	**175,250**	**700**	**–**	**700**	**175,950**	**168,384**	**7,566**

	Supply estimate	Winter supplementary			Final Provision	Final outturn	Differences
	Capital £000	Change in gross provision £000	Change in A in A £000	Change in net provision £000	£000	£000	£000
Capital							
Spending in DEL	239	–	–	–	239	34	205

Table 3: NS&I capital employed

	Outturn 2006–07 £000	Outturn 2007–08 £000	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Outturn 2011–12 £000	Outturn 2012–13 £000	Plans 2013–14 £000	Plans 2014–15 £000
Assets on balance sheet at end of year									
Non-current assets									
Intangible	144	1,897	16,637	38,371	55,726	66,915	65,704	52,000	36,000
tangible	25,204	29,608	35,185	40,539	38,877	28,677	23,231	21,500	23,000
of which:									
Land and buildings	23,139	25,156	27,159	27,642	23,819	18,210	14,643	14,500	10,000
Information technology	137	1,373	5,075	9,793	12,383	8,281	6,638	5,300	11,500
Plant and machinery	260	1,151	893	634	435	39	26	–	–
Furniture and fittings	1,668	1,928	1,208	2,470	2,240	2,147	1,924	1,700	1,500
Assets under construction	–	–	850	–	–	–	–	–	–
Other receivables	–	–	–	–	–	5,245	4,371	3,497	2,623
Current assets	4,641	2,054	1,576	855	4,525	340,297	179,944	48,740	13,740
Creditors <1 year	(26,356)	(20,113)	(25,498)	(34,146)	(31,330)	(378,201)	(201,837)	(65,260)	(36,410)
Provisions <1 year	–	–	(345)	(287)	(424)	(126)	(132)	(150)	(150)
Creditors >1 year	–	–	–	(2,532)	(7,616)	(20,832)	(15,486)	(10,600)	(5,714)
Provisions >1 year	(728)	(547)	(198)	(72)	(23)	(16)	–	–	–
Capital employed within main department	**2,905**	**12,899**	**27,357**	**42,728**	**59,735**	**41,959**	**55,795**	**49,727**	**33,089**

Table 4: Administration budget

	Outturn 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Outturn 2011–12 £000	Outturn 2012–13 £000	Plans 2013–14 £000	Plans 2014–15 £000
Section A: Administration	183,766	179,189	169,103	172,465	167,203	151,615	150,210
Total administration budget	**183,766**	**179,189**	**169,103**	**172,465**	**167,203**	**151,615**	**150,210**
of which:							
Pay	8,922	9,514	9,770	9,695	10,350	11,000	11,101
Expenditure	180,592	175,507	171,089	194,025	188,738	160,200	150,806
Income	(5,748)	(5,832)	(11,756)	(31,255)	(31,885)	(19,585)	(11,697)

Table 5: NS&I staff numbers

Staff numbers at:	1 April 2008	1 April 2009	1 April 2010	1 April 2011	1 April 2012	1 April 2013 (1)
Permanent (including fixed-term contract staff)	135	141	143	140	140	170
Others	1	6	13	17	15	25
Total	**136**	**147**	**156**	**157**	**155**	**195**

(1) The staff numbers shown in the table above for 1 April 2013 do not agree with the table in note 7 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 2008–09 £000	Outturn 2009–10 £000	Outturn 2010–11 £000	Outturn 2011–12 £000	Outturn 2012–13 £000
Consultancy services	2,042	1,903	1,435	1,776	1,742
Professional services	4,016	4,186	5,687	7,846	7,516
Contract staff	908	717	491	1,795	1,143
Other services	1,031	1,463	1,656	1,476	1,544
Total	**7,997**	**8,269**	**9,269**	**12,893**	**11,945**

Glossary

Accounting Officer
A person appointed by HM Treasury 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 (DELs). 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 interest 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 at the Bank of England.

Court Funds Office
The Court Funds Office provides a banking and administration service for some 140,000 customers with a total of £3.1 billion cash and £0.2 billion securities held under the control of the civil courts in England and Wales, including the Court of Protection.

Customer Service Excellence
The UK Government's customer service standard.
www.cse.cabinetoffice.gov.uk

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 acquired Executive Agency status, 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 Ombudsman Service (FOS)
The independent service for settling disputes between businesses that provide financial services and their customers.

Financial Services Authority (FSA)
The regulator for the financial services industry in the UK until 31 March 2013. From 1 April 2013, it was replaced by two new regulatory bodies: the Prudential Regulation Authority, which is responsible for promoting the stable and prudent operation of the financial system through regulation of all deposit-taking institutions, insurers and investment banks, and the Financial Conduct Authority, which is responsible for regulation of conduct in retail, as well as wholesale, financial markets.

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

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

Gilts (or gilt-edged stock)
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 commonly used measure of inflation.

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

National Loans Fun (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 a private sector organisation, designed for mutual benefit. Our PPP encompasses the provision of transaction-processing together with front and back office operations.

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

Spending Review
Spending Reviews set firm and fixed multi-year budgets for government departments. They outline the improvements that the public can expect from government spending.

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.

Term
For fixed rate products, this refers to the period of time for which the interest rates are fixed.

Treasury Bills
Treasury Bills are 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)
An Executive Agency of HM Treasury responsible for cash management on behalf of the Exchequer and the sale of government stock (gilts) and Treasury Bills.

UK Government Securities
Our bonds and certificates are non-tradeable 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 and Treasury Bills.

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

Warrant
A type of payment similar to a cheque.

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
Visit our website at **www.nsandi.com** or our YouTube channel at youtube.com/nsandi

Email
enquiries@nsandi.com

Telephone

- For general enquiries, call us free on **0500 007 007**
- To buy our products, call us free on **0500 500 000**

Our customer service team is available every day from 7am until midnight. Calls from mobiles and some landline providers may not be free. Calls may be recorded.

Textphone
Use our free textphone service on **0800 056 0585** if you have Minicom equipment.

Post
Write to us at National Savings and Investments, Glasgow, G58 1SB.

Thank you
NS&I would like to thank all staff for their contribution to the 2012–13 Annual Report and Accounts and Product Accounts.

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